

# Annual Report 2007-08

*Activities from October 2007 to September 2008  
including 2007 financial statements*



International Association  
of Insurance Supervisors

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## Foreword

The International Association of Insurance Supervisors (IAIS) was established in 1994. Its membership includes insurance regulators and supervisors from over 190 jurisdictions in some 140 countries. More than 130 organisations and individuals representing professional associations, insurance and reinsurance companies, international financial institutions, consultants and other professionals are observers.<sup>1</sup> Its objectives<sup>2</sup> are to:

- cooperate to contribute to improved supervision of the insurance industry on a domestic as well as on an international level in order to maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders
- promote the development of well-regulated insurance markets
- contribute to global financial stability.

The IAIS provides an effective forum for standard-setting and implementation activities by providing opportunities for both practitioners and policy makers to share their expertise, experience and understanding.

The IAIS's activities are carried out under the guidance of its Executive Committee, which comprises members elected from different regions of the globe. The Executive Committee is complemented by the Technical Committee, the Implementation Committee and the Budget Committee, assisted by their working parties. The activities of the IAIS are supported by its Secretariat, located at the Bank for International Settlements in Basel, Switzerland.

The IAIS develops principles, standards and guidance for effective insurance supervisory regimes. In doing so it helps to establish and maintain fair and efficient insurance markets for the benefit and protection of policyholders. The IAIS also prepares supporting papers (such as issues papers) that provide background on specific areas of interest to insurance supervisors.

The IAIS actively promotes the implementation of its supervisory papers. Working closely with international organisations, regional groups and supervisors, it supports training seminars and conferences. In addition, the IAIS contributes to assessments of observance of standards in close collaboration with the International Monetary Fund and the World Bank. The *Insurance core principles and methodology* and accompanying self-assessment questionnaire are used for this purpose. These tools, as well as the IAIS insurance laws database, are also useful for jurisdictions wishing to improve their supervisory laws and practices.

The IAIS collaborates closely with other international financial institutions and international associations of supervisors or regulators and assists in shaping financial systems globally. In particular the IAIS is one of the parent bodies of the Joint Forum and participates in all of its working groups. It is also represented on the Financial Stability Forum. The IAIS provides input to the International Accounting Standards Board (IASB) for its work on the international financial reporting standards most relevant to insurers, and is a member of the IASB's Standards Advisory Council as well as an official observer of its Insurance Working Group and Financial Instruments Working Group. It also has observer status on the Financial Action Task Force, which combats money laundering and terrorist financing.

Each year the IAIS holds an Annual Conference to encourage multilateral discussions on topical issues for insurance supervisors and other insurance professionals. The 14th Annual Conference was held in Fort Lauderdale, Florida, USA on 16-19 October 2007 with the theme of *A Global Climate for Change – the Future of Insurance Supervision*. The theme for this year's conference, which is being held in Budapest, Hungary on 14-17 October 2008, is *Insurance and the Globalisation of Financial Services: Challenges for Worldwide Regulation and Supervision*.

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1 Full lists of IAIS members and observers are available on the IAIS website.

2 Taken from Article 2 of the IAIS By-laws.

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## Message from the Chairman

In last year's report the main topics under discussion related to improving the IAIS's operational efficiency and financial base. This year the challenges have been quite different. The continued upheaval in the financial markets has highlighted the importance of a strong and well capitalised financial sector and the need for it to be underpinned by effective regulatory systems. In this respect, the IAIS has taken a number of initiatives to address issues related to these events within the insurance sector and the threat these pose to economic growth and financial stability. In particular, the IAIS's standard-setting activities have been reprioritised and some significant changes have been introduced in the organisation's decision-making structure and management.



*Michel Flamée*  
Chairman, Executive Committee

### *Renewed focus on core activities*

Given today's economic reality of financial groups operating in a global insurance market, the IAIS has identified work on solvency, governance and group-wide supervision as areas of high priority. The globalisation of financial institutions and the incessant growth of their operations require the use of consistent, reliable and transparent methodologies for assessing solvency. A number of initiatives are being undertaken by our members and observers to develop together a cohesive set of supervisory standards on insurer solvency, embracing a wide range of both quantitative and qualitative aspects.

The development of regulatory requirements and supervisory practices in respect of group-wide supervision is a complex area posing a real challenge for supervisors. Because of the inter-relationships and dependencies, work on group-wide supervision is being closely coordinated with other standard-development work, for instance in respect of capital adequacy and solvency assessment, and reinsurance supervision.

The market events of the last year have also highlighted the need for supervisors in different jurisdictions and financial sectors to work together to compare and align regulatory approaches for similar activities. In this regard the IAIS fully supports the creation of a level-playing field across sectors, so that similar risks are addressed by similar regulation and regulatory arbitrage is avoided. As a result we are enhancing cooperation with our sister regulatory organisations – the Basel Committee and IOSCO – working collaboratively to tackle common issues.

### *Increased responsiveness to ongoing developments*

Clearly, the market events of the last year have demonstrated the need for supervisors – including the IAIS – to be able to respond promptly and effectively to developing circumstances. They also highlight the need for supervisory standards to remain current and of high quality. To enable the IAIS to meet these challenges we have established a number of support structures. Over the last two years we have revised the structure of the IAIS Executive Committee to give better geographical representation on the committee. In addition, last year a Financial Stability Task Force was set up to monitor the financial market turmoil and to present the IAIS's views on issues relevant to the insurance sector. The task force will be succeeded this year by a permanent high-level group which is being established to handle specific tasks and public policy issues where prompt and effective action is required. This expert group will also function as a standing think tank for public interest questions of concern to the insurance sector.

Backed up by a reliable Secretariat and a professional team of insurance specialists, the IAIS is continuing to enhance its organisation and decision-making processes to ensure they are efficient in responding to market events and requests from the international financial community. We look forward to working closely with all members and observers in tackling the important and challenging issues that the organisation and the global financial markets now are facing.

## Overview of the year 2007-08

### **IAIS response to global financial stability concerns**

Over the last year the global financial system has seen significant turbulence requiring effective action from policymakers, regulators and supervisors. Financial markets have become increasingly fragile and the preservation of financial stability now poses greater challenges to supervisory authorities worldwide. While the credit crisis has highlighted the vulnerability of banking institutions – and they are a significant component of the financial system – the health of other financial services providers, particularly insurance companies, is also at risk. The financial turmoil has shown the importance of properly functioning prudential and supervisory systems as well as the need for increased supervisory cooperation.

These developments have captured the attention of the IAIS, necessitating prompt action from supervisors. First the IAIS conducted a series of surveys that examine the impact of the credit crisis on insurance companies. Secondly, a number of recommendations of the Financial Stability Forum have been implemented in order to address problems relevant to the insurance sector. Thirdly, changes have been made to the structure in the IAIS to help it respond promptly on global financial stability and policy issues.

#### **1. Surveys on impact of credit crisis**

The benign economic environment prior to the credit crisis allowed insurance companies to expand their short-term exposures through a conscious mismatch of their asset-liability profiles or the use of free assets (ie those not required to meet capital requirements or back insurance liabilities). This was done in order to offer attractive returns to both capital providers and policyholders. It led some insurers to participate in the US subprime mortgage market.

Over the past year, the IAIS carried out three surveys of its members to assess the impact of the credit crisis. The vulnerability of the insurance sector was assessed from a number of different perspectives.

#### *Direct exposure to subprime mortgage losses*

Survey results found that the direct investment exposure of global insurers to US subprime mortgages was considered to be limited – estimated by most respondents to be less than 1% of total assets – and therefore, posed no immediate threat to insurers' solvency. Further,

almost the entire fixed income portfolios of insurers were reported to be of investment grade. The limited direct exposure can be attributed partly to prudential regulatory requirements leading to insurers' conservative investment policies, with an emphasis on sound risk management.

It was noted that risks related to investments held by unit-linked insurance products were mainly borne by policyholders. In this regard, and consistent with its overall objective of policyholder protection, the IAIS considers that appropriate regulation of units, disclosure and education are critical.

Also the IAIS looked at insurers' liabilities, such as Directors and Officers, and Errors and Omissions policies, to see whether claims costs were higher than expected. Results from the surveys indicated that such risk was remote or confined to certain jurisdictions. As a result, supervisors remain cautiously optimistic that, whilst certain insurers have suffered significant losses from exposure to subprime mortgage-related investments, the sector as a whole is not directly vulnerable.

#### *Indirect impact*

The insurance industry, however, remains vulnerable to contagion risk from the credit crisis. The subprime mortgage crisis indirectly affected the global equity markets and has adversely impacted share prices of insurers and increased volatility in their balance sheets. Further widening of credit spreads due to repricing of risk could affect insurance companies' bond portfolios. To a limited extent the global credit crunch has resulted in some insurers being approached by commercial banks to provide liquidity (eg by lending securities) and support to the markets. On a wider scale, an economic slowdown could impact demand in insurance products or increase lapse rates.

From a systemic perspective, the banking and insurance sectors are closely linked in a number of ways. Direct links arise through credit exposures and ownership relationships, and therefore deterioration in the credit quality of either banking or insurance entities may have implications on the other sector. The banking and insurance sectors can also be linked through financial conglomerates. Insurance companies in a conglomerate structure may enjoy the benefits of risk diversification and financial support from their parent or sibling companies, but are also at



risk of contagion. Ongoing initiatives at the IAIS and elsewhere to strengthen current requirements in the regulation of financial conglomerates aim to tackle this issue. These are discussed later in the report.

#### *The need for greater transparency*

The development of products, such as credit derivatives, can increase the resilience of the financial system through greater risk dispersion among investors and improved risk management practices in financial institutions. However, as we have seen, the lack of understanding by investors (including insurance companies) of the methodologies used by credit rating agencies to rate complex structured products, as well as uncertainty on where the ultimate risk lies, poses a serious threat to financial stability in general. Indeed, members who responded to the surveys were mainly concerned with exposure to losses from investments in structured credit assets, such as residential mortgage-backed securities, asset-backed securities and collateralised debt obligations, as well as investments in hedge funds with US subprime mortgage risk. In this regard, transparency towards the market plays an absolutely crucial role.

A positive finding from the surveys was that certain insurers have proactively been disclosing their exposure to subprime mortgages and the potential impact. This has been undertaken as part of their routine periodic performance reporting with the aim of informing the market in an orderly manner. Nevertheless this is clearly an area for attention by international standard-setters, and one the IAIS is addressing.

#### *Supervisors must remain vigilant*

To some extent, the resilience of the insurance sector can be attributed to sound prudential regulation. Specific tools, such as stress-testing and models, are used by supervisors and insurers to assess current and prospective solvency and identify risks. These help insurers to respond proactively when concerns arise. Complementing prudential regulatory requirements, insurance supervisors are using their supervisory powers (eg on-site inspections and information requests) to determine how companies are faring in the light of the market turmoil. Most supervisors surveyed foresee that obtaining accurate and timely information to enable effective pre-emptive remedial action and enhancing industry monitoring will be the main challenges in the future.

## **2. Implementation of FSF recommendations**

In April 2008 the Financial Stability Forum (FSF) published a report, in response to a

request from the G7, on *Enhancing Market and Institutional Resilience*. The report contains a series of recommendations. The IAIS has carefully reviewed the recommendations, particularly those most relevant to the insurance sector. It has work underway in a number of the areas identified, such as capital adequacy, improving risk management practices and enhancing information exchange. In addition, we identified three areas critical to the IAIS and its members:

#### *Monoline insurers and financial guarantors*

Some licensed insurers have specific business segments involved in credit risk activities, including credit insurance, bond insurance or mortgage insurance. These business segments are now under pressure especially with the risk of downgrading by credit rating agencies. The FSF report included a recommendation (one which was addressed specifically to the IAIS) to strengthen the regulatory and capital framework for monoline insurers and financial guarantors in relation to structured credit to ensure that they are appropriate from a prudential point of view, do not encourage regulatory arbitrage and are sufficient to avoid market dislocations.

During the year the IAIS conducted a survey, through the Reinsurance Transparency Group, on major market jurisdictions and additional IAIS members with experience of monoline insurers. The survey asked about current regulatory practices, as well as about exposures. The results will be published in the forthcoming 2008 edition of the IAIS *Global reinsurance market report*, which will include a specific section addressing the impact of the recent market turmoil on the reinsurance industry and on its supervision. These results will be used to determine future standard-setting work by the IAIS in this area.

#### *Risk disclosures*

Between 2004 and 2006 the IAIS issued three disclosure standards covering technical risks and performance for non-life insurance, investments, and life insurance. During the year the IAIS undertook a high-level survey of its members to see how these standards were being implemented. The results (expected by the end of the 2008) should identify any barriers to implementation.

Our future work on disclosure will take into account the lessons and gaps which have been brought to light over the last year, including any areas identified through the survey. For example, there needs to be better disclosure of valuation methodologies,



particularly when markets become distressed or illiquid.

#### *International colleges of supervisors*

The FSF has recommended that the use of international colleges of supervisors be expanded so that by the end of 2008 a college exists for each of the largest global financial institutions. During the year we undertook a stocktaking of existing supervisory colleges.

The IAIS has a number of initiatives in place that will help international colleges of supervisors function. For example, it is working on group solvency assessment and on the role and responsibilities of a group-wide supervisor, it has developed a Multilateral Memorandum of Understanding on information exchange and it is actively exploring the concept of mutual recognition of reinsurance supervision. These are discussed more fully later in the report.

### **3. Structural changes within the IAIS**

In order to allow the IAIS to respond effectively to the current financial turmoil and potential future events it has executed a number of structural changes in its management and operations. Last year, a Financial Stability Task Force was set up to present the IAIS's views on issues relevant to the insurance sector within the context of global financial stability. While monitoring the market turmoil, the task force worked on constructive solutions to address some of the problems that emerged. At the same time, a restructuring of the IAIS Executive Committee has improved regional representation in the committee. A permanent group is also being established to address urgent issues which demand immediate policy action in the case of significant events, such as catastrophe, occurring. It will succeed the Financial Stability Task Force and assume the role of a standing think-tank for insurance-related public interest questions within the context of global financial stability.

#### **Other key IAIS initiatives**

Marketplace changes have prompted the Executive Committee to re-prioritise IAIS standard-setting activities, placing highest priority to work on solvency, governance and group-wide supervision while recognising the demands for extended international supervisory cooperation.

#### **1. Solvency and accounting**

The IAIS is developing a set of supervisory papers embracing both quantitative and qualitative aspects of solvency assessment. Last year we finalised three guidance papers:

on the structure of regulatory capital requirements, on enterprise risk management for capital adequacy and solvency purposes, and on the use of internal models for risk and capital management by insurers. During the year under review, further work has been done to elevate these papers to principles-based standards, supported by detailed guidance.

We have also reviewed these papers in the light of current market events and, as a result, we have extended the scope of the guidance on capital requirements to include consideration of procyclical effects. We are now focusing on the valuation of assets and liabilities for solvency assessment purposes, and suitable forms or elements of capital, and developing papers on these subjects.

Within a solvency assessment context, we have continued to monitor developments in international financial reporting, in particular at the International Accounting Standards Board (IASB). In May 2007 the IASB published a discussion paper on Phase II of its Insurance Contracts Project, to which the IAIS provided substantial feedback in late 2007. Developments in general purpose financial reporting are highly relevant to IAIS work on valuation, given that the IAIS would like regulatory and general-purpose financial reporting to be as consistent as possible.

Recent events have placed market-based valuation under pressure, especially when market prices are no longer observable or where the market is illiquid. Moving from a situation of observable inputs to a so-called "mark to model" system will require further work on modelling and present greater challenges to preparers of accounts and auditors. In addition, further work is needed on the accounting rules with respect to whether risk has been transferred effectively (for instance, through special purpose vehicles) and the accounting rules necessary to provide appropriate financial reporting and disclosure in these situations. Work in these areas is a priority at the IASB, as well as in other forums, and the IAIS is monitoring developments and providing input.

#### **2. Insurance groups**

Globalisation of financial institutions and the expansion of their operations into multiple financial sectors pose a number of challenges, as regulatory responses are often characterised by a lack of both consistency and comprehensiveness. Many interrelationships and dependencies need to be considered when developing regulatory requirements and supervisory practices for insurance groups. In

this area, the IAIS has due regard for the work done in other study forums, such as at the Joint Forum. At the same time, work on group supervision is being closely coordinated with other IAIS standard-development work, such as work in respect of capital adequacy and solvency assessment, and reinsurance supervision.

During the year the IAIS developed a *Principles paper on group-wide supervision*, due for adoption at this year's General Meeting. This paper is a key milestone in establishing an internationally acceptable framework which promotes efficient and effective supervision on a group-wide basis. We are also in the process of developing a *Guidance paper on the role of a supervisory college*, as well as an *Issues paper on group-wide solvency assessment*. Following these papers – which are expected to be adopted in 2009 – and using the exploratory work in the Issues Paper as a base, we will consider developing a standard and guidance on group capital adequacy.

### 3. International supervisory cooperation

In 2007 we adopted a Multilateral Memorandum of Understanding for the sharing of information between supervisors. The framework established a formal basis for facilitating cross-border communication and exchange of information between supervisors on the supervision of insurance companies and groups.

While this has been an important step towards broadening contacts and creating mutual trust amongst insurance supervisors, more work is needed in the area of mutual recognition of supervisory systems. Within this context it is particularly in the reinsurance sector, due to its international nature, that progress will reap the greatest rewards. Currently, the lack of mutual recognition creates barriers to growth in reinsurance and additional costs in terms of capital and compliance.

The IAIS is striving to develop a suitable framework. In 2007 we issued a *Discussion paper on the mutual recognition of reinsurance supervision*. Following further analysis a guidance paper has been developed, which is due for adoption at the 2008 General Meeting.

The FSF's recommendation for the establishment of supervisory colleges will also be helpful in enhancing cooperation between supervisors. European experience has shown that improved cooperation can lead to an agreed redistribution of workload and does not diminish responsibilities of national supervisors. Indeed, globalisation of the industry and

accessing new markets has increased the need for adequate supervision by national supervisors.

Our goal is to reach the stage where supervisors assess and recognise other supervisory regimes – both cross-border and cross-sector – and consider them as solid as their own, in order to improve the efficiency of insurance supervision and reach a higher level of economic efficiency. This should help supervisors to meet the expectations of both the industry and policyholders in developed, as well as emerging, markets.

### 4. Other current initiatives

#### *Revision of Insurance core principles*

The *Insurance core principles and methodology* (ICPs) are the foundation of the IAIS's standard-setting work, providing a globally-accepted framework for the regulation and supervision of the insurance sector.

The current ICPs were developed in 2003, and since that time the range and scope of IAIS supervisory papers have expanded and industry and supervisory practices have evolved. Last year we reported on our plans to review the core principles to ensure that they remain appropriate, comprehensive and forward-looking, and established a task force to carry out this review, which is now underway. As part of the review, and in coordination with other IAIS working parties, the Task Force is considering the relationship of the ICPs with the overall IAIS framework of supervisory papers. Other considerations include the need for preconditions within the ICPs and proportionality of application to reflect the circumstances of an individual jurisdiction in terms of the nature, size and complexity of its insurance market.

As with all IAIS supervisory papers, the ICP review will include dialogue with IAIS members and the industry while incorporating observations and comments from the International Monetary Fund (IMF) and the World Bank. In their Financial Sector Assessment Programme (FSAP) the IMF and the World Bank regard the implementation of the core principles developed by the IAIS, the Basel Committee and IOSCO as a prerequisite for an effective supervisory regime. We are expecting to finalise a set of revised ICPs for adoption at the 2009 General Meeting.

#### *Governance and compliance*

Issues related to corporate governance have been discussed by the IAIS ever since its foundation. Corporate governance is included in the *Insurance core principles* and

governance is one of the building blocks in the *Framework for insurance supervision*.

Effective corporate governance allows the supervisor to place reliance upon an insurer's management and internal control systems and, in so doing, allows the supervisory process to operate more efficiently and effectively. However, this reliance is only possible if supervisors satisfy themselves, on a regular basis, that the corporate governance principles are appropriately implemented and complied with.

Last year the IAIS established a Governance and Compliance Subcommittee. The subcommittee will develop high-level supervisory papers on corporate governance applicable to the insurance industry and insurance supervision and promote their effective implementation.

The first task has been to conduct a survey jointly with OECD and with the assistance of the World Bank. Through this survey IAIS members and observers will be able to share their knowledge about industry corporate governance practices and the rationale behind such practices. The survey aims to identify the best governance practices and will provide useful reference material and guidance for future standard setting in this area. For the OECD, this joint survey will allow its members to assess the progress made in implementing its 2005 *Guidelines on insurers' governance*.

#### *Impact assessment work*

Impact assessment is a very helpful tool to further improve the overall quality and acceptance of IAIS supervisory papers, as well as contribute to the integration of standard-setting and standard-implementation processes. The IAIS has developed a policy paper on impact assessment which sets out recommendations on the scope and design of such work within the context of its development of solvency standards. As part of this work, the IAIS has issued to its members an on-line self-assessment questionnaire which explores the impact of introducing a risk-based solvency regime.

#### *Market conduct*

Market conduct is another of the building blocks in the *Framework for Insurance Supervision*. This year's General Meeting is expected to establish a Market Conduct Subcommittee, which will begin work during 2009 on consumer protection.

This work will build on existing IAIS work on market conduct, including the *Insurance core principles* and *IAIS Framework for insurance supervision*, as well as on work by other

bodies, such as the Joint Forum. It is expected that the work will include analysing market conduct of insurers and intermediaries towards existing and potential policyholders and beneficiaries. It may lead to proposals to develop supervisory and supporting papers in the area of insurers' and intermediaries' behaviour in the marketplace. Particular areas of focus will be:

- Disclosure and transparency of relevant information to policyholders
- Consumer protection, such as dealing with customers in the selling and handling of insurance policies and claims, handling of consumer complaints, etc
- Coordination between national supervisory or other bodies dealing with aspects of the supervision of market conduct of insurers and intermediaries.

The subcommittee will provide oversight and support to the Insurance Fraud Working Group, (previously the Insurance Fraud Subcommittee). Work will be undertaken in coordination with other IAIS working parties as appropriate – in particular with the Task Force for Review of Insurance Core Principles and the Accounting Subcommittee – and with other international bodies dealing with market conduct of insurers and intermediaries.

### **5. Addressing the Emerging Markets**

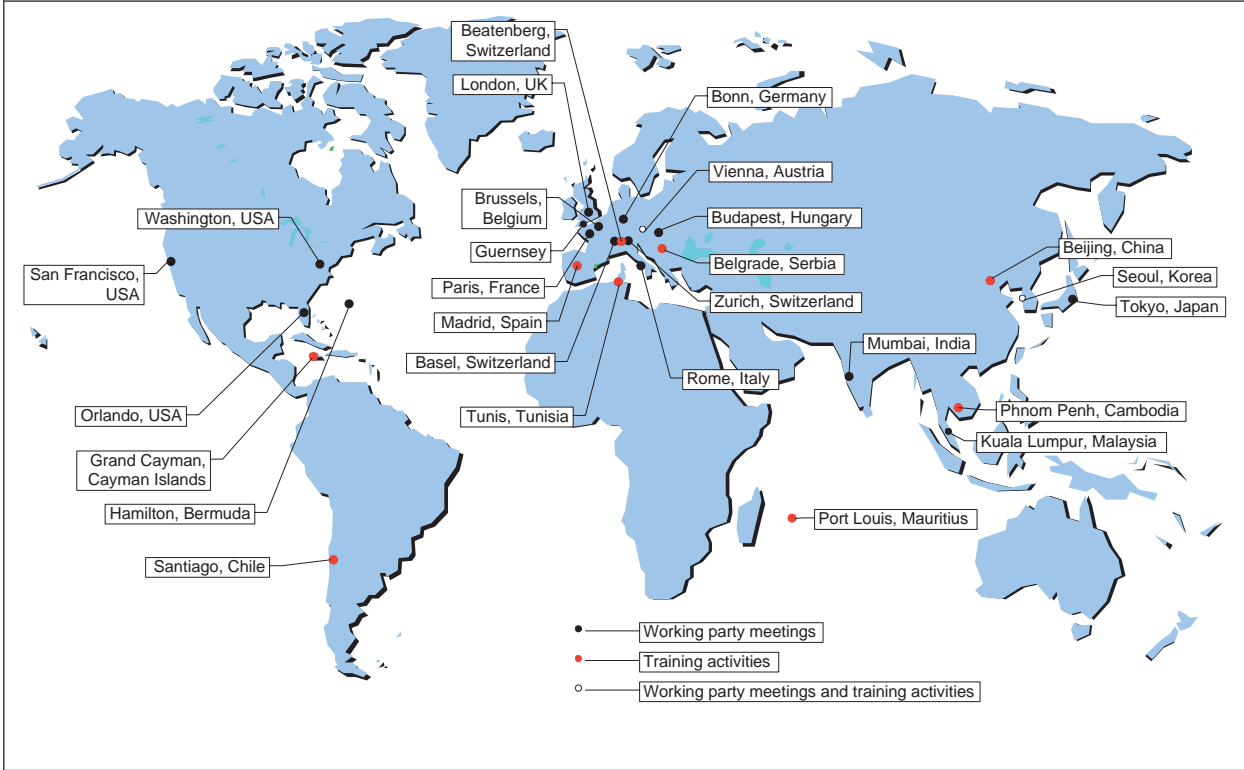
As a further response to increasing globalisation, the IAIS is addressing the unique requirements of emerging markets. Through training, technical assistance and the building of institutional capabilities, the IAIS seeks to enhance the efforts of its members to implement standards and effectively incorporate these into local legal frameworks. As a part of this effort, the IAIS has launched a comprehensive education project for insurance supervisors. The project supplements IAIS seminars to reach a much broader audience and is supported by voluntary contributions from members and observers. Currently we are considering how best to focus the organisation of these activities, whilst pursuing partnerships in a number of areas. In addition, the existing Core Curriculum material of the IAIS and the World Bank will be converted into online interactive courses supplemented with workshops and distance learning events. These initiatives will complement the ongoing work of the Financial Stability Institute in providing training seminars for insurance supervisors.

During the period from October 2007 to September 2008, the IAIS sponsored and helped organise 11 regional seminars for

insurance supervisors in South America, Asia, Central & Eastern Europe, Offshore Centres, and Africa. In addition, the IAIS participated in several other seminars and conferences. For each event insurance supervisors from 15-25 jurisdictions received training based on the *Insurance core principles* and the supervisory papers which build upon them, as well as on other relevant subjects. The seminars include

lectures and panel discussions, using educational tools, such as case studies, as appropriate. Examples of the subjects covered by the case studies are anti-money laundering, asset-liability matching and management, capital adequacy and solvency assessment, corporate governance, group supervision, risk-based supervision, licensing, preventive and corrective measures, and reinsurance.

**Locations of IAIS meetings during 2007-08**



Last year the IAIS published an *Issues paper on the regulation and supervision of microinsurance*, jointly with the Consultative Group for Assisting the Poor (CGAP). Continuing work in this area, the joint IAIS-CGAP working group is now developing an *Issues paper on the role of mutuals, cooperatives and community-based organisations in microinsurance*, and providing input into the ongoing review of the insurance core principles. The group also intends to develop a supervisory paper on the regulation and supervision of microinsurance. IAIS input into the joint working group is provided through a subgroup which was established to enhance dialogue between supervisors on microinsurance and determine the key principles in its regulation and supervision. Armando Vergilio dos Santos, Brazil, chairs both the subgroup and joint working group.

In 2008 in Seoul the IAIS held a global seminar, where working party chairs and key members described our most recent standard-setting achievements, work in progress, and emerging issues. The aim was to increase participants' understanding of, and help them implement, current IAIS supervisory papers. More than 100 members and observers attended the first of what is expected to become an annual event.

**Finances and operations**

The IAIS financial statements for the year 2007 resulted in a surplus of CHF 724,334. The positive result was due mainly to fees from new members and observers, lower than anticipated Secretariat staff turnover, and the continued application of cost reduction measures within the framework of strong financial and budgetary controls. The result has allowed further strengthening of the



financial base and provided sustainable funding to support IAIS core activities. At the same time, the IAIS maintained its prudent investment policy, and in view of prevailing market conditions has continued to invest an amount representing its target reserve in a Swiss Government bond, to provide a high degree of capital security.

The IAIS also continues to receive support from certain members and third parties, in the form of either grants or support in kind, such as secondments of staff to the Secretariat. The IAIS is grateful to these parties for their contributions and would like to acknowledge the special support provided during the year by the Bank for International Settlements, the China Insurance Regulatory Commission, BaFin (Germany), the Financial Services Agency (Japan), Bank Negara Malaysia, the Financial Supervisory Service (Republic of Korea), and the National Association of Insurance Commissioners (USA).

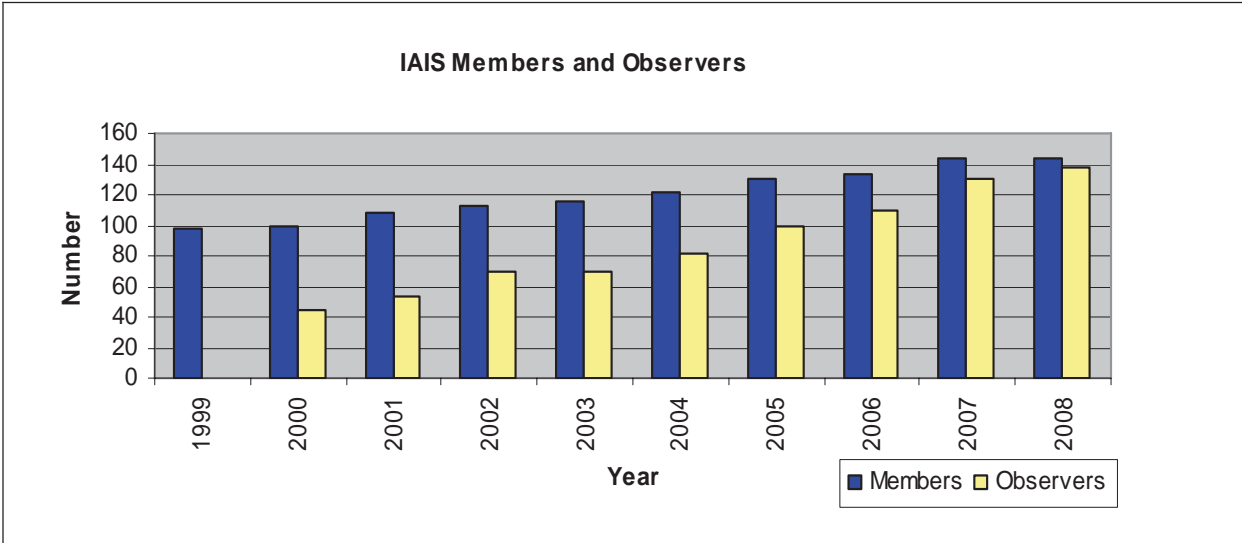
The Secretariat continues to strive to serve IAIS members and observers as effectively as possible, providing support in the areas of standard setting, standard implementation, and communication. Whilst the Secretariat enjoyed a stable year in terms of staffing, the general increase in activities, as well as the IAIS's involvement – both within the membership and as part of the international regulatory community – in considering and responding to the recent financial stability concerns, resulted in a challenging year. During the year the Secretariat organised over 70 meetings of IAIS working parties. This included support to the standard-setting activities of the Technical Committee and its working parties at almost 50

meetings over the year – many of which took place over two or three days. In addition, the Secretariat organised or assisted with the 11 regional seminars and workshops listed in Appendix IV, and attended or spoke at others, helping to increase insurance supervisors' knowledge of the IAIS and of its supervisory papers.

The Secretariat, in representing the IAIS, helped to enhance cooperation with various organisations including the Consultative Group for Assisting the Poor, the Coordination Group, the Financial Stability Forum, the International Actuarial Association, the IMF, the International Organisation of Pension Supervisors, the Islamic Financial Standards Board, the Joint Forum, the Organisation for Economic Co-operation and Development, and the World Bank. At these meetings the Secretariat's role included identifying key issues, coordinating and presenting members' views, and reporting back on the results.

In cooperation with members the Secretariat succeeded in recruiting three new members and 13 new observers since the 2007 General Meeting.

The IAIS much appreciates the input it receives from observers. Such input is valuable and often a vital contribution in the development of IAIS papers. Last year we introduced observer hearings which take place during the triannual meetings of the Technical Committee and promote discussion between IAIS members and observers on topical issues. The IAIS will continue to seek ways of enhancing dialogue with observers and is most grateful for their support during 2007-08.



Numbers assume new applications are ratified at General Meeting; Observer status was introduced with effect from 2000.

## Report on standard-setting and other technical activities

The IAIS is the recognised international standard setter for insurance supervision. The Technical Committee oversees and steers this work. The Technical Committee is chaired by Alfred Gross, Virginia/USA and its Vice-chair is Peter Braumüller, Austria.

The activities of the Technical Committee are undertaken through the following working parties:

### **Accounting Subcommittee**

The subcommittee monitors developments in the field of accounting related to insurers and insurance supervision. It responds for the IAIS where appropriate, including providing input to the International Accounting Standards Board (IASB) on issues other than those which are handled by the Insurance Contracts Subcommittee (see below) and to the International Federation of Accountants on auditing standards, and liaises with other organisations dealing with matters of mutual interest. The subcommittee is also responsible for monitoring developments in the field of public disclosures by insurers and for the IAIS's standard-setting activity in this area. The Accounting Subcommittee is chaired by Henning Göbel, Germany, and its Vice-chair is Shamim Diouman, UK.

### **Governance and Compliance Subcommittee**

The subcommittee was established in 2007 to develop high-level supervisory papers on corporate governance applicable to the insurance industry and provide input to the revision of the Insurance Core Principles, specifically on those elements relating to corporate governance. In cooperation with the OECD, the subcommittee is in the process of conducting a survey to identify best corporate governance practices. The subcommittee is also responsible for overseeing IAIS work on microinsurance. The Governance and Compliance Subcommittee is chaired by Maaten Hage, Netherlands (formerly Nobuyoshi Chihara, Japan), and its Vice-chair is Ann Nee Kee, Singapore.

### **Insurance Contracts Subcommittee**

This subcommittee monitors the IASB's projects on insurance contracts, financial instruments (including fair value measurement) and revenue recognition and responds for the IAIS where appropriate. The subcommittee was responsible for preparing comments for the IAIS on the IASB's 2007 Discussion Paper: *Preliminary Views on Insurance Contracts*. Together with the Solvency and Actuarial Issues Subcommittee, it is working on the development of supervisory papers on the valuation of assets and liabilities. The Insurance Contracts Subcommittee is chaired by Rob Esson, NAIC/USA, and its Vice-chair is David Rush, Australia.

### **Insurance Core Principles Review Task Force**

The task force was established in 2007 to review the Insurance Core Principles (ICPs) which were last revised in 2003. The task force's mandate is to review the ICPs to ensure that they remain relevant, comprehensive, current, and forward-looking to the greatest extent possible. An updated set of core principles is due for adoption at the 2009 General Meeting. The task force is chaired by Kwok Mun Low, Singapore, and its Vice-chair is David Johnston, UK.

### **Insurance Groups and Cross-sectoral Issues Subcommittee**

This year the subcommittee made significant progress in developing supervisory papers on group supervision, completing *Principles on group-wide supervision* and drafting a *Guidance paper on the role of a group-wide supervisor*. The subcommittee is also working with the Solvency and Actuarial Issues Subcommittee to develop an *Issues paper on group-wide solvency assessment*, which will explore the range of complex issues around supervision of insurance groups, in particular their solvency assessment. This subcommittee also fulfils an important role as the link between the IAIS and the Joint Forum, proactively coordinating the contributions of IAIS members to this forum. At the date of this report, following the retirement of Noël Guibert, France, the IAIS was in the process of selecting a new Chair of the subcommittee. Its Vice-chair is Axel Oster, Germany.

### ***Insurance Fraud Subcommittee***

The subcommittee cooperates with international fraud organisations. It is currently investigating the concept of an IAIS fraud database, and will develop training material to support the practical implementation of existing standards. During the year it conducted an assessment survey based on the *Standard on fit and proper requirements and assessment for insurers* to ascertain whether the standard has been implemented by IAIS members and whether any revisions are necessary. From October 2008 work on issues related to insurance fraud will proceed under the supervision of the Market Conduct Subcommittee. The Insurance Fraud Subcommittee is chaired by Diane Colton, Guernsey.

### ***Market Conduct Subcommittee***

This new subcommittee is charged with developing international supervisory standards on insurers' behaviour in the marketplace. The subcommittee will build on existing work on market conduct and consider the market conduct of insurers and intermediaries in the selling and handling of insurance products and services and in disclosure of information to customers. As noted above, the work of the Insurance Fraud Subcommittee will fall under the umbrella of this subcommittee from October 2008. At the date of this report the IAIS was in the process of selecting the first Chair and Vice-chair of the Market Conduct Subcommittee.

### ***Pension Coordination Group***

In accordance with a working agreement between the IAIS and the International Organisation of Pension Supervisors (IOPS), the Pension Coordination Group (PCG) has been actively involved in reviewing guidelines issued by the IOPS to ensure consistency of work and publications, especially in overlapping areas of insurance and pension supervision. The PCG also monitors developments of other international bodies involved in pension supervision, in particular the OECD Working Party on Private Pensions. During the year, the PCG reviewed and commented on the OECD-IOPS Guidelines on Licensing of Pension Entities and the draft IOPS Guidelines for the Supervisory Assessment of Pension Funds. In addition, members of the PCG gave presentations on pension arrangements and supervision in their own jurisdictions in order to improve their overall knowledge of the subject. The Pension Coordination Group is chaired by Mihály Erdős, Hungary.

### ***Reinsurance and Other Forms of Risk Transfer Subcommittee***

The subcommittee continues to explore the concept of mutual recognition of reinsurance supervision amongst supervisors. Following on from the 2007 discussion paper, the subcommittee has prepared a guidance paper on the topic. In addition, the subcommittee has revised the *Standard on the evaluation of ceded reinsurance* and finalised a *Guidance paper on the regulation and supervision of captives*. Over the coming year, the subcommittee will continue its work on revision to the *Guidance paper on finite reinsurance* with a view to upgrading this to a standard, and begin to review current IAIS papers on securitisation. The subcommittee is also responsible for overseeing the work of the Reinsurance Transparency Group, which prepares the annual IAIS global reinsurance market report. The 2008 edition of this report, based upon 2007 global reinsurance data, will be released in November 2008. The Reinsurance and Other Forms of Risk Transfer Subcommittee is chaired by Steven Goldman, New Jersey/USA. Its Vice-chairs are Jeremy Cox, Bermuda and Robert Meindl, Germany.

### ***Solvency and Actuarial Issues Subcommittee***

The subcommittee is responsible for developing a cohesive set of papers on solvency assessment. This year it completed standards and guidance papers on capital requirements, enterprise risk management and the use of internal models. It will continue in its work on the development of standards and guidance papers on capital resources and, together with the Insurance Contracts Subcommittee, on the valuation of assets and liabilities, including technical provisions. With the Insurance Groups and Cross-sectoral Issues Subcommittee, it is developing an Issues paper on group-wide solvency assessment. In its work, the subcommittee has sought professional input from the International Actuarial Association (IAA) on aspects of the measurement of insurance liabilities, as well as on the more technical application aspects of internal models and enterprise risk frameworks. The Solvency and Actuarial Issues Subcommittee is chaired by Rob Curtis, UK, and its Vice-chair is Nobuyasu Sugimoto, Japan.



## Standard-setting achievements during 2007-08

The following papers were completed during the year under review:

<p>Principles <i>Group-wide supervision</i></p>	<p>This paper builds on Insurance Core Principle 17 which states that “the supervisory authority supervises its insurers on a solo and a group-wide basis”. The principles clarify the main objectives of group-wide supervision and establish a framework for group-wide supervision which promotes information exchange and supervisory cooperation and avoids undue duplication and supervisory burden. This paper will provide an important foundation for further IAIS work in the area of group-wide supervision and solvency assessment.</p>
<p>Standard <i>The evaluation of ceded reinsurance</i></p>	<p>This standard provides guidance to supervisors in assessing how insurers manage their reinsurance arrangements. It discusses the policies and procedures that insurers should have in place, and supervisory approaches and tools needed to evaluate each company’s reinsurance cover. This paper supersedes the <i>Standard on evaluation of the reinsurance cover of primary insurers</i>.</p>
<p>Standard and Guidance paper <i>The structure of regulatory capital requirements</i></p>	<p>This paper establishes high-level principles-based standards for the structure of regulatory capital requirements. The guidance paper supplements these standards, providing more detail on the structuring of regulatory capital requirements in a solvency regime, with the objective of facilitating greater comparability and convergence in the assessment of insurer solvency internationally.</p>
<p>Standard and Guidance paper <i>Enterprise risk management for capital adequacy and solvency purposes</i></p>	<p>These papers stress the importance, from an operational and supervisory perspective, of enterprise risk management frameworks. Through the high-level principles-based supervisory standards, supported by the more detailed guidance, insurers are encouraged to establish risk and capital management policies, practices and structures, to apply them consistently across their organisations and to use them in their management and solvency assessment processes.</p>
<p>Standard and Guidance paper <i>The use of internal models for regulatory capital purposes</i></p>	<p>This standard sets out a high-level framework for supervisors to use in reviewing insurers’ internal models for the purpose of determining regulatory capital requirements. Internal models can be used to assess risk, both quantitatively and qualitatively, and manage capital in the dual contexts of determining an insurer’s own economic capital needs and assessing its regulatory capital requirements. This range of uses is explored in the supporting guidance paper.</p>
<p>Guidance paper <i>The role of a group-wide supervisor</i></p>	<p>This paper supplements the <i>Principles on group-wide supervision</i>, and their focus on establishing a streamlined and efficient framework for group-wide supervision, by providing guidance on one possible element – the designation of a group-wide supervisor. It describes the circumstances in which such a model may be most appropriate, and the role and responsibilities the group-wide supervisor could be expected to take. This paper is based on a supplementary approach to group-wide supervision and emphasises the continued significance of solo supervision.</p>
<p>Guidance paper <i>Mutual recognition of reinsurance supervision</i></p>	<p>This paper provides guidance on cross-border recognition of reinsurance supervision. It identifies criteria that supervisors should consider when making judgements as to whether to recognise supervision of reinsurers by other jurisdictions and to strengthen trust and cooperation between cross-border supervisors. It also identifies areas to be evaluated in the course of creating any supervisory recognition arrangement.</p>

Guidance paper <i>The regulation and supervision of captives</i>	This paper provides guidance to insurance supervisors on the regulation and the supervisory approaches relevant to captive insurers or reinsurers ("captives"). It follows on from the 2006 <i>Issues paper on the regulation and supervision of captives</i> .
Market report <i>Global reinsurance market report – 2007 edition</i>	The fourth annual report, published in late 2007, was based upon global reinsurance market statistics for the financial year 2006, covering a high proportion of reinsurance activity worldwide. The next edition will be released in November 2008.

<b>Plans for completion of current and future work include:</b>	<b>Expected completion</b>
Survey report on implementation of IAIS disclosure standards	End 2008
Revision of Insurance Core Principles	2009
Standard (and guidance) on the valuation of assets and liabilities, including technical provisions	2009
Standard (and guidance) on capital resources	2009
Standard on risk transfer, disclosure and analysis of finite reinsurance (revision and upgrade of guidance paper)	2009
Revision of standard and issues paper on asset-liability management	2009
Guidance paper on the role of a supervisory college	2009
Revision of issues paper on life insurance securitisation	2009
Revision of issues paper on non-life insurance securitisation	2009
Issues paper on contract certainty	2009
Issues paper on group-wide solvency assessment	2009
Issues paper on the relationship between the external auditor and the actuary in the preparation and audit of financial reports	2009
Issues paper on corporate governance and compliance	2009
Revision of pre-2005 papers on solvency assessment	2009
Issues paper on the role of mutuals, cooperatives and community-based organisations in microinsurance	2009
Standard (and guidance) on the regulation and supervision of microinsurance	Beyond 2009
Standard on mutual recognition of reinsurance supervision	Beyond 2009
Global reinsurance market reports	Annual

## Report on standard-implementation activities

Developing well-regulated insurance markets is a primary goal of the IAIS. This is dependent on the practical and effective implementation of its standards in all member jurisdictions. The Implementation Committee plays a key role in facilitating the implementation of standards. It is chaired by J Hari Narayan, India (formerly Manuel Aguilera-Verduzco, México), and its Vice-chair is Nóra Kiss, Hungary.

In carrying out its work, the Implementation Committee relies on the following working parties:

### ***Regional Coordination Subcommittee***

The Regional Coordination Subcommittee maps international training needs region by region, identifying regional technical assistance objectives, developing strategies for implementing training objectives, and enhancing the quality of training for insurance supervisors. It coordinates the work of regional technical assistance providers and training organisations. In promoting the IAIS, it recruits new members and observers.

In accordance with the implementation strategy regional coordinators have been asked to take on the following new tasks: coordinating the translation programme, supporting implementation activities, and encouraging the regional members in updating the insurance laws database.

In 2007 the subcommittee conducted a second survey on training needs, aimed at understanding the unmet training needs of jurisdictions and identifying the training goals for the next three years. A summary of the survey was published in March 2008 on the IAIS website.

Regional coordinators represent America, Asia & Oceania, Sub Sahara Africa, Central & Eastern Europe & Transcaucasia, Middle East & North Africa, Offshore & Caribbean Islands, and Western Europe, as well as French-speaking jurisdictions. They coordinate and support activities within their respective regions. The Regional Coordination Group is chaired by Bassel Hindawi, Jordan, and its Vice-chair is Michael Oliver, Gibraltar.

### ***Insurance Laws, Regulations, Practices and Standards Subcommittee***

The Insurance Laws, Regulations, Practices and Standards Subcommittee collects and analyses regulatory information through the insurance laws database. The database is an online facility that compiles information on insurance laws, regulations and practices in IAIS member jurisdictions.

An analytical report based on the data updated in 2006 covering most chapters of the database was published on the IAIS website at end of 2007. The next report, focusing on the two new chapters – *Risk assessment and risk management*, and *Supervision of insurance groups and financial conglomerates* – is being prepared for publication later this year.

The database helps members and observers improve their legislation by enabling them to draw upon best practices elsewhere. Around 80 jurisdictions have now contributed data. The subcommittee is encouraging them to keep their data up-to-date and is encouraging other IAIS members to participate in the project, thus improving the overall quality, effectiveness and credibility of the database. Since 2006 the database has been open to non-members, and many IAIS observers and third parties have applied for access.

The subcommittee has been tasked with creating, and later coordinating, an internet tool for facilitating the *Insurance core principles (ICPs)* self-assessment exercises. Preparatory work, contacts and discussions have started with a view to creating an IT platform that could also host the insurance laws database or other tools. IT support for the project is currently being investigated. This new internet tool will be based on the revised ICPs. The subcommittee is chaired by Valérie Staehli, Switzerland, and its Vice-chair is François Tempé, France.

### ***Implementation Activities Approval Subcommittee***

This subcommittee evaluates and approves applications for financial support for implementation activities and monitors progress in training activities against established milestones and budgets. The subcommittee also oversees the capacity development of supervisors. The subcommittee is chaired, ex officio as the Chair of the parent committee, by J Hari Narayan, India (formerly Manuel Aguilera-Verduzco, México).

### ***Task Force on Information Gathering and Analysis***

This task force was established to identify the minimum statistical, technical and financial information required for supervisory purposes. It will make basic recommendations on information gathering and analysis and publish these as a guidance paper, which is expected to be completed around the end of 2009. The Task Force is chaired by Norma Rosas, México.

### **Other implementation activities**

Other activities undertaken to assist the more effective implementation of standards include:

#### *Translations*

The IAIS encourages the translation of its training manuals and case studies to ensure their maximum use. In addition, translations of a number of IAIS supervisory papers into Arabic, French, German, Portuguese, Russian and Spanish, prepared by members, are available on the IAIS website.

In order to facilitate translations, the concept of a “reviewed translation” has been introduced. This means that a translation will be reviewed by a regional coordinator, with the goal of verifying that the translated version is linguistically and conceptually equivalent to the original, and to ensure a basic uniformity of technical terminology. Once a regional coordinator reviews a translation, it will be made available on the IAIS website.

The IAIS recognises the need for IAIS papers to be translated into a number of different languages, to promote and improve the understanding of IAIS documents in a wider number of jurisdictions. The planning for future translations has identified top priority (Spanish, French and Arabic) and high priority (Portuguese, Russian and Chinese) languages and will take this prioritisation into account in future work. The goal for 2007-2009 is to complete reviewed translations of all top priority IAIS documents and training material (Principles, Standards and the Core Curriculum) in Spanish, French and Arabic.

#### *Training seminars*

In collaboration with the Financial Stability Institute (FSI) and other international or local organisations, the IAIS arranges training seminars for insurance supervisors. It also publishes a list of these seminars to assist insurance supervisors in their planning and budgeting for training. The seminars focus on specific core principles or other supervisory issues depending on the interest and needs of the audience. Starting this year, the IAIS organises an annual global seminar to address its most recent standard-setting achievements, work in progress, and emerging issues. A list of seminars held during the year 2007-08 is included in Appendix IV. The IAIS has developed an online survey facility to measure the effectiveness of the training seminars and gather feedback before and after training events.

#### *Development of learning tools to assist standard implementation*

The implementation strategy proposes developing learning tools – including online courses, interactive courses available through the Internet or CDs/DVDs, and video conferencing – to enhance supervisors’ knowledge of insurance regulation and supervision, and to supplement IAIS seminars by reaching a broader audience. The Core Curriculum, which contains standardised, well-organised material, may form the basis for this work. Interactive courses – a small number of which were developed as part of the Core Curriculum – have proved to be an ideal platform for the effective delivery and dissemination of the material. Regional case studies are also being created using teaching notes and presentations developed by the Technical Committee.

#### *Cooperation with external organisations*

The continued cooperation with other international organisations – including the FSI, FIRST Initiative, the Geneva Association, the International Insurance Foundation, the IMF, the NAIC, the OECD, the Toronto Centre and the World Bank – has helped enormously in ensuring that emerging markets have access to assistance and training in insurance supervision. The IAIS also greatly appreciates the support given by the Japanese government. Increasingly, in cooperation with the IAIS, many developed countries organise and participate in training seminars for emerging markets.

**Audited financial statements for the year ended 31 December 2007**



**PricewaterhouseCoopers AG**  
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Report of the Auditors  
to the Members  
International Association of Insurance Supervisors  
Basel

We have audited the accounting records and the financial statements (statement of financial position, statement of activities and notes) of the International Association of Insurance Supervisors (the "IAIS") for the year ended 31 December 2007.

These financial statements are the responsibility of IAIS's management. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the Swiss legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and the financial statements comply with relevant Swiss law and the by-laws of the IAIS.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

A handwritten signature in blue ink, appearing to read 'Ralph R Reinertsen'.

Ralph R Reinertsen

A handwritten signature in blue ink, appearing to read 'Erica Walvoord'.

Erica Walvoord

Basel, 25 June 2008

Enclosures:

- Financial statements (Statement of Financial Position, Statement of Activities, Statement of Cash Flows and Notes)

**International Association of Insurance Supervisors**  
**Statement of Financial Position**  
**As at 31 December 2007**  
**(in Swiss francs)**

	Note	2007	2006
<b>ASSETS</b>			
Cash and cash equivalents	7	3,092,748	2,337,024
Investments held to maturity	8	2,084,029	2,069,234
Accounts receivable	9	855,625	1,328,829
Prepayments	10	-	5,813
<b>Total assets</b>		<b>6,032,402</b>	<b>5,740,900</b>
<b>LIABILITIES</b>			
Accounts payable	11	1,083,688	1,466,915
Deferred revenue	12	620,250	669,658
Advances received	5	2,403	2,600
<b>Total liabilities</b>		<b>1,706,341</b>	<b>2,139,173</b>
<b>UNRESTRICTED NET ASSETS</b>			
Balance brought forward from previous year		3,601,727	2,857,177
Net result from activities		724,334	744,550
<b>Total unrestricted net assets</b>		<b>4,326,061</b>	<b>3,601,727</b>
<b>Total liabilities and unrestricted net assets</b>		<b>6,032,402</b>	<b>5,740,900</b>

There were no movements in unrestricted net assets other than those included in the Statement of Activities.

The accompanying notes form part of these financial statements.

**International Association of Insurance Supervisors**  
**Statement of Activities**  
**For the year ended 31 December 2007**  
**(in Swiss francs)**

	Note	2007	2006
<b>Operating revenue</b>			
Membership fees		1,966,000	1,715,250
Observership fees		1,244,250	999,000
Annual conference income	14	787,826	1,321,712
<b>Total operating revenue</b>		<b>3,998,076</b>	<b>4,035,962</b>
<b>Operating expenses</b>			
Administration	13	16,686	15,883
Annual conference expenses	14	738,425	1,211,816
Audit		6,000	2,715
Editing		6,184	12,759
Educational activities		92,792	93,722
Meetings		16,397	4,080
Provision for bad debts	9	-	11,321
Relocation		95,532	71,984
Salaries		2,044,057	1,446,852
Staff training		3,632	-
Travel		277,937	226,824
Website		66,000	131,983
<b>Total operating expenses</b>		<b>3,363,642</b>	<b>3,229,939</b>
<b>Net result from activities before investment income and exchange rate movements</b>		<b>634,434</b>	<b>806,023</b>
Investment income	15	111,531	42,824
Net foreign exchange loss	3	(21,631)	(104,297)
<b>Net result from activities</b>		<b>724,334</b>	<b>744,550</b>

The accompanying notes form part of these financial statements.



**International Association of Insurance Supervisors**  
**Statement of Cash Flows**  
**For the year ended 31 December 2007**  
**(in Swiss francs)**

	Note	2007	2006
<b>Cash flows from operating activities</b>			
Net results from activities		724,334	744,550
Adjustments for:			
Investment income		(111,531)	(42,824)
Net foreign exchange loss		21,631	104,297
		634,434	806,023
Decrease/(increase) in accounts receivable		473,204	(649,618)
Decrease/(increase) in prepayments		5,813	(832)
(Decrease)/increase in accounts payable		(383,227)	872,542
(Decrease)/increase in deferred revenue		(49,408)	121,908
(Decrease) in advances received		-	(8,667)
<b>Net cash from operating activities</b>		<b>680,816</b>	<b>1,141,356</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of treasury bills		-	1,213,162
Proceeds from maturity of bond, including interest		2,090,000	-
Purchase of bonds		(2,055,925)	(2,055,641)
Interest received, other than on bonds	15	62,661	29,231
<b>Net cash from/(used in) investing activities</b>		<b>96,736</b>	<b>(813,248)</b>
Effects of exchange rate changes on cash and cash equivalents		<b>(21,828)</b>	<b>10,627</b>
<b>Net increase in cash and cash equivalents</b>		<b>755,724</b>	<b>338,735</b>
<b>Cash and cash equivalents at beginning of year</b>	7	<b>2,337,024</b>	<b>1,998,289</b>
<b>Cash and cash equivalents at end of year</b>	7	<b>3,092,748</b>	<b>2,337,024</b>

The accompanying notes form part of these financial statements.

## **International Association of Insurance Supervisors**

### **Notes to the Financial Statements**

**Year ended 31 December 2007**

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#### **1. NATURE OF ORGANISATION**

The International Association of Insurance Supervisors ("IAIS" or "the Association") is an association established under Swiss Law. The Association is domiciled in Basel, Switzerland and receives fees from its members and observers worldwide.

The IAIS provides an independent forum for insurance supervisors to promote cooperation among its members in carrying out their responsibilities and to enhance their ability to protect insurance policyholders and promote secure and efficient insurance markets.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Association are drawn up on the historical cost basis and income and expense items are recorded on the accruals basis.

##### **A. Scope of financial statements**

These financial statements contain all assets and liabilities that are controlled by the Association and in respect of which the economic benefits as well as the rights and obligations lie predominantly with the Association.

##### **B. Functional and presentation currency**

The functional and presentation currency is the Swiss franc.

As a result of its international activities the Association is exposed to various other currencies. All transactions are recorded in Swiss francs at the exchange rates ruling at the date of the transaction.

Exchange differences arising from the retranslation of monetary assets and liabilities are included as net foreign exchange gains or losses in the Statement of Activities.

##### **C. Cash and cash equivalents**

Cash and cash equivalents comprise bank current and deposit accounts which are highly liquid and readily convertible to cash.

##### **D. Investments**

Investments in bonds and treasury notes are held to maturity and are accounted for using the effective interest rate basis.

Returns from investments are accounted for in interest income.

##### **E. Accounts receivable and Accounts payable**

Accounts receivable and accounts payable are principally short-term amounts relating to the settlement of transactions as a result of the Association's activities. They are included in the Statement of Financial Position at cost.

##### **F. Provision for bad debts**

Provisions are recognised, as a charge to the Statement of Activities, if the Association has concern over the recovery of outstanding accounts receivable.

### **3. SENSITIVITY TO FOREIGN EXCHANGE MOVEMENTS**

The revenue and expenditure of the Association are predominantly received and paid in Swiss francs. The Association holds cash and investments in Swiss francs (CHF), US dollars (USD) and Euros (EUR). The year end exchange rate used to convert monetary assets and liabilities was 1 USD : 1.12735 CHF (2006: 1.21965 CHF), and 1 EUR : 1.65506 CHF.

The IAIS holds an annual conference which takes place in a different member jurisdiction each year. The majority of expenditure is incurred in the local currency of the host; conference income is received in a currency other than the Swiss franc, and sometimes one which also differs from the local currency.

The 2007 annual conference was held in Florida, USA. Conference income and the majority of conference expenditure were incurred in US dollars. The year end exchange rate was used to convert receivables and payables arising from the conference. See also Note 14.

### **4. BENEFITS RECEIVED**

The IAIS is hosted by the Bank for International Settlements (BIS) and benefits from administration, accounting, office space and other advisory services provided by the BIS. The BIS also administers a staff pension scheme of which a number of IAIS staff are entitled to membership.

The Association also benefits from Members' secondment of staff to its Secretariat.

The total amount of these benefits has not been determined.

### **5. THIRD PARTY CONTRIBUTIONS**

The use of these funds is restricted as determined by agreements with the contributors.

#### **DNB Dutch Contribution**

USD 50,000 was contributed in October 2002. The balance as at 31 December 2007 was USD 2,131 (CHF 2,403). Funds are recorded in the Statement of Financial Position as advances received.

#### **FSA Japan Grant**

During the year the FSA Japan contributed a grant equivalent to CHF 329,430. The balance as at 31 December 2007 was CHF 179,405. Funds are held in a separate CHF-denominated bank account. All transactions are financially independent from the IAIS and the financial records are independently audited.

#### **E-learning project**

Contributions since September 2007 amounted to CHF 95,825. The balance held in bank accounts as at 31 December 2007 was equivalent to CHF 96,035, including the effect of exchange rate movements on foreign currency contributions received. No payments were made during the year. All transactions are financially independent from the IAIS and the financial records are independently audited.

#### **DGF World Bank Grant**

Total contributions amounted to USD 600,000. The unutilised balance of USD 7,843 was returned to the contributor during 2007. Funds were held in a separate USD bank account and all transactions were financially independent from the IAIS and independently audited.

### **6. INCOME TAXES**

The Association is exempt from income tax.

## 7. CASH AND CASH EQUIVALENTS

	2007	2006
USD Current account	240,707	82,328
CHF Current account	2,843,607	1,454,696
EUR Current account	8,434	-
CHF Money market deposit	-	800,000
	<u>3,092,748</u>	<u>2,337,024</u>

## 8. INVESTMENTS

	2007	2006
CHF Bond	<u>2,084,029</u>	<u>2,069,234</u>

As at 31 December 2007 a 4.25% EIDG 08 (SWX) bond with a nominal value of CHF 2,000,000 was held, which matured on 8 January 2008. The investment was accounted for using the effective interest rate basis (using a rate of 2.46%).

## 9. ACCOUNTS RECEIVABLE

	2007	2006
Annual conference (Note 14)	787,826	1,321,712
Membership fees receivable	-	9,978
Withholding tax	53,431	-
Other	14,368	7,117
	<u>855,625</u>	<u>1,338,807</u>
Less: provision for bad debts	-	(9,978)
	<u>855,625</u>	<u>1,328,829</u>

### Movement in provision for bad debts:

	2007	2006
Opening balance	9,978	16,654
Additional provision made during the year	-	19,225
Doubtful debts recovered	-	(7,904)
Charge to operating expenses	-	11,321
Bad debts written off	(9,978)	(17,997)
Closing balance	<u>-</u>	<u>9,978</u>

The provision in 2006 related to the recoverability of certain outstanding membership fees.

## 10. PREPAYMENTS

Prepayments at the end of 2006 consisted of website maintenance and running costs, as well as travel costs paid in advance.

## 11. ACCOUNTS PAYABLE

	2007	2006
Annual conference expenses (Note 14)	764,100	1,177,113
Audit	5,900	4,500
Bank for International Settlements	275,256	166,769
Seminars	22,547	36,574
Website improvements	-	73,230
Other	15,885	8,729
	<u>1,083,688</u>	<u>1,466,915</u>

Amounts due to the Bank for International Settlements are in respect of operating expenses.

## 12. DEFERRED REVENUE

As at 31 December 2007 some members and observers had paid fees in advance for the year 2008. These amounts will be reflected as income in the Statement of Activities for 2008.

	2007	2006
Membership fees	246,250	346,658
Observership fees	374,000	323,000
	<u>620,250</u>	<u>669,658</u>

## 13. ADMINISTRATION

	2007	2006
Bank charges	6,465	5,396
Copies & postage	781	1,064
Printing & documentation	-	77
Telephone & fax	9,440	9,346
	<u>16,686</u>	<u>15,883</u>

#### 14. ANNUAL CONFERENCE

	2007	2006
<b>Income</b>		
2007 conference fee and sponsorship income (Note 9)	<u>787,826</u>	<u>1,321,712</u>
<b>Expenditure</b>		
2007 conference expenditure incurred by host (Note 11)	764,100	1,177,113
Other 2007 conference expenditure paid	23,949	34,703
2006 conference expenditure recovered	(38,289)	-
2005 conference expenditure recovered	<u>(11,335)</u>	<u>-</u>
	<u>738,425</u>	<u>1,211,816</u>

Conference fee and sponsorship income were received, and the majority of conference expenditure incurred, by the conference host on behalf of the IAIS. Such transactions were recorded in a designated account maintained by the host, independent from the host's books and records. The net balance due to the IAIS was settled after the year end. See also Note 3.

#### 15. INVESTMENT INCOME

	2007	2006
<b>Interest on:</b>		
Bank accounts	57,283	12,600
Money market deposits	5,378	2,641
Treasury bills	-	13,990
	<u>62,661</u>	<u>29,231</u>
Interest on bonds	<u>48,870</u>	<u>13,593</u>
	<u>111,531</u>	<u>42,824</u>

#### 16. COMPARATIVE FIGURES

Certain comparative figures have been amended to conform with the current year's presentation.

## Executive Committee

(Serving since 2007 Annual General Meeting)



Michel Flamée, Chairman  
Belgium

Commission bancaire, financière et des assurances



Walter Bell  
Vice-chairman (to August 2008)\*  
Alabama/USA

Alabama Department of Insurance (to August 2008)



John Trowbridge  
Australia

Australian Prudential Regulation authority



Peter Braumüller  
Austria

Financial Market Authority



David Oakden  
Canada

Office of the Superintendent of Financial Institutions



Guillermo Larraín-Ríos  
Chile

Superintendencia de Valores y Seguros



Antoine Mantel  
France

Autorité de Contrôle des Assurances et Mutuelles



Josephine Amoah  
Ghana

National Insurance Commission Ghana



Peter Neville  
Guernsey

Guernsey Financial Services Commission





László Asztalos  
Hungary  
Hungarian Financial  
Supervisory Authority



J Hari Narayan  
Chair of Implementation  
Committee  
India  
Insurance Regulatory and  
Development Authority



Tatsuo Yamasaki  
Japan  
Financial Services Agency



Bassel Hindawi  
Jordan  
Insurance commission



Victor Rod\*\*  
Chair of Budget Committee  
Luxembourg  
Commissariat aux  
Assurances



Manuel Aguilera-Verduzco  
México  
Comisión Nacional de  
Seguros y Fianzas



Kwok Mun Low  
Singapore  
Monetary Authority of  
Singapore



Alfred Gross\*\*  
Chair of Technical  
Committee  
Virginia/USA  
Virginia State Corporation  
Commission, Bureau of  
Insurance

\*The selection of a new Vice-chair was in progress at the date of this report.

\*\*Chairs of the Technical Committee, Implementation Committee and Budget Committee are ex officio non-voting members of the Executive Committee, if they do not otherwise hold voting membership of the committee.

## Secretariat

The IAIS Secretariat supports members and observers in all areas of IAIS activity – in particular the areas of standard setting, standard implementation, and communication. Members of staff of the Secretariat from October 2007 to September 2008 were:

### Secretary General

Yoshihiro Kawai

### Members of the Secretariat

Arup Chatterjee

Peter Cooke

Karen Doran

Hoik Eun (FSS, Republic of Korea)\*

Shinichi Kishi (FSA Japan)\*

Justin Zhao (CIRC, China),\* from September 2008

Lone Mørup

Nancy Sinclair

Sebastian Von Dahlen (BaFin, Germany)\*

Jeffery Yong (Bank Negara Malaysia)\*

Ryan Workman (NAIC, USA),\* from February 2008

### Deputy Secretary General

Catherine Lezon

### Administrative staff

Sylvie Ellet

Anne-Marie Kelly

Ann Neale

Carine Notter (BIS)\*

### Former Secretariat staff

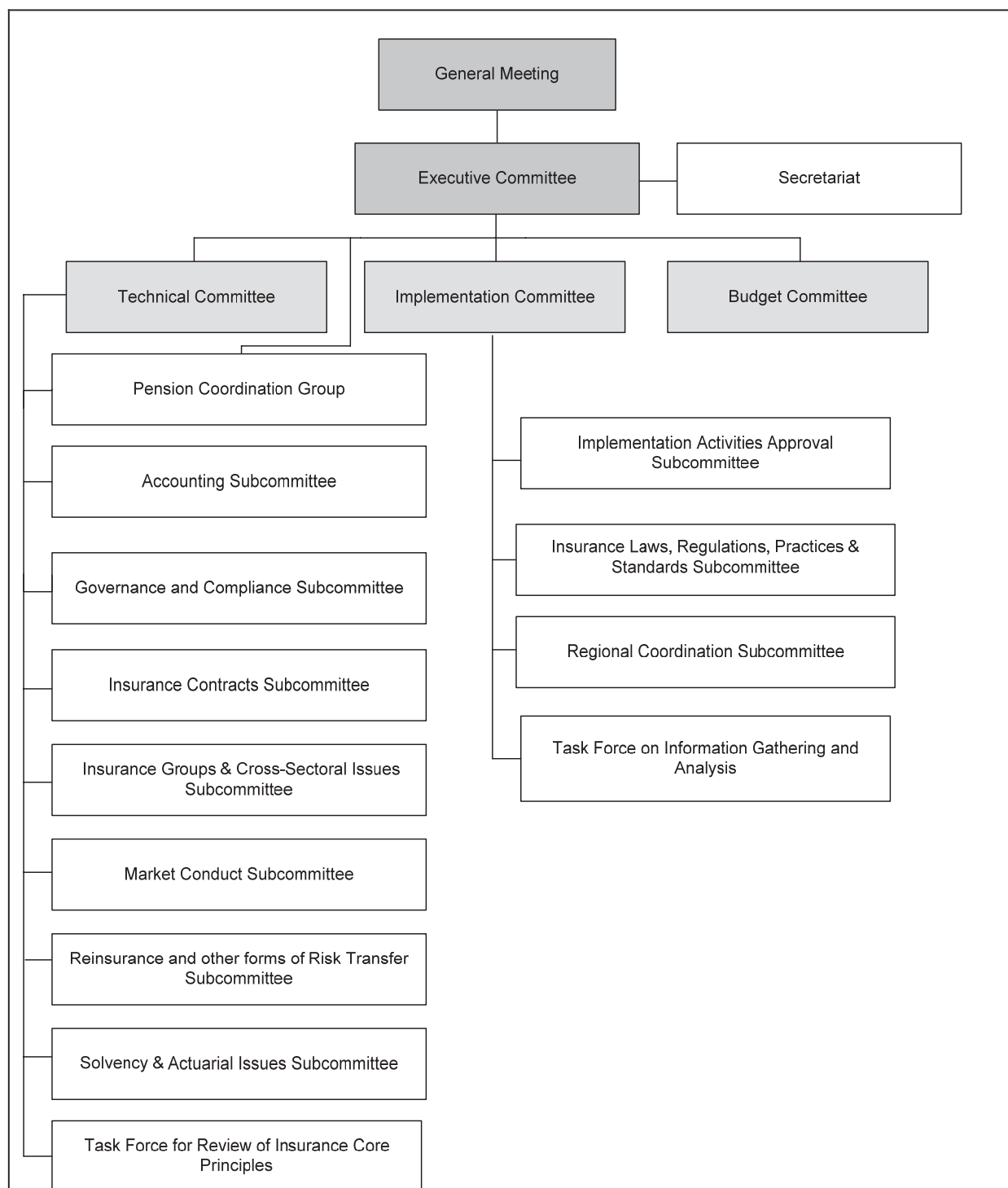
Greg Gu (CIRC, China),\* to April 2008

Secretariat staff financed by IAIS unless otherwise indicated (\*).



*Back row: Lone Mørup, Shinichi Kishi, Carine Notter, Sebastian Von Dahlen, Ryan Workman, Karen Doran, Nancy Sinclair  
Front row: Sylvie Ellet, Ann Neale, Catherine Lezon, Yoshi Kawai, Peter Cooke, Jeffrey Yong*

## Organisational structure



Note 1: Includes proposed changes which are expected to be finalised during the October 2008 meetings.

Note 2: Subgroups of working parties of the Technical Committee are not shown.

### Training seminars during 2007-08

The IAIS assisted or sponsored and organised the following training seminars for insurance supervisors during the year October 2007 to September 2008:

	Location	Organiser(s)	Main topics covered
November	Vienna, Austria	Joint Vienna Institute (JVI); FSI	Supervisory objectives; processes and tools; Licensing and suitability of persons; Capital adequacy and risk assessment; Enterprise risk management; Anti-money laundering; Preventive and corrective measures and sanctions
	Santiago, Chile	Chilean Securities and Insurance Supervisor; ASSAL; IAIS; FIDES	Solvency assessment for insurers; Asset-liability management; International accounting standards; Reinsurance; Microinsurance
	Port Louis, Mauritius	Financial Services Commission – Mauritius; IAIS; FSI	Licensing; Suitability of persons; Corporate governance; Risk-based supervision; Anti-money laundering
January	Beijing, China	China Insurance Regulatory Commission (CIRC); IAIS	Licensing; Group-wide supervision; Capital adequacy & solvency
	Tunis, Tunisia	Tunisian Insurance Supervisory Authority (CGA); French Insurance Supervisory Authority (ACAM); IAIS	Solvency issues; Group supervision; Reinsurance; Microinsurance; Takaful; Insurance laws database
March/April	Phnom Penh, Cambodia	Ministry of Economy and Finance – Cambodia; ASEAN Insurance Training & Research Institute (AITRI); OSFI; IAIS	Insurance business; Licensing; Financial reporting & solvency assessment; On-site inspection; Reinsurance; Group-wide supervision
May	Madrid, Spain	Spanish General Directorate of Insurance and Pension Funds (DGSFP); ASSAL; IAIS; OECD	Preconditions of effective insurance supervision; Improvement of efficiency & effectiveness in insurance regulation; Anti-money laundering; Solvency II; Supervisory process; Preventive & corrective measures; Group supervision; Supervisory cooperation & information sharing; Finite reinsurance
	Belgrade, Serbia	National Bank of Serbia; IAIS; FSI	Asset and liability matching; Solvency and supervision of groups; Measuring and modelling risk; How to detect and deal with troubled insurers
June	Seoul, Republic of Korea	<i>IAIS Global Seminar:</i> Financial Supervisory Service – Republic of Korea; IAIS	IASB Phase II insurance contracts project and IAIS's views; 2007 solvency guidance papers; Group supervision; Reinsurance mutual recognition; MMOU; Asset-liability management; Insurance laws database
July	Beatenberg, Switzerland	FSI	Licensing; Quantitative and qualitative measures to assess and manage risk; Frameworks for risk-based solvency and supervisory processes; How to identify and deal with troubled insurance companies
September	Grand Cayman, Cayman Islands	Cayman Islands Monetary Authority; Offshore Group of Insurance Supervisors (OGIS); IAIS	Corporate governance; Internal controls; Risk assessment & management; Management of insurance & investment activities

