



SOCIETY OF FINANCIAL EXAMINERS™

CFE 4 – Financial Analysis

STUDY GUIDE

Effective July 2017

Passing grade for this exam is 74.

Required Text: *NAIC Financial Analysis Handbook – 2016 Annual/2017 Quarterly*

NOTE: This study guide is a tool 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.

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; Group-wide Supervision

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; Understanding the Insurer; 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; Schedule BA investments; Purpose of derivatives; Common types of derivative instruments
2. Unpaid Losses and LAE (M) – Unpaid Losses; Reserve ratios; Salvage and subrogation
3. Income Statement and Surplus (H) – Purpose of Income Statement; Profitability measures and ratios; Purpose and components of Surplus; Surplus notes
4. Risk-Based Capital (M) – RBC ratio and calculation; RBC factors and components; Action levels and required steps; Focus of analyst in reviewing RBC
5. Cash Flow and Liquidity (L) – Measures of Liquidity
6. Reinsurance (H) – Forms of Reinsurance; Function and Purpose of Reinsurance; Focus of analyst in reviewing Reinsurance; Credit for Reinsurance; Fronting and Pooling; Transfer of Risk
7. Affiliated Transactions (M) – Definition of Control; Economic vs. Non-Economic Transactions; Focus of analyst in reviewing Affiliated Transactions; Shareholder dividends; Service contracts
8. MGAs and TPAs (L) – Types of TPAs

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; Schedule BA investments; Purpose of derivatives; Common types of derivative instruments
2. Life Reserves (M) – Make-up of Life Reserves; Policy types
3. Accident and Health Reserves (L) – Reserve ratios
4. Annuity Reserves (M) – Purpose of annuities; Valuation methods
5. Income Statement and Surplus (H) – 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 (M) – RBC ratio and calculation; RBC factors and components; Action levels and required steps; Focus of analyst in reviewing RBC
8. Cash Flow and Liquidity (L) – Measures of Liquidity
9. Reinsurance (H) – Forms of Reinsurance; Function and Purpose of Reinsurance; Focus of analyst in reviewing Reinsurance; Credit for Reinsurance; Fronting and Pooling; Transfer of Risk; Assumption reinsurance
10. Affiliated Transactions (M) – Definition of Control; Economic vs. Non-Economic Transactions; Focus of analyst in reviewing Affiliated Transactions; Shareholder dividends; Service contracts
11. MGAs and TPAs (L) – Types of TPAs
12. Separate Accounts (M) – Definitions; Separate Account transactions; 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; Schedule BA

- investments; Purpose of derivatives; Common types of derivative instruments
2. Other Assets (L) – Capitation
 3. Health Reserves and Liabilities (L) – Reserve types and definitions
 4. Other Provider Liabilities (L) – Risk-sharing arrangements and related liabilities
 5. Income Statement and Surplus (H) – 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 (M) – RBC ratio and calculation; RBC factors and components; Action levels and required steps; Focus of analyst in reviewing RBC
 8. Cash Flow and Liquidity (L) – Measures of Liquidity
 9. Risk Transfer Other than Reinsurance (L) – Cost controls; ASO/ASC arrangements;
 10. Reinsurance (H) – Forms of Reinsurance; Function and Purpose of Reinsurance; Focus of analyst in reviewing Reinsurance; Credit for Reinsurance; Fronting and Pooling; Transfer of Risk
 11. Affiliated Transactions (M) – Definition of Control; Economic vs. Non-Economic Transactions; Focus of analyst in reviewing Affiliated Transactions; Shareholder dividends; Service contracts
 12. TPAs, IPAs and MGAs (L) - Types of TPAs

Volume 2:

IV. Supplemental Procedures and Analyst Reference Guide

- A.** Management Considerations (M) – Assessment of BOD; Assessment of Corporate Governance; Human capital; 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 Guidance (H) – Purpose of HC Analysis; Group Profile Summary; Focus of analyst in holding company analysis; Financial position; Control; Lead State designation and role; Sources of information; Use of Form B information
- D.** Corporate Governance Disclosure Procedures (L) – Contents of disclosure; relationship to Management Considerations chapter
- E.** Enterprise Risk Management (L) – Key principles; ORSA goals
- F.** ORSA Procedures (L) –ORSA Summary Report assessment
- G.** Form F – Enterprise Risk Report Procedures (L) – Purpose of Form F; Reviewer
- H.** Periodic Meeting with the Group Procedures (L) – Questions to ask
- I.** Targeted Examination Procedures (L) – Situations prompting targeted exam procedures

- J.** Supervisory Colleges (M) – Selecting Group-Wide Supervisor; Roles and duties; College membership
- K.** Group Code Assignment (L) – Purpose of Group Code; Determination of Group Code
- L.** Holding Company Best Practices (L) – Lead State role; importance of IPS