

Sample ACE Memorization Cards

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 repeated the information)**

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

- **Also, please consider attending the ACE seminar! The seminar will teach difficult concepts through practice problems.**

Formulas for SFAS 97 DAC

1. K for DAC amortization

$$K = \frac{PV(DeferredExpenses)}{PV(EGP)}$$

2. Retrospective DAC

$$DAC_t = (DAC_{t-1} + Capitalized Exp_t)(1+i) - (k * EGP_t)$$

3. Prospective DAC

$$DAC_t = k * PV_t(EGP) - PV_t(Def Expenses)$$

4. If significant negative EGPs exist, then another amortization basis can be used

Weighting Factors for Stat Interest Rates

1. Life Insurance

Guarantee Duration (years)	Factors
< 10	0.5
10 < x < 20	0.45
> 20	0.35

2. Annuities and GICs on an issue year basis

Guarantee Duration (years)	Weighting Factors		
	A	B	C
< 5	0.8	0.6	0.5
5 < x ≤ 10	0.75	0.6	0.5
10 < x ≤ 20	0.65	0.5	0.45
> 20	0.45	0.35	0.35

3. Annuities and GICs on a change in fund basis

Weighting Factors		
A	B	C
0.15	0.25	0.05

Principles of SFAS 133

SADD

1. Special accounting for effective hedging arrangements
2. A hedge is not an asset or a liability
3. Derivatives should be reported in the financial statements
4. Derivatives should be reported at fair value

Drivers of Demand For Securitization

SIC'M

1. Shift in Products
 - a. Market shifted away from traditional products, motivating securitization of older blocks

2. Integration of financial service industry
 - a. Market more competitive, causing
 - Demutualizations
 - Focus on capital optimization

3. Capital Strain
 - a. Free-up capital from older blocks to invest in new distribution systems or technology

4. More accurate valuation of non-traded segments

Uses of Reinsurance by Category

1. Strategic Business Planning

- a. Increase future profits
- b. Utilize excess administrative capacity
- c. Assist in entering / exiting a market
- d. Financing an acquisition, corporate stock buyout, or IPO (typically permanent)

2. Tax Planning

- a. Create gain to offset current/carry-forward tax losses
- b. Create loss (for reinsurer) to offset other capital gains
- c. Maintain status as "non-life" insurance company for tax purposes

3. Balance Sheet Enhancement

- a. Ceding commissions (paid to ceding company)
- b. Reducing reserves (reserve credit)
- c. Reducing RBC requirement

Considerations for Cash Flow Analysis

MDs are well PAID

1. Modeling
2. Determining level of analysis - consider:
 - a. Types of assets and liability CFs
 - b. Material risks and embedded options
 - c. Risks that are being undertaken
3. Policy CF characteristics
4. Asset characteristics
5. Investment strategy
6. Documentation