



SOCIETY OF FINANCIAL EXAMINERS[®]

CFE 4 - Financial Analysis

STUDY GUIDE

Effective July 2016

The passing score for this exam is 74.

Required Text: *NAIC Financial Analysis Handbook – 2015 Annual/2016 Quarterly*

NOTE: This study guide is a tool for identifying key areas of emphasis in studying for the CFE 4 exam to assist you in learning the materials needed to study for this examination. The information provided indicates the areas on which you should focus, with each section labeled as an area of High (H), Moderate (M) or Low (L) importance in preparing for the examination. In addition, specific topics of interest that may be covered by exam questions are noted for certain sections. Sections of the Handbook not shown on the study guide are not covered in the examination.

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Volume 1:

I. Introduction

- A.** Department Organization and Communication (M) – Risk-Focused Exams; Market Conduct; Consumer Affairs; Communication across divisions
- B.** Interstate Communication and Cooperation (L) – FAWG
- D.** NAIC Information (M) – FAST (IRIS, Scoring, ATS); Other NAIC analytical tools; RIRS; SAD; MITS; GRID
- E.** SAP vs. GAAP (L) – Focus of SAP; Permitted practices; Conservatism; Differences from GAAP
- F.** Prioritization of Work (L) – Prioritization tools

II. Financial Analysis Framework (H) – Financial Analysis process; Supplemental Procedures; Purpose of Level 1 and Level 2; Risk-Focused Surveillance Cycle; Corporate Governance; Quarterly procedures; Regulatory actions

III. Annual/Quarterly Procedures and Analyst Reference Guide

- A. Level 1 (All Statement Types) (H) – Analyst’s role; Objective of Level 1; Prospective Risks; Examinations; Background analysis; Operations assessment; Quarterly procedures; Quarterly procedures for non-troubled insurers; Non-routine analysis**
- B. Level 2: Property/Casualty**
 - 1. Investments (H) – State investment laws; Common investment holdings; Focus of analyst in reviewing investments; SVO designations; Bond valuation; RMBS/CMBS; Purpose of derivatives; Common types of derivative instruments
 - 2. Unpaid Losses and LAE (H) – Unpaid Losses; Claims-made policies; DCC & AO; Reserve ratios; Discounting; Salvage and subrogation

3. Income Statement and Surplus (H) – Focus of SAP; Purpose of Income Statement; Profitability measures and ratios; Purpose and components of Surplus; Surplus notes
4. Risk-Based Capital (H) – RBC ratio and calculation; RBC factors and components; Action levels and required steps; Focus of analyst in reviewing RBC
5. Cash Flow and Liquidity (M) – Purpose and presentation of CF statement; Measures of Liquidity
6. Reinsurance (H) – Forms of Reinsurance (Proportional, Excess, Facultative, etc.); Function and Purpose of Reinsurance; Types of Reinsurers; Focus of analyst in reviewing Reinsurance; Credit for Reinsurance; Fronting and Pooling; Transfer of Risk; Commutation/Loss Portfolio Transfers/Modified coinsurance
7. Affiliated Transactions (H) – Definition of Control; Fair and Reasonable; Economic vs. Non-Economic Transactions; Focus of analyst in reviewing Affiliated Transactions; SAP accounting treatment; Shareholder dividends; Service contracts
8. MGAs and TPAs (L) – MGA act; Types of TPAs; Compensation

C. Level 2: Life/A&H (and Fraternal for Investments only)

1. Investments (H) – State investment laws; Common investment holdings; Focus of analyst in reviewing investments; SVO designations; Bond valuation; RMBS/CMBS; Purpose of derivatives; Common types of derivative instruments
2. Life Reserves (H) – Make-up of Life Reserves; Minimum standards; Valuation methods; Policy types; Deficiency reserves
3. Accident and Health Reserves (M) – Reserve types and definitions; Reserve ratios; Policy types

4. Annuity Reserves (H) – Purpose of annuities; Types of annuities (Deferred, Variable, GIC, etc.); Valuation methods; Annuity phases;
5. Income Statement and Surplus (H) – Focus of SAP; Purpose of Income Statement; Profitability measures and ratios; Purpose and components of Surplus; Surplus notes
6. Health Care Pursuant to Public Health Service Act (L) – Supplemental Health Care Exhibit; MLR rebates
7. Risk-Based Capital (H) – RBC ratio and calculation; RBC factors and components; Action levels and required steps; Focus of analyst in reviewing RBC
8. Cash Flow and Liquidity (M) – Purpose and presentation of CF statement; Measures of Liquidity
9. Reinsurance (H) – Forms of Reinsurance (Proportional, Excess, Facultative, etc.); Function and Purpose of Reinsurance; Types of Reinsurers; Focus of analyst in reviewing Reinsurance; Credit for Reinsurance; Fronting and Pooling; Transfer of Risk; Commutation/Loss Portfolio Transfers/Modified coinsurance
10. Affiliated Transactions (H) – Definition of Control; Fair and Reasonable; Economic vs. Non-Economic Transactions; Focus of analyst in reviewing Affiliated Transactions; SAP accounting treatment; Shareholder dividends; Service contracts
11. MGAs and TPAs (L) – MGA act; Types of TPAs; Compensation
12. Separate Accounts (M) – Definitions; Separate Account transactions; Types of business in Separate Accounts; Treatment of guarantees;

D. Level 2: Health

1. Investments (H) – State investment laws; Common investment holdings; Focus of analyst in reviewing investments; SVO designations; Bond valuation; RMBS/CMBS; Purpose of derivatives; Common types of derivative instruments
2. Other Assets (M) – Receivables; Capitation; ASO/ASC business
3. Health Reserves and Liabilities (M) – Reserve types and definitions; Reserve ratios; Policy types
4. Other Provider Liabilities (L) – Risk-sharing arrangements and related liabilities
5. Income Statement and Surplus (H) – Focus of SAP; Purpose of Income Statement; Profitability measures and ratios; Purpose and components of Surplus; Surplus notes
6. Health Care Pursuant to Public Health Service Act (L) – Supplemental Health Care Exhibit; MLR rebates
7. Risk-Based Capital (H) – RBC ratio and calculation; RBC factors and components; Action levels and required steps; Focus of analyst in reviewing RBC
8. Cash Flow and Liquidity (M) – Purpose and presentation of CF statement; Measures of Liquidity; Z-Score
9. Risk Transfer Other than Reinsurance (L) – Cost controls; ASO/ASC arrangements;
10. Reinsurance (H) – Forms of Reinsurance (Proportional, Excess, Facultative, etc.); Function and Purpose of Reinsurance; Types of Reinsurers; Focus of analyst in reviewing Reinsurance; Credit for Reinsurance; Fronting and Pooling; Transfer of Risk; Commutation/Loss Portfolio Transfers/Modified coinsurance

11. Affiliated Transactions (H) – Definition of Control; Fair and Reasonable; Economic vs. Non-Economic Transactions; Focus of analyst in reviewing Affiliated Transactions; SAP accounting treatment; Shareholder dividends; Service contracts
12. TPAs, IPAs and MGAs (L) - MGA act; Types of TPAs; Compensation

Volume 2:

IV. Supplemental Procedures and Analyst Reference Guide

- A.** Management Considerations (M) – Assessment of BOD; Assessment of Corporate Governance; Risk management processes; Changes in Management
- B.** Audited Financial Report (H) – Differences between audited report and AS; Required notifications; Consolidated or combined financial statements; Types of audit opinions; MAR requirements
- C.** Statement of Actuarial Opinion
 - 1. Property/Casualty and Title (L) – Opinion language; Carried reserves; Qualified actuary
 - 2. Life/A&H and Fraternal (M) – SAO Requirements; Actuarial Memorandum; RAAIS; Cash-flow testing
 - 3. Health (L) – Opinion requirements; Types of opinions
- D.** Management’s Discussion and Analysis (L) – Purpose and content; Period covered
- E.** Holding Company System Analysis (L)
 - 1. Form A Procedures (L)
 - 2. Form B Procedures (L)
 - 3. Form D Procedures (L)
 - 4. Extraordinary Dividend/Distribution Procedures (L)

V. Group-wide Supervision Procedures and Analyst Reference Guide

- A.** Framework (L)
- B.** Roles and Responsibilities of Group-wide Supervisor/Lead State (M) – Determination of Lead State; Role and responsibilities of Lead State

- C.** Holding Company System Analysis Procedures (M) – Purpose of HC Analysis; Group Profile Summary; Focus of analyst in holding company analysis; Financial position
- D.** Corporate Governance Disclosure Procedures (L) – Contents of disclosure; relationship to Management Considerations chapter
- E.** Corporate Governance Risks (M) – Control; Lead State designation and role; Sources of information; Use of Form B information
- F.** Enterprise Risk Management and ORSA Procedures (M) – Key principles; ORSA goals; ORSA Summary Report assessment
- H.** Form F – Enterprise Risk Report Procedures (L) – Purpose of Form F; Reviewer
- I.** Periodic Meeting with the Group Procedures (L) – Questions to ask
- J.** Targeted Examination Procedures (L) – Situations prompting targeted exam procedures
- K.** Supervisory Colleges (M) – Selecting Group-Wide Supervisor; Roles and duties; College membership
- L.** Group Code Assignment (L) – Purpose of Group Code; Determination of Group Code
- M.** Holding Company Best Practices (L) – Lead State role; importance of IPS