Sample ACE Memorization Cards

ILA LFV Exam

Instructions for Cards

- Extra blank cards are provided, so you can add
   or delete cards.

- Card Layout
      - Acronym in top left corner (bold font)
      - Bottom left -- Resource (Text, SN, PR)
      - Bottom right -- ACE study guide section / page
- Make notes or add to cards in white space
- Some cards that have multiples resources
   (syllabus has different texts with the same list)

- Consider purchasing the ACE memorization CDs to
help you memorize.

- Also, please consider attending the ACE seminar!

Effects of Statutory Valuation Requirements

1. Gross premium levels - guaranteed premiums set to avoid deficiency reserves

2. Federal income taxes - Tax reserves < statutory reserve

3. Policyholder dividends - earnings directly used in most calculations

4. Stockholder dividends - limited by accumulated stat earnings

5. Financial Strength - earnings used by:
   a. Regulators
   b. Rating agencies
   c. Investment analysts
   d. Marketing organizations

Management Responsibility Under SOX 404

1. Assess effectiveness of internal control over financial reporting (ICFR)

2. Identify risk related to ICFR

3. Assess controls over ICFR

4. Document ICFR

5. Present written assessment of ICFR

Formulas for an Approach to the FV of Insurance Contracts (no acquisition costs)

FANIP formula

$$\Pr em = \sum_{t=1}^{n} ACF_t /(1 + S_t + ED_t + RP)^t = \sum_{t=1}^{n} LCF_t /(1 + S_t + CS)^t$$

1. S = LIBOR spot rate
2. LCF = Liability cash flow
3. CS = Credit spread / non-performance risk
4. ED = expected default losses
5. RP = risk premium

20-year term formulas

$$\sum_{t=1}^{n} \Pr em_t /(1 + S_t + RP)^t = \sum_{t=1}^{n} EDB_t /(1 + S_t + CS)^t$$

$$LIAB_y = \sum_{t=y}^{n} EDB_t /(1 + S_t + CS)^t - \sum_{t=y}^{n} \Pr em_t /(1 + S_t + RP)^t$$

Risk Metrics for EC Modeling

1. Value at Risk

    a.   Simple to understand and use

    b.   Consistent with Solvency II

    c.   Used by rating agencies in their calibrations

2. CTE

    a.   Better measure of tail behavior

    b.   Used by US regulators

3. Target Security Level

    a.   More easily communicated

    b.   Relate to financial strength metrics (e.g., AAA rating)

Considerations for Coinsurance Premiums and Allowances

1. Banding

2. Ceding company often keeps policy fee

3. Coinsurance premiums vary by smoking status & u/w class

4. Coinsurance EAs usually vary by u/w class, may vary by issue age, and may vary by gender (not common)

5. Experience rating may be used, but is not common

6. EA ≥ 100% of first year premium, chargeback provisions mitigate lapse risk

7. Persistency bonuses are rarely used