



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

1995 1996 1997 1998
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years

ANNUAL REPORT 2013-2014

Activities from October 2013 to September 2014
Including 2013 Financial Statements



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Glossary of Abbreviations

A2ii	Access to Insurance Initiative
BCR	Basic Capital Requirements
ComFrame	Common Framework for the Supervision of Internationally Active Insurance Groups
FSI	Financial Stability Institute
FSB	Financial Stability Board
G-SII	Global Systemically Important Insurer
HLA	Higher Loss Absorbency Requirements
IAIG	Internationally Active Insurance Group
ICPs	Insurance Core Principles
ICS	Insurance Capital Standard
MMoU	Multilateral Memorandum of Understanding
SAPR	Self-Assessment and Peer Review
SPFO	Strategic Plan and Financial Outlook

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1. FOREWORD

The International Association of Insurance Supervisors (IAIS) is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions in nearly 140 countries. A full list of Members can be found on the IAIS website (www.iaisweb.org).

THE IAIS MISSION

The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders, and to contribute to global financial stability.

Established in 1994, the IAIS is the international standard-setting body responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector. The IAIS also provides a forum for Members and stakeholders to share experiences and understanding of insurance supervision and insurance markets. The IAIS is routinely called upon by the G20 leaders and other international bodies who value the collective expertise of its Members.

The IAIS is a non-profit organisation formed under Article 60 of the Swiss Civil Code, domiciled in Basel, Switzerland. Its By-Laws can be found under the “About Us” section of the IAIS website.

The activities of the IAIS are supported by its Secretariat located in Basel and headed by a Secretary General. The IAIS is hosted by the Bank for International Settlements (BIS).

THE IAIS COMMITTEE SYSTEM

Under the direction of its Members and led by an Executive Committee whose members come from different regions of the world (see Appendix I), the IAIS conducts activities through a committee system.

To achieve its mandate and objectives, the Executive Committee established five Committees under the By-Laws – the Audit and Risk, Budget, Financial Stability, Implementation, and Technical Committees – as well as the Supervisory Forum (see Fig. 1). Committees may establish Subcommittees to help carry out their duties.

THE THREE PILLARS OF IAIS ACTIVITIES

Activities undertaken in furtherance of its mission can be divided into three categories:

1. *Standard setting.* The IAIS develops supervisory material (principles, standards and guidance) for effective insurance supervision. The IAIS also prepares supporting papers (such as Issues Papers) that provide background on specific areas of interest to insurance supervisors.
2. *Implementation.* The IAIS actively promotes the implementation of its supervisory material. Working closely with international organisations, regional groups and supervisors, it supports training seminars and conferences and addresses financial inclusion. In addition, the IAIS conducts assessments and peer reviews of Members’ observance of supervisory material, consistent with the Financial Sector Assessment Program (FSAP) conducted by the International Monetary Fund (IMF) and the World Bank.
3. *Financial stability.* The IAIS plays a central role in financial stability issues, including developing a methodology for the identification of global systemically important insurers (G-SIIs) and policy measures to address systemic risk in G-SIIs. It also assists its Members in developing enhanced macroprudential surveillance tools.

GLOBAL COORDINATION

The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators, and assists in shaping financial systems globally. In particular, the IAIS is a:

- member of the Financial Stability Board (FSB)
- founding member and co-parent of the Joint Forum, along with the Basel Committee on Banking Supervision (BCBS) and the International Organisation of Securities Commissions (IOSCO)
- member of the IFRS Advisory Council of the International Accounting Standards Board (IASB)
- partner in the Access to Insurance Initiative (A2ii).

The IAIS also participates as an observer or partner with numerous other organisations, including the Arab Forum of Insurance Regulatory Commissions (AFIRC), Asian Development

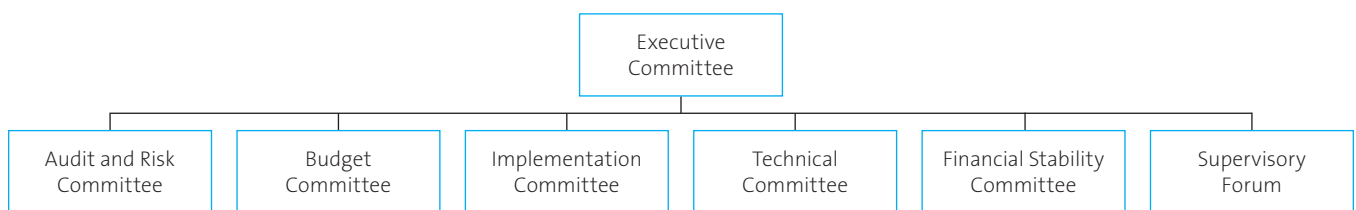
Bank (ADB), ASEAN Insurance Training and Research Institute (AITRI), Asian Forum of Insurance Regulators (AFIR), Association of Latin American Insurance Supervisors (ASSAL), CESEE Insurance Supervision Initiative (CESSE ISI), Caribbean Association of Insurance Regulators (CAIR), Consultative Group to Assist the Poor (CGAP), European Insurance and Occupational Pensions Authority (EIOPA), Financial Action Task Force (FATF), Financial Stability Institute (FSI), Global Partnership for Financial Inclusion (GPII), Group of International Insurance Centre Supervisors (GIICS), International Actuarial Association (IAA), IMF, International Organisation of Pension Supervisors (IOPS), Islamic Financial Services Board (IFSB), (U.S.) National Association of Insurance Commissioners (NAIC), Organisation for Economic Cooperation and Development (OECD), Southern African Development Community (SADC), Toronto Centre and World Bank.

GLOBAL INVOLVEMENT

The IAIS holds Committee meetings at least four times a year, as well as Subcommittee meetings as needed, in Member jurisdictions throughout the world.

To further encourage multilateral discussions on topical issues for insurance supervisors and other insurance professionals, the IAIS holds an Annual Conference. In conjunction with this conference, it convenes a General Meeting of Members where it conducts official business. A successful Annual Conference was held in Chinese Taipei in October 2013. The 2014 conference will be held in Amsterdam in October.

Fig. 1. The IAIS Committee System



2. REPORT FROM THE CHAIR OF THE EXECUTIVE COMMITTEE



Peter Braumüller
Chair, Executive Committee

There seems to be a trend that every year surpasses the previous in the volume of work undertaken and achievements of the Association. Over this past year, we took major strides in developing global capital standards for insurers and field testing the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). We adopted the Coordinated Implementation Framework (CIF), enhancing our commitment to building strong insurance supervisory systems and strengthening the delivery of existing strategic objectives to promote capacity building. We also continued to reform our structure and operations in order to make the Association more efficient and better able to achieving its goals.

The IAIS' role within the international financial community has increased substantially over the last several years. As a result, the IAIS has taken on additional responsibilities – such as assisting in the designation of G-SIIs and developing global insurance capital standards. These activities were not contemplated in 2010 when the *2011-15 Strategic Plan and Financial Outlook* was adopted. Accordingly, in 2013 the IAIS began a review of its strategic goals, financial outlook and resources with the goal of developing proposals to improve its structures, operations and the allocation of resources.

Over the last 12 months, the IAIS carefully implemented a package of reforms designed to increase the effectiveness of its activities, ensure adequate coordination of standard setting, standard implementation and financial stability work and improve the process for obtaining and enhance the quality of stakeholder input. More information on these reforms can be found in Section 4.

Also, to take account of trends in the insurance and greater financial sector and properly allocate resources, the Association drafted a *2015-19 Strategic Plan and Financial Outlook*. It continues important multi-year projects initiated during the previous planning period - such as the work on the development

of capital standards - but, based on a thorough examination of trends and recent developments, also presents a new set of goals and strategies designed to further the Association's mission over the next five years.

It is undeniable that the business of insurance is global, and global issues demand global responses. For this reason, in 2013 our Members, who constitute nearly all of the world's insurance supervisors, committed to develop and implement the first-ever risk-based global Insurance Capital Standard, or ICS, by 2016. Full implementation of the ICS is scheduled for 2019, after two years of testing and refinement with supervisors and internationally active insurance groups (IAIGs).

In a similar vein, significant work has also gone into development and adoption of Basic Capital Requirements (BCR) for G-SIIs. The BCR will serve as the foundation for higher loss absorbency requirements for G-SIIs, and it is anticipated that their development and testing will also inform development of the ICS.

In the area of standard setting, work continued vigorously on developing ComFrame - the set of international supervisory requirements focusing on the effective group-wide supervision of IAIGs. In June 2014, ComFrame began a three-year Field Testing Phase, and the IAIS has continued to engage with a large number of volunteers to do the field testing. Based on this work, ComFrame, including the ICS, will be refined and finally adopted in 2018.

Endorsement of the CIF was a major achievement in the area of standard implementation. The CIF was designed as a strategic overlay to enhance the IAIS' current implementation commitment and strengthen delivery on existing strategies and activities. Under the CIF, the IAIS has developed a robust programme of regional engagement and enhanced relationships with key implementation partners. The CIF has helped us focus resources, better coordinate and align our implementation

activities and coordinate implementation perspectives into all standard-setting activities of the IAIS.

Also over the last year, standard implementation work included a major Self-Assessment and Peer Review (SAPR). SAPRs are a critical step in implementation, and to support our implementation objectives the IAIS has developed a programme of thematic SAPRs. This year's SAPR was on the thematic topic of Corporate and Risk Governance and covered Insurance Core Principle (ICP) 4 (Licensing), ICP 5 (Suitability of Persons), ICP 7 (Corporate Governance), and ICP 8 (Risk Management and Internal Controls).

A final milestone to be reported is in respect of the IAIS Multilateral Memorandum of Understanding (MMoU). This year the Association increased the total number of signatories to 42. MMoU signatories now represent nearly 60% of global insurance premium volume.

These achievements could not have been possible without the dedication and efforts of the Members and of the Secretariat, and I would like to thank them for the commitment they have shown.

This is the final Annual Report for me in my role of Chair of the Association. I look back on my tenure as Chair with pleasure, pride and satisfaction in everything we have achieved. I have seen the IAIS grow and develop into the reputable global standard-setter it is today. I am confident this will continue in the years to come. I thank you for your confidence in me and look forward to continuing to work with you on the IAIS mission.

The Executive Committee is chaired by Peter Braumüller (Austria). The Vice Chairs are Naruki Mori (Japan) and Kevin McCarty (USA, Florida).

3. REPORT FROM THE SECRETARY GENERAL



Yoshihiro Kawai
Secretary General

Over the past year the Association made significant strides in many key areas. We maintained our momentum towards meeting goals in standard setting, standard implementation and financial stability, and at the same time launched a significant initiative to develop global capital standards.

This Annual Report describes our many achievements of the last year, including:

- development of the BCR – the first global capital standard for insurance entities
- launch of the ICS project to develop a global risk-based insurance capital standard
- enhancement of ComFrame and the ICPS
- establishment of the CIF
- development of G-SII policy measures and assessment methodology.

In order to conduct our activities in a sustainable manner, the IAIS realised that it must enhance its governance, organisation and operations. The Association must be stronger, more efficient and flexible enough to adjust quickly to emerging challenges and opportunities. It also needs to be supported by solid resources, sound resource and risk management and productive partnerships with relevant bodies.

To this end, the Association made significant organisational reforms in the past year regarding our Committees and Subcommittees, as well as our processes for:

- decision-making
- developing supervisory and supporting material
- engaging stakeholders.

The Association has developed a *2015-19 Strategic Plan and Financial Outlook* for approval at the General Meeting. In it we propose new high level goals and strategies, efficiency enhancements and priorities. It also sets out a plan for meeting our resourcing needs.

This past year has seen the emergence of a new IAIS. We are now stronger than ever. We are more efficient. We are better able to adapt and respond to changing needs and responsibilities and, as a result, better serve our Members in working towards our mission.

I would like to thank all Members and stakeholders for actively participating and continuously supporting the work of the Association. The Secretariat remains committed to providing you with high quality service and advice and working with you to meet the challenges ahead.



4. REPORT ON INCREASING THE ASSOCIATION'S EFFICIENCY – STRUCTURAL AND PROCEDURAL CHANGES IN 2013 – 14

In 2013, the Executive Committee created a small group to review IAIS activities and resources and develop proposals to improve structures, operations and the allocation of resources. During this process, the Executive Committee sought to address existing organisational challenges in order to:

- enhance the efficiency of activities within given and often limited resources
- enable the Association to adapt to evolving external expectations
- ensure adequate coordination of standard setting, standard implementation and financial stability work
- avoid unnecessary discussion of matters previously decided
- improve the process of obtaining, and the quality of, stakeholder input
- strengthen the Association's governance
- promote a more efficient and effective decision-making culture.

In September 2013, the Executive Committee approved a set of measures to increase the efficiency of the Association's activities. These measures included establishing a Coordination Group, reorganising the Association's Subcommittee structure as well as agreeing to revise related processes and procedures affected by this reorganisation.

A NEW STRUCTURE

Specifically, the Executive Committee agreed to restructure existing groups into the following three categories:

1. *Main (or Parent) Committees*, such as the existing Financial Stability, Implementation and Technical Committees.
2. *The Coordination Group*, which reports to the Executive Committee and is generally responsible for facilitating project management, coordinating the work of the main Committees and making recommendations to the Executive Committee regarding the annual *Roadmap*.
3. *Subcommittees*, in the form of Task Forces and Working Groups, which will carry out activities such as drafting standard-setting and related material (including Issues and Application Papers), reports, surveys and comment letters.

The Coordination Group was asked to recommend how workstreams might be reorganised under this new structure as well as whether the Financial Stability and Technical Committees should be merged. Based on its recommendations, the Executive Committee approved a new Subcommittee structure. In implementing the changes, care was taken not to disrupt the Association's ability to achieve its objectives, especially in critical areas such as the development of capital standards and field testing of ComFrame.

The Executive Committee also agreed to merge the Financial Stability and Technical Committees as of January 2016.

The Association's new organisational structure can be seen in Appendix III.

ENHANCED PROCEDURES

Taking account of the new structure and in order to further improve the manner in which the Association effectively and efficiently achieves its strategic and operational goals, the Executive Committee also agreed to:

- conduct a critical review of all of the Association's activities and prioritise workstreams in light of available resources
- propose adoption of a new multi-year strategic plan and financial outlook in October 2014
- design a new Roadmap that sets out projects and priorities in a clearer, more measurable fashion
- improve the formal decision-making process
- implement more efficient meeting scheduling and operating procedures
- enhance project management
- ensure compliance with IAIS procedures
- implement a new process for the development of supervisory and supporting material
- improve the manner in which stakeholder input is received.

In addition, the Coordination Group and Executive Committee will annually review the deliverables and relative priority of each Subcommittee's work to ensure that IAIS and Members' resources are being applied most appropriately.

The Executive Committee adopted a staggered schedule for implementing this comprehensive package of structural and procedural changes. Changes to the decision-making process, project management and prioritisation of projects were made immediately. Other changes, such as to the process for development of supervisory and supporting material and stakeholder engagement, will take effect as of January 2015, allowing sufficient time for development and consultation and permitting implementation to occur in the least disruptive manner.

IMPROVING STAKEHOLDER INPUT

The Executive Committee recognised that the IAIS has benefited greatly from the contributions of Observers and other interested stakeholders to its work in standard setting, standard implementation and financial stability. The IAIS conducts extensive consultations on draft papers with Observers and other stakeholders and is committed to continuing to consult widely on its draft work product, where appropriate, in order to achieve the best outcome.

The Executive Committee also recognised that, while the IAIS has benefited from stakeholder input, the process for obtaining input could be more effective and efficient. Accordingly, the Executive Committee agreed to update procedures so that broad stakeholder input would be received in a more effective, consistent, transparent and predictable manner.

Specifically, the Executive Committee will seek approval from the General Meeting to establish a more open and transparent process in which any interested stakeholder can receive information and contribute to the Association's development of supervisory and supporting material without the necessity of formally becoming an Observer and paying a fee. If approved, this would result in the discontinuation of Observer status as of 1 January 2015.

In order to clearly define the IAIS' commitment to stakeholder consultation and engagement and the practices to be applied to ensure that consultations are as effective, consistent, transparent and predictable as possible, new draft policies and procedures for consultation and engagement with all Members and stakeholders were released for public comment in August 2014. These policies and procedures include:

- special Executive Committee sessions
- Committee-level hearings
- regular publication of background documents
- conference calls at certain stages of policy development (e.g. at the launch of a public consultation) to provide background and context on the matter being consulted.

The Association plans to adopt these new procedures in October 2014 for effect as of January 2015.

5. REPORT FROM THE CHAIR OF THE TECHNICAL COMMITTEE



Michael McRaith
Chair, Technical Committee

The Technical Committee is responsible for steering and overseeing the IAIS' standard-setting work in order to promote effective and transparent supervision of insurance markets through global, sustainable and coherent supervisory principles, standards and guidance while minimising opportunities for regulatory arbitrage.

It is specifically responsible for:

- providing IAIS standard-setting responses to developments in industry structures, financial markets, and business practices, and to policyholders' needs
- completing, reviewing and updating the comprehensive set of high-level principles-based supervisory and supporting material
- establishing the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), including an Insurance Capital Standard (ICS).

COMFRAME DEVELOPMENT

In October 2013, the IAIS released the 2013 draft of ComFrame for consultation, which marked the last public consultation in ComFrame's Development Phase. There were a total of 46 responses received, including 14 from Members, 25 from Observers and 7 from other organisations.

In January 2014, the Technical Committee considered comments raised during the consultation, which were also the subject of an Observer hearing, and in March considered proposed responses at the individual Element level.

The ComFrame Draft Review Group (CDRG) then considered the revised text prepared by the relevant Technical Committee Subcommittees. The CDRG and other Subcommittees engaged in an iterative process of revision and review in order to produce a harmonised approach to the drafting of ComFrame. The Technical Committee subsequently approved the 2014 draft to be used as the basis for field testing, particularly of the qualitative aspects of ComFrame. Figure 2 shows the current structure of ComFrame.

Beginning in 2013, 26 Members - including both home and host supervisors - participated in the field testing of Module 1. This resulted in 11 recommendations from the Field Testing Task Force (FTTF) that were endorsed (some with minor modification) by the Technical Committee in June and will be the basis of revisions to Module 1 of ComFrame.

Field testing on the qualitative aspects of ComFrame will commence in the fourth quarter of 2014 through a series of exercises involving both field testing volunteers and their group-wide supervisors. Host supervisors will also be involved in the field testing of Module 3. The FTTF, which will become the Field Testing Working Group in November 2014, will conduct the testing, analyse the results and propose drafting changes. Proposed drafting changes will be reviewed by the Subcommittee which originally prepared the drafts.

The global ICS that is under development will replace the “capital adequacy assessment” in Module 2 Element 5 of ComFrame. A consultation on the ICS will be launched in December 2014. The results of quantitative field testing conducted in 2014 and the testing exercise planned in the second quarter of 2015 will be used in developing and refining the ICS.

Both the ICS and revised texts of other elements of ComFrame will be brought together in a revised draft of ComFrame and be the subject of consultation at the end of 2015.

Fig. 2. Structure of ComFrame

Module 1 The Scope of ComFrame	Elements 1 and 2	Provide the definition for an IAIG and set out the processes for identifying IAIGs.
	Element 3	Addresses the scope of ComFrame supervision and how supervisors should determine which entities should be within the perimeter of supervision.
Module 2 The IAIG	Element 1	Covers the IAIG’s legal and management structures, highlighting those cross-border issues and complexities that can give rise to risks that might not exist in simpler insurance groups.
	Element 2	Sets out the group-wide governance framework and expected roles of the governing body and senior management of the head of the IAIG vis-à-vis the boards, senior management and key control functions of the IAIG entities.
	Element 3	Covers the requirements for Enterprise Risk Management (ERM), addressing all relevant and material risks.
	Element 4	Describes group-wide ERM policies that an IAIG should develop and implement: an investment policy, an underwriting policy, a claims management policy, a reinsurance strategy, an insurance liability valuation policy and an actuarial policy.
	Element 5	<i>[Element 5 is a placeholder for the risk-based global Insurance Capital Standard (ICS).]</i>
Module 3 The Supervisor	Element 1	Sets out the group-wide supervisory process.
	Element 2	Highlights the need for cooperation and interaction between involved supervisors and the requirement for supervisory colleges.
	Element 3	<i>[Element 3 is a placeholder for the measures to address crisis management and resolution.]</i>

Fig. 3. ComFrame and capital standard milestones 2013 – 19

October through December 2013	Public consultation on 2013 Draft ComFrame
Early – 2014	<ul style="list-style-type: none"> • ComFrame Field Testing Phase begins • Testing of Basic Capital Requirements (BCR) for Globally Systemically Important Insurers (G-SIIs) begins • Development begins on ICS
Late – 2014	<ul style="list-style-type: none"> • BCR finalised and ready for implementation by G-SII jurisdictions • Field testing of other elements of ComFrame
December 2014	Public consultation on ICS and HLA
2015	Higher Loss Absorbency (HLA) requirements for G-SIIs developed using BCR as a base; to be finalised by end-2015
2015 – 16	<ul style="list-style-type: none"> • Testing of ICS and other elements of ComFrame • Public consultation on ComFrame, including the ICS, in December 2015
End – 2016	Development of ICS complete
2017 – 18	<ul style="list-style-type: none"> • Testing and refinement of ICS and other elements of ComFrame • Public consultation on ComFrame, including the ICS, in December 2017
End – 2018	ComFrame, including final ICS, adopted by IAIS
2019	<ul style="list-style-type: none"> • Implementation begins on ComFrame, including ICS • HLA requirements for G-SIIs become effective

REVIEW OF SUPERVISORY MATERIAL

Over the year the Technical Committee provided comments, guidance and direction to its Subcommittees on various issues, including a review of the ICPs related to group supervision following the SAPR of ICP 23 (Group-wide Supervision).

Since October 2013, the Technical Committee commented on and recommended for consultation the following papers (which are presented in more detail in Section 7):

- *Application Paper on Approaches to Conduct of Business Supervision*
- *Issues Paper on Anti-Bribery and Corruption*
- *Issues Paper on Approaches to Group Corporate Governance; Impact on Control Functions.*

In June 2014, the Technical Committee agreed on a new, clustered workplan for revisions to the ICPs, whereby the ICPs currently under revision (i.e. groups, resolution and governance) would be revised by the end of 2015 and the remainder would be revised by the end of 2017. This would allow ComFrame to build on a complete revised set of ICPs by 2018.

EDUCATION MATERIAL

The Technical Committee approved education material developed by the Market Conduct Working Group on ICP 18 (Intermediaries) that discusses the supervisory framework for intermediaries and by the Financial Crime Task Force on ICP 21 (Countering Fraud in Insurance) covering fraud risks in insurance, the different types of fraud to which insurers are at risk, organisational measures and procedures that combat fraud and the role of the supervisor in fraud prevention and detection.

REVISED MANDATES

Following the comprehensive restructuring of the Association, the mandates of the Technical Committee and its Subcommittees were revised in June 2014. Among other things, it was agreed that the work of the Technical Committee should regularly consider impact assessments, when appropriate, to inform the development of standards.

The Technical Committee is chaired by Michael McRaith (USA, Treasury/FIO). The Vice Chair is Marc Radice (Switzerland).

6. REPORTS FROM THE TECHNICAL COMMITTEE SUBCOMMITTEES

ACCOUNTING AND AUDITING WORKING GROUP (FORMERLY THE ACCOUNTING AND AUDITING ISSUES SUBCOMMITTEE)

The Accounting and Auditing Working Group (AAWG) is responsible for the IAIS' external relationships with accounting and auditing bodies. It monitors accounting developments related to insurers and insurance supervision and responds on behalf of the IAIS, where appropriate, including by providing input to the IASB. The group also provides input to the International Federation of Accountants on auditing standards developed by its standard-setting board, the International Auditing and Assurance Standards Board (IAASB), and liaises with other organisations dealing with matters of mutual interest.

During the year, the group sent three letters on behalf of the IAIS to the IASB, commenting on:

- Insurance Contracts Exposure Draft (21 October 2013)
- a Review of the Conceptual Framework for Financial Reporting (10 January 2014)
- Disclosure Initiative - Proposed amendments to IAS 1 (8 July 2014).

The group also sent four letters on behalf of the IAIS to the IAASB, commenting on:

- reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs) (20 November 2013)
- IAASB's Proposed Strategy for 2015–19 and Proposed Work Program for 2015–16 (2 April 2014)
- the Auditor's Responsibilities Relating to Other Information Proposed Consequential and Conforming Amendments to Other ISAs (8 July 2014).

The group organised a regular dialogue with the IASB to monitor development of the insurance contracts project. One important aspect regarding this work was the focus of achieving convergence between the two major standard setters: the IASB and FASB.

The group also discussed proposals for appropriate amendments to ICP 7 related to external audits, in collaboration with the Governance Working Group and taking into account guidance and principles adopted by the BCBS and endorsed by the FSB.

The AAWG is chaired by Markus Grund (Germany, BaFin). The Vice Chair is Rob Esson (USA, NAIC).

FINANCIAL CRIME TASK FORCE (FORMERLY THE FINANCIAL CRIME WORKING GROUP)

During the year, the Financial Crime Task Force (FCTF) completed an *Issues Paper on Anti-Bribery and Corruption*, which is expected to be approved in October 2014. The paper discusses the relevance of bribery and corruption to the insurance sector, the relationship between measures to combat bribery and corruption and frameworks for AML/CFT, and the insurance supervisor's role in combating bribery and corruption.

In addition, in March 2014 the Task Force finalised teaching notes on ICP 21 (Countering Fraud in Insurance) covering fraud risks in insurance, the different types of fraud to which insurers are at risk, organisational measures and procedures that combat fraud and the role of the supervisor in fraud prevention and detection.

The Task Force also started to explore the area of cyber-crime risks to the insurance sector, focusing on the protection of private information of customers and the mitigation of fraud committed through cyber-attacks. This work may result in an Issues Paper. In addition, the Task Force has contributed to current work of the FATF on enforcement and supervision of AML/CFT standards, and has monitored other developments at the FATF and in financial crime generally.

GOVERNANCE WORKING GROUP (FORMERLY THE GOVERNANCE AND COMPLIANCE SUBCOMMITTEE)

The Governance Working Group (GWG) is mandated to provide a framework for developing and advancing high-level corporate governance principles, standards and guidance applicable to the supervision of insurers.

During the last year, the group contributed to the further refinement of ComFrame, specifically with respect to the standards, parameters and guidelines for its qualitative governance and risk management requirements. Comments from the 2013 consultation of ComFrame were reviewed and recommendations for improvements made with a final draft presented to the Technical Committee in June 2014. Going forward, the GWG will work closely with the Field Testing Working Group and provide input into ComFrame's qualitative field testing.

The group substantially completed development of an *Issues Paper on Approaches to Group Corporate Governance; Impact on Control Functions*. The objective of the Issues Paper is to identify risks and

challenges arising within different models of governance that may be adopted within an insurance group, such as centralised, decentralised and – more common in practice – hybrid models of governance, and the impact the use of such models would have on key control functions, particularly the risk officer function. The Issues Paper is due to be adopted in October 2014.

The group discussed and provided input to amendments to the ICPs proposed by the Insurance Groups Working Group and, in collaboration with the AAWG, also discussed proposals for appropriate amendments to ICP 7 related to external audits in order to reflect guidance and principles adopted by the BCBS and endorsed by the FSB.

The GWG provided expert input to the SAPR on the topic of risk governance relating to ICP 4 (Licensing), ICP 5 (Suitability of Persons), ICP 7 (Corporate Governance), and ICP 8 (Risk Management and Internal Controls) and has started addressing the issues highlighted in the SAPR report with a view to revise the relevant ICPs as needed.

In order to promote the effective and efficient application of the ICPs, standards and guidance relating to corporate governance and risk management, the group developed training material for insurance supervisors on ICPs 4 and 5. Over the last year, the group has provided training to host supervisors and regional supervisors on the governance related ICPs.

The GWG is chaired by Annick Teubner (Netherlands), who replaced Dhammika Amukotuwa (UAE, Dubai FSA).

INSURANCE GROUPS WORKING GROUP *(FORMERLY THE INSURANCE GROUPS AND CROSS-SECTORAL ISSUES SUBCOMMITTEE)*

The Insurance Groups Working Group (IGWG) is responsible for providing a framework for developing and advancing efficient and effective group-wide supervision.

Over the course of the previous year work has continued on the development of ComFrame, specifically in regard to the identification of groups that will be subject to ComFrame requirements (Module 1) and the supervisory processes to be applied (Module 3). Comments from the 2013 ComFrame consultation were intensively reviewed and recommendations for improvements made, with a final draft presented to the Technical Committee in June. With the initial drafting phase now complete the group has begun working closely with the FTF to further refine ComFrame based on results of field testing.

The group focused on reviewing the ICPs to promote appropriate group supervision. The review looked into:

- reducing double jeopardy and ambiguity over the scope of group supervision
- aligning the ICPs with Joint Forum *Principles for the Supervision of Financial Conglomerates*
- providing clarity on the roles of home and host supervisors and the application of powers.

As a result, ICP 23 now more comprehensively focuses on the scope of the group to be subject to group supervision. The group has also made proposals in other ICPs that leverage off the principles of solo supervision, clarifying more specifically the requirements for groups. Drafting recommendations are scheduled for consultation in early 2015.

The group continued its analysis into the FSB's Annex to the *Key Attributes: Resolution of Insurers* (the KA Annex). This resulted in drafting proposals to various ICPs, in particular ICP 12 (Winding-up and Exit from the Market), as well as initial proposals for ComFrame which are still under development. Work on resolution was handed over to the new Resolution Working Group in 2014.

The IGWG is chaired by Petra Faber-Graw (Germany, BaFin). The Vice Chair until May 2014 was Urs Halbeisen (Switzerland).

JOINT FORUM

The last year has been a busy period for the Joint Forum. Papers on supervisory colleges, longevity risk, mortgage risk and point of sale disclosure were published (links to these reports can be found on the IAIS website) and two new papers started:

- asset encumbrance
- stock-take following the financial crisis of credit risk management approaches between sectors.

Both papers are scheduled for completion in late 2014.

Since revising the *Principles for the Supervision of Financial Conglomerates* further work has been performed on assessing its implementation within specific jurisdictions, with particular focus on the operations of supervisory colleges of financial conglomerates.

The Chair of the Joint Forum rotates among the IAIS, BCBS and IOSCO every two years. Thomas Schmitz-Lippert (Germany, BaFin) was endorsed for a second term with effect from January 2014.

MARKET CONDUCT WORKING GROUP (FORMERLY THE MARKET CONDUCT SUBCOMMITTEE)

The Market Conduct Working Group (MCWG) is charged with:

- developing and enhancing supervisory and supporting material related to market conduct supervision
- coordinating with other international bodies dealing with the market conduct of insurers and intermediaries and financial consumer protection.

During the year the group completed an *Application Paper on Approaches to Conduct of Business (COB) Supervision*, identifying approaches to COB supervision that Members may wish to consider when implementing the related components of ICP 9 (Supervisory Review and Reporting), as well as supervising

compliance with the requirements of ICP 19 (Conduct of Business), and incorporating them into their broader supervisory frameworks. The paper aims to provide a useful source of ideas and tools to supervisors in supervising conduct of insurance business and is expected to be approved in October 2014.

The group also started work on an *Issues Paper on Conduct of Business Risks, their Mitigation and their Place within ERM*, which is expected to be completed in 2015. In an effort to facilitate education and training in market conduct supervision, in March 2014 the group finalised teaching notes on ICP 18 (Intermediaries) that discuss the supervisory framework for intermediaries as set out in ICP 18, provide examples of supervisory practice and identify inter-linkages with other ICPs.

In addition, as part of its future work the group will expand the current material on intermediary supervision by developing an Application Paper on approaches to the supervision of intermediaries and insurance distribution.

The MCWG also monitored developments and contributed to the work of other organisations in the area of consumer protection, which included participating in the OECD's Task Force on Financial Consumer Protection.

The group has provided training to host and regional supervisors on the interpretation of, and how to comply with, ICPs 18 and 19 as part of its outreach activities.

The MCWG is chaired by Julien Reid (Québec, Canada, AMF). The Vice Chair is Leanne Jackson (South Africa).

PENSION COORDINATION GROUP

The Pension Coordination Group (PCG) was mandated to prepare the most integrated approach possible towards pension and insurance supervision. Based on a working agreement between the IAIS and the International Organisation of Pension

Supervisors (IOPS), the PCG reviewed and provided feedback on IOPS supervisory material, monitoring the consistency of the standard-setting work and publications. The PCG also monitored the developments and initiatives of other international bodies involved in pension supervision, especially the OECD Working Party on Private Pensions.

In an effort to strengthen the IAIS-IOPS cooperation framework and to promote consistency of principles and standards on pension regulation and supervision, the IAIS and IOPS held a joint seminar in Reykjavik, Iceland, in February 2014 covering:

- main challenges to the pension market
- longevity risk
- supervisory framework as applied to pension supervision
- foreign investment regulation on pension funds.

This event provided an opportunity to engage in an open discussion on insurance markets, insurance/pension regulation and supervision, the current major challenges in developing or strengthening insurance and private pension markets, and how to improve information exchange and cooperation between regulatory organisations. In addition, two formal PCG meetings were held during the reporting year that included updates from the Insurance and Pensions Unit of the European Union, EIOPA and the World Bank.

As part of the Association's comprehensive reorganisation (see Section 4), the PCG was disbanded as of July 2014. At the same time, the Executive Committee created a Pension Strategy Task Force to develop a strategy on how the IAIS can more effectively address the relationship between the pension sector and the insurance sector. The strategy should be ready for discussion in October 2014.

The PCG was chaired by Julia Cillikova (Slovakia).

REINSURANCE AND OTHER FORMS OF RISK TRANSFER SUBCOMMITTEE

The Reinsurance and Other Forms of Risk Transfer Subcommittee (RSC) continued its focus on reinsurance-related resilience and stability analysis, in particular on how regulators can facilitate resilience in the context of (re)insurance for natural disasters, with a view on how to better integrate and address disaster risk and

resilience in supervisory measures. Using available data, including data on reinsurance activities by reinsurers (retrocession), the RSC is providing insights into, and enhancing the understanding of, the economic impact of (re)insured natural catastrophes and the supervisory implications that follow.

Other ongoing RSC work includes:

- contributing to the IAIS Global Insurance Market Report (GIMAR) from a reinsurance and other forms of risk transfer perspective, such as the transfer of alternative risks
- offering direction regarding insurance captives to the Captives Paper Task Force
- preparing a range of reinsurance-related education materials and specific case studies focusing on different forms of risk transfer
- providing input on reinsurance and other forms of risk transfer for the envisaged macroprudential knowledge base work on the IAIS website.

The RSC is expected to merge with the Macroprudential Policy and Surveillance Subcommittee in early 2015.

The Acting Chair of the RSC is Lutz Oehlenberg (Germany, BaFin), who replaced Ryan Couch (USA, NAIC).

RESOLUTION WORKING GROUP (REPORTS JOINTLY TO THE TECHNICAL AND FINANCIAL STABILITY COMMITTEES)

Given the increasing importance of standard setting relating to recovery and resolution, the Resolution Working Group (ReWG) was established in January 2014. It has taken over all recovery and resolution-related work previously addressed by other Subcommittees, including the IGWG and the G-SII Resolution Drafting Group.

The ReWG is responsible for addressing matters relating to the resolution of insurers (both G-SIIs and non-G-SIIs). It is specifically responsible for:

- developing and maintaining high-level principles-based supervisory materials on insurance resolution including development of guidance for G-SII resolution, relevant parts of ComFrame and revision of resolution-related ICPs
- dealing with all standard-setting matters regarding

resolution initiated by the FSB, including addressing consultations by the FSB on resolution-related principles and standards and gone concern loss absorbency

- representing the IAIS at relevant working parties within the FSB, such as the Steering Group on Resolution and the Insurance Cross-border Crisis Management Group.

The ReWG has provided input to the draft KA Annex, which was released for public consultation by the FSB in August 2013, to ensure that insurance specificities are appropriately recognised. In June 2014, the Financial Stability and Technical Committees instructed the ReWG to develop a workplan by September 2014 to consider how loss absorbing capacity at the failure of G-SIIs (i.e. on a gone concern basis) should be in place. The ReWG will also develop recovery and resolution requirements for IAIGs.

The ReWG is chaired by Urs Halbeisen (Switzerland). The Vice Chair is Tom Crossland (UK, PRA).

SOLVENCY AND ACTUARIAL ISSUES SUBCOMMITTEE

The Solvency and Actuarial Issues Subcommittee (SSC) has been responsible for research into, and analysis of, solvency requirements, solvency assessment and risk management of insurance companies, and developing supervisory material on these topics.

In 2013 and 2014 the SSC focussed on developing three elements of ComFrame: Module 2 Element 3 Enterprise Risk Management

(ERM), Module 2 Element 4 ERM policies and Module 2 Element 5 Capital Adequacy Assessment. This work included refining the text for the ComFrame consultation in October 2013 and responding to the key themes on the three elements received in that consultation.

The SSC also began to develop educational material based on the solvency ICPs and provided training to host supervisors and regional supervisors as part of its outreach programme on the solvency ICPs.

In addition to its regular meetings, the SSC held several drafting group meetings to advance the work on ComFrame, particularly the capital adequacy assessment. That work will now be a key input into the development of the global ICS.

As part of the Association's comprehensive reorganisation (see Section 4), the SSC was disbanded as of July 2014. The work undertaken by the SSC on capital adequacy will be taken over by the Capital Development Working Group and Field Testing Working Group. When necessary, dedicated Task Forces will be established.

The Solvency Subcommittee was chaired by Ramon Calderon (USA, NAIC). The Vice Chair was Jumpei Miwa (Japan).

7. STANDARD SETTING ACHIEVEMENTS DURING 2013 – 14

The following material was adopted on 19 October 2013:

INSURANCE CORE PRINCIPLES (ICPs)

ICP 22 (ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM (AML/CFT))

The 2011 revisions to the ICPs included ICP 22 (AML/CFT). At that time the Financial Action Task Force (FATF) was working on a revision to its Recommendations. Revised ICP 22 took into account the direction of the FATF revisions, however, it was noted that the IAIS would need to revisit ICP 22 once the FATF completed its work. With their work now complete, ICP 22 was reviewed and revised to reflect a more risk-based approach to AML/CFT consistent with the FATF material.

The ICP was also restructured into two main parts, one addressing the insurance supervisors who are a designated AML/CFT competent authority, the other addressing the insurance supervisors who are not a designated AML/CFT competent authority.

The following material was adopted by the Executive Committee on 16 October 2013:

APPLICATION PAPER ON COMBATING MONEY LAUNDERING AND TERRORIST FINANCING

The Application Paper provides information on how money laundering and terrorist financing can occur within the insurance sector, and on measures to mitigate the risks. In doing so it supplements ICP 22 (Anti-money Laundering and Combating the Financing of Terrorism) and takes into account the requirements of the FATF.

ISSUES PAPER ON POLICYHOLDER PROTECTION SCHEMES

The Issues Paper provides an overview of the features of policyholder protection schemes (PPSs) and the functions they can perform. It is intended to serve as a source of information to insurance supervisors, particularly where the establishment of a PPS is being considered or where an existing scheme is being modified. The paper also discusses necessary conditions and challenges associated with such schemes to ensure that where they are established they are consistent with the objectives of the ICPs.

ISSUES PAPER ON SUPERVISION OF CROSS-BORDER OPERATIONS THROUGH BRANCHES

The Issues Paper identifies how foreign branches are supervised, highlighting differences as well as similarities in supervisory practices, and considers possible challenges in the supervision of foreign branches.

The following material was developed after October 2013 and is expected to be adopted in October 2014 after consultation:

APPLICATION PAPER ON APPROACHES TO CONDUCT OF BUSINESS SUPERVISION

The Application Paper identifies approaches to conduct of business (COB) supervision that Members may wish to consider when supervising compliance with the requirements of ICP 19 (Conduct of Business) as well as implementing the related components of ICP 9 (Supervisory Review and Reporting) and incorporating them into broader supervisory frameworks. The paper aims to provide a useful source of ideas and tools to supervisors in supervising conduct of insurance business.

APPLICATION PAPER ON SUPERVISORY COLLEGES

The Application Paper shares supervisors' experiences with cooperation in supervisory colleges and presents good practices for global supervisory colleges. The paper covers the modus operandi of supervisory colleges and specific arrangements needed to accommodate their functioning, including guidance on information exchange and confidentiality issues between supervisors. One of the annexes is an example of a college MoU.

ISSUES PAPER ON ANTI-BRIBERY AND CORRUPTION

The Issues Paper discusses the issue of bribery and corruption in the insurance sector, the relationship between measures to combat bribery and corruption and frameworks for AML/CFT, and the insurance supervisor's role in combating bribery and corruption.

**ISSUES PAPER ON APPROACHES TO GROUP CORPORATE GOVERNANCE;
IMPACT ON CONTROL FUNCTIONS**

This Issues Paper identifies risks and challenges arising within different models of governance that may be adopted within an insurance group, such as centralised, decentralised and – more common in practice – hybrid models of governance, and the impact the use of such models would have on the key control functions, particularly the risk officer function.

8. REPORT FROM THE CHAIR OF THE FINANCIAL STABILITY COMMITTEE



Elise Liebers
Acting Chair, Financial
Stability Committee

The Financial Stability Committee (FSC) contributes to global financial stability by:

- developing and refining an assessment methodology to identify globally systemic insurers and reinsurers (G-SIIs)
- performing an annual assessment of the G-SII status of insurers and reinsurers
- developing, in cooperation with Technical Committee, G-SII policy measures for higher loss absorbency (HLA), including the development of BCR as the base for HLA
- providing guidance to supervisors and firms on other components of the package of enhanced policy measures that apply to G-SIIs
- co-ordinating IAIS activities with the FSB and the G20
- preparing papers on issues related to financial stability, systemic risk and macroprudential surveillance as they relate to insurance and developing tools to enhance macroprudential supervision.

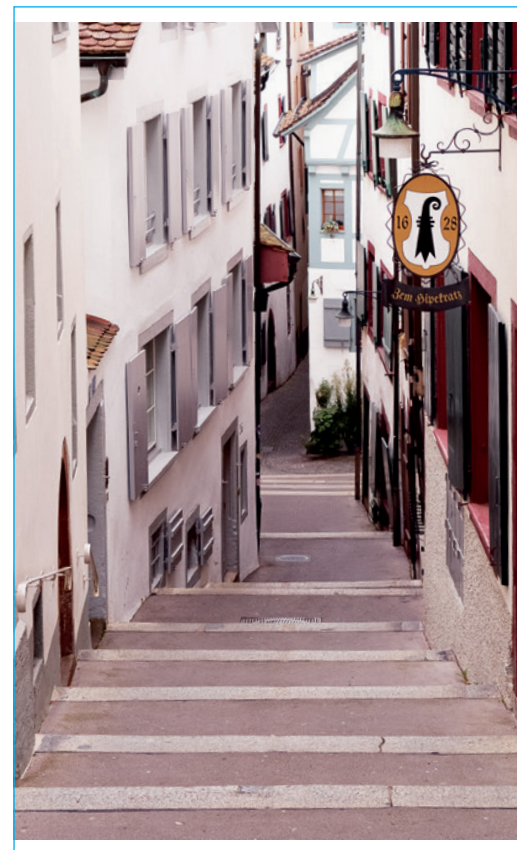
Over the last year, the FSC and its Subcommittees significantly advanced its work on several fronts. Particularly it:

- performed additional analysis to evaluate the quantitative assessment methodology and, in particular, its appropriateness for reinsurers and reinsurance activities
- executed a second comprehensive data collection exercise from approximately 50 insurers and refined data definitions to facilitate greater consistency and comparability in data analysis
- performed the second annual assessment of the G-SII status of insurers and performed a comprehensive analysis of the G-SII status of reinsurers. It is expected that the outcome of this analysis will allow the FSB, together with national authorities, to identify a revised list of G-SIIs in November 2014

- drafted guidance on G-SII enhanced policy measures relating to both systemic risk management plans (SRMPs) (published December 2013) and liquidity planning and management (expected to be published October 2014)
- progressed work on the development of macroprudential indicators, including a web-based macroprudential tool for use by supervisors
- established, in coordination with the Technical Committee, the Resolution Working Group (ReWG) to address the FSB's *Key Attributes of Effective Resolution Regimes* as they relate to insurers
- prepared, in coordination with the Technical Committee, initial proposals for BCR and conducted two public consultations on these documents (discussed below).

Additional context and detail for these projects are provided in the reports of the Financial Stability Subcommittees and in the combined report of the Financial Stability and Technical Committees which follow.

The Acting Chair of the Financial Stability Committee is Elise Liebers (USA, NAIC), who replaced Julian Adams (UK, PRA).



9. REPORTS FROM THE FINANCIAL STABILITY COMMITTEE SUBCOMMITTEES

G-SII ANALYSTS WORKING GROUP (FORMERLY THE FINANCIAL STABILITY DATA ANALYSTS SUBCOMMITTEE)

The G-SII Analysts Working Group is responsible for coordination of the annual review of potential G-SIIs in accordance with the framework approved by the FSC and, ultimately, endorsed by the FSB.

In July 2013, the FSB asked the IAIS to consider the systemic relevance of reinsurers and make recommendations as to which reinsurers could be designated as G-SIIs and what policy measures would be appropriate.

From a starting assumption that reinsurers can be systemic for the same reasons as primary insurers, the Working Group analysed whether there is anything about reinsurance itself that could contribute to a reinsurer's systemic importance, focusing specifically on substitutability and interconnectedness. It concluded that substitutability didn't seem to be a major issue and that while reinsurance transactions generate interconnectedness with (re)insurers there is little hard evidence it is of concern from a systemic perspective.

In addition, the Working Group began its annual reassessment of the G-SII status of insurers and reinsurers. This work was based on the methodology developed in 2013 which produced a preliminary ranking of insurers and allowed the FSB and national authorities to identify an initial list of G-SIIs. The work involved an examination of the financial data of 50 primary insurers and reinsurers worldwide and an analysis of various indicators, including an analysis of quantitative data and a qualitative supervisory judgment and validation process. Based on this analysis, the 2013 list of G-SIIs will be updated and published by the FSB in November 2014. This timing is aligned with the designation of global systemically important banks (G-SIBs).

The G-SII Analysts Working Group is chaired by Dean Minot (UK, PRA).

G-SII POLICY MEASURES TASK FORCE (FORMERLY THE FINANCIAL STABILITY POLICY SPECIALISTS SUBCOMMITTEE)

The G-SII Policy Measure Task Force is responsible for G-SII policy measures. Over the past year it:

- developed SRMP guidance (published in December 2013 after consultation in September), that provides specific details on the content as well as the process of formulating and updating of the SRMP (G-SIIs were required to complete a SRMP by July 2014 describing how they manage, mitigate and possibly reduce systemic risk)
- provided further guidance on specific aspects of the G-SII policy measures (published in July 2013)
- developed enhanced principles-based liquidity management and planning guidance (expected to be published in October 2014 after consultation in July) outlining the key supervisory features that should be contained in a G-SII's liquidity management plans (G-SIIs are required to develop liquidity risk management plans by the end of 2014 describing how they ensure that they have sufficient amounts of liquid assets to fulfil expected and unexpected payment obligations and meet potential funding shortfalls)
- started to develop guidance on the interpretation of non-traditional, non-insurance activities (expected to be published in 2015)
- undertook other financial stability policy-related activities as requested by the FSC.

The G-SII Policy Measures Task Force is chaired by Randall Dodd (USA, Treasury/FIO). The Vice Chair is Stanislav Georgiev (Germany, BaFin).

MACROPRUDENTIAL POLICY AND SURVEILLANCE SUBCOMMITTEE

The Macroprudential Policy and Surveillance Subcommittee (MPSSC) continued its work toward a macroprudential knowledge platform and tools which will become a part of the IAIS website. This work builds on the 2013 IAIS publication *Macroprudential Policy and Surveillance (MPS) in Insurance* and takes additional insights from the prioritisation of MPS key risks into account.

As a first step, the macroprudential knowledge platform will include:

- *MPS basics*: offering support and practical examples with respect to five indispensable macroprudential data points and their representation within a jurisdiction
- *MPS advanced*: displaying both traditional and forward-looking graphs and statistics that can be used as templates by individual supervisors
- *MPS best practice*: providing background information and tailored electronic links to jurisdictions that lead the worldwide work on insurance-related MPS
- *MPS library*: identifying, exhibiting and summarising the five most insightful publications on MPS for insurance supervisors worldwide.

In cooperation with and under the guidance of the MPSSC, the Secretariat continued to monitor the financial and macroeconomic market, focussing on the potential impacts on the insurance sector. This work involves an assessment of a range of emerging risks, and included discussions with Members and invited external experts. This work was useful input for the periodic *Global Insurance Market Report* and the *Key Insurance Risks and Trends* survey.

The MPSSC is chaired by Edward Toy (USA, NAIC). The Vice Chair is Christian Schmidt (Liechtenstein).



10. JOINT REPORT FROM THE CHAIRS OF THE FINANCIAL STABILITY AND TECHNICAL COMMITTEES

The IAIS considers a sound capital and supervisory framework for the insurance sector essential for protecting policyholders and supporting global financial stability. Consequently, it is developing a risk-based capital standard for IAIGs and a global group-wide capital standard.

This work has been divided into several steps:

1. *Basic Capital Requirements (BCR)*. The BCR will provide a common capital measure to be used as a globally comparable foundation for the calculation of HLA. The BCR will apply to all group activities, including non-insurance activities, and will be calculated on a consolidated group-wide basis, including all holding companies, insurance legal entities, banking legal entities and any other companies that are relevant for consolidation. The development of the BCR is due to be completed for delivery to the G20 summit in November 2014.

The BCR reflects major categories of risks impacting the businesses of G-SIIs and their on- and off-balance-sheet exposures. It has three basic components:

- an insurance component
- a banking component that applies the Basel III leverage ratio or risk weighted assets
- a component for other non-insurance activities (financial and material non-financial) not currently subject to regulatory capital requirements.

It will apply approximately 15 factors to defined segments of traditional life insurance, traditional non-life insurance, non-traditional (NT) insurance and assets. For the most part, current estimates are the proposed proxy measure for risk exposures for insurance liabilities (excluding any prudential margins). Initially a market-adjusted valuation approach will be adopted, whereby the amounts reported on the G-SII's audited, consolidated, general-purpose balance sheet are used (either on an IFRS or GAAP basis) and adjustments are made to major balance sheet items, specifically:

- insurance liabilities and reinsurance balances are to be valued on a best estimates basis
- financial instruments, both assets and liabilities, are to be adjusted to fair value.

The development of the BCR has also been informed and supported by a March 2014 quantitative data collection exercise.

2. *Higher Loss Absorbency (HLA)*. A HLA capital add-on will apply only to G-SIIs. The sum of the BCR and HLA will form a consolidated group-wide minimum capital requirement that is reflective of the G-SII's systemic importance in the international financial system. The key principle is that G-SIIs should be required by their group-wide supervisors to hold higher levels of regulatory capital than would be the case if those firms were not identified as G-SIIs. The development of the HLA is due to be completed by the end of 2015.

3. *Insurance Capital Standard (ICS)*. A risk-based group-wide global ICS is at the conceptual development stage. It is due to be completed by the end of 2016 and, after testing and refinement in 2017 and 2018, will be applied to IAIGs from 2019. The development of the BCR and HLA, and the related field testing, will inform and help shape the development of the ICS, which is a key element within ComFrame.

11. REPORTS FROM THE SUBCOMMITTEES SUPPORTING FIELD TESTING AND THE DEVELOPMENT OF GLOBAL INSURANCE CAPITAL STANDARDS

COMFRAME FIELD TESTING TASK FORCE

The objective of the ComFrame Field Testing Task Force (FTTF) is to:

- perform impact studies of all elements of the draft ComFrame, testing if they:
 - lead to effective group-wide supervision of IAIGs
 - are practical
 - do not result in excessive costs to IAIGs and their supervisory colleges
- assess the results of field testing so that the IAIS can determine if any evidence-based changes are necessary to the draft ComFrame in view of a target date of adoption at the 2018 General Meeting.

Module 1 of ComFrame was field tested with an expanded scope that included powers at the level of the holding company of an IAIG. The field testing process was completed with a report jointly to the Financial Stability and Technical Committees in June 2014.

The FTTF has worked with the Higher Loss Absorbency Drafting Group on the development of the BCR since July 2013 and on the ICS since October 2013. The 2014 quantitative field testing exercise was a success with 34 volunteer insurance groups, including all 9 G-SIIs, representing Europe, North America and Asia providing data. Collected data was used in the design and calibration of the BCR and is being used in the development of HLA and the ICS. Quantitative field testing has been one of the most resource-intensive exercises ever undertaken by the IAIS. It involved workshops for field testing volunteers and their supervisors prior to the testing, with continual follow-up and consultation as the testing evolved. Sessions for IAIS Observers were also held.

From 2015 onward, quantitative field testing will focus on the ICS and HLA proposals. The field testing of qualitative aspects of ComFrame will continue from the 4th quarter of 2014.

As part of the Association's comprehensive reorganisation (see Section 4), the FTTF is scheduled to transition by end-2014 into the Field Testing Working Group.

The FTTF is chaired by Paolo Cadoni (UK, PRA). The Vice Chairs are Ian Marshall (South Africa) and Tom Finnell (USA, Treasury/FIO).

HIGHER LOSS ABSORBENCY DRAFTING GROUP

The Higher Loss Absorbency Drafting Group (HLADG) was formed in July 2013 following the IAIS' decision to develop the BCR. It jointly reports to the Financial Stability and Technical Committees and the key components of its mandate are to:

- develop the BCR for G-SIIs by November 2014 (a foundation for HLA requirements)
- develop HLA capacity requirements for G-SIIs by the end of 2015 to be implemented by 1 January 2019
- provide input to the workplan to develop a comprehensive, group-wide supervisory and regulatory framework for IAIGs, including a quantitative capital standard
- provide input on other related activities.

The HLADG developed an initial consultation document, released in December 2013, which outlined the initial structure of the BCR. Feedback from this consultation informed the development of specific data requirements included in the March 2014 Quantitative Data Collection Exercise. Responses received were analysed in June 2014 and informed the second *BCR Consultation Document* released in July 2014.

As part of the Association's comprehensive reorganisation (see Section 4), the HLADG is scheduled to transition by end-2014 into the Capital Development Working Group.

The HLADG is chaired by John Maroney (IAIS).

12. REPORT FROM THE CHAIR OF THE IMPLEMENTATION COMMITTEE

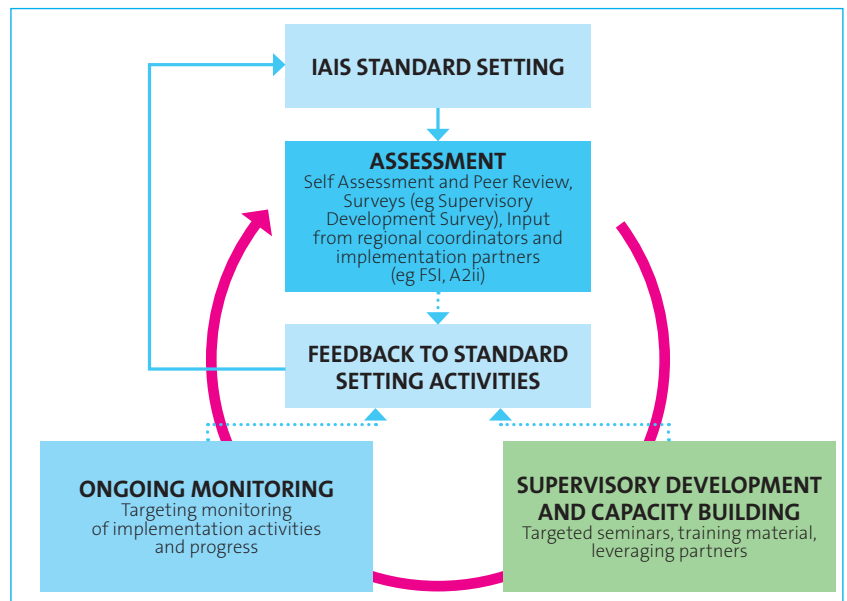


Jonathan Dixon
Chair, Implementation Committee

With the adoption of the *Coordinated Implementation Framework* (CIF) in October 2013, the IAIS took a significant step to enhance the effectiveness and strategic focus of its implementation activities.

As the standard-setting body for insurance and a global forum for insurance supervisors, the IAIS has a unique perspective in implementation. The CIF builds off this perspective to better understand the needs of insurance supervisors and to ensure implementation partners at the global and regional level can better target their support towards identified needs.

Fig. 4. Implementation Cycle



Under the CIF, assessments, such as the SAPR or surveys on education needs, help map out gaps and challenges in observance and understanding of the ICPs. This information can be used to inform implementation activities of the IAIS and its implementation partners by pointing to regional and global needs. The Implementation Committee believes that increased regional engagement is critical to ensuring that the implementation activities of the IAIS continue to meet Member needs and are demand-driven. In regional meetings with IAIS Members, regional implementation plans are being developed. While this work is in its early stages, progress has been very positive.

Our work with implementation partners is equally important. As the IAIS is neither a training institute nor a technical assistance provider, it is essential that we work with organisations that have the capacity and expertise to support on-the-ground training and capacity building.

The Implementation Committee carries out work through its Subcommittees. Some highlights of their work over the year were:

- The Financial Inclusion Working Group continued to provide a perspective on how to address the question of financial inclusion and enhanced access to insurance – in particular, how to give effect to the principle that the ICPs and standards should be applied in a way that is proportionate to the market and products. This work is critically important for supervisors grappling with new insurance products targeting low income segments of the population.
- The number of signatories to the IAIS Multilateral Memorandum of Understanding (MMoU) continued to grow; total signatories now account for nearly 60% of the global insurance market measured in terms of premiums written. As the number of signatories grows, Members are increasingly able to rely on other supervisory authorities as a signatory as the basis for cooperation and information exchange in the supervision of multinational insurers. The Signatories Working Group will continue to manage this process, steadily increasing the number of MMoU signatories.

- The Supervisory Cooperation Subcommittee developed an *Application Paper on Supervisory Colleges* which identifies a number of practical considerations for supervisors in developing and running supervisory colleges. This area of work will now shift to the Insurance Groups Working Group.
- The Supervisory Development Working Group (SDWG) made significant progress in helping supervisors across the globe observe and understand the ICPs. This year, the IAIS partnered with the FSI to design and launch an induction seminar for new insurance supervisors. Further, the SDWG has led efforts for the IAIS to partner with the World Bank to update the Core Curriculum and to develop a Supervisory Guide for IAIS Members.
- The Standards Observance Subcommittee oversaw the SAPR on ICP 4 (Licensing), ICP 5 (Suitability of Persons), ICP 7 (Corporate Governance) and ICP 8 (Risk Management and Internal Controls). This SAPR provided some critical insights on challenges related to observance and understanding of these ICPs. These findings have been sent to the Implementation and Technical Committees for further consideration.

The Implementation Committee is chaired by Jonathan Dixon (South Africa). Its Co-Vice Chairs are Nóra Kiss (Hungary) and Walid Genadry (Lebanon).

13. REPORTS FROM THE IMPLEMENTATION COMMITTEE SUBCOMMITTEES

SUPERVISORY DEVELOPMENT WORKING GROUP *(FORMERLY THE EDUCATION SUBCOMMITTEE)*

The Supervisory Development Working Group (SDWG) undertakes initiatives that enhance the skills and competency of insurance supervisors. To achieve this mandate, the Working Group acts as a catalyst to promote supervisory capacity building and effective implementation of globally accepted supervisory practices among IAIS Members.

Over the last year, the SDWG made progress on the following initiatives:

Survey report on supervisory capacity building needs

The IAIS published a survey report on supervisory capacity building needs in July 2014. The survey was conducted in May 2013 and a total of 76 jurisdictions responded. The majority of the respondents supported IAIS activities aimed at enhancing skills and competencies, such as the development of an online library, an induction seminar for new supervisors and a practical reference guide to globally accepted supervisory practices in line with the ICPs.

Induction Seminar

In September 2014, the IAIS, jointly with the FSI, will launch an online, webinar-based training seminar for new supervisors, *the FSI-IAIS Regulatory and Supervisory Training – Online Newcomers Education (FIRST ONE)*. The FIRST ONE programme aims to help new supervisors obtain a broad understanding of the essential elements of insurance supervision.

Online library

The IAIS is developing an online library – a single portal to access insurance, supervisory and educational material relevant to supervisors.

Training materials

The IAIS has provided insurance supervisors with learning opportunities and training materials by sponsoring projects such as Regional Seminars and the development of the FSI Connect and the Core Curriculum, in collaboration with partners.

There is a growing demand, however, from jurisdictions building supervisory frameworks based on global standards and practices for updated training materials that teach lessons from the

financial crisis. As a result, the IAIS committed to revise its Core Curriculum and a Supervisory Guide jointly with the World Bank. The revised Core Curriculum will incorporate the ICPs as updated in 2011 after the global financial crisis. The Supervisory Guide will serve as an operational manual to carry out regulatory measures in line with the ICPs and provide a practical reference guide to globally accepted supervisory practices. This material will benefit Members seeking to implement supervisory standards embodied in the ICPs.

Training Seminars

In June 2014, more than 200 people registered for the IAIS' 7th Annual Global Seminar in Québec City. The seminar provided the opportunity to discuss globally significant matters impacting the insurance sector and gain knowledge on current and planned IAIS activities. This year's programme included panels on major IAIS activities such as:

- ComFrame
- development of insurance capital standards
- implementing IAIS supervisory material
- market conduct
- supervisory cooperation.

From October 2013 to June 2014, the IAIS also provided financial support to six regional seminars. Further details of these seminars can be found in Appendix II.

Translation

To further improve access to IAIS supervisory standards, the SDWG agreed to support Members' efforts to translate IAIS documents into languages widely spoken. The SDWG is now working on guidelines for providing financial support and ensuring that translations are of high quality.

The SDWG is chaired by Walid Genadry (Lebanon). The Vice Chair until August 2014 was DVS Ramesh (India).

FINANCIAL INCLUSION WORKING GROUP *(FORMERLY THE FINANCIAL INCLUSION SUBCOMMITTEE)*

Over the last year, the Financial Inclusion Working Group (FIWG) promoted the application of the ICPs and other supervisory material to support regulation and supervision of inclusive insurance markets, and for other forms of insurance, particularly

in emerging markets and developing economies. The FIWG is specifically responsible for:

- developing supervisory and other material, in consultation with relevant IAIS Committees and Subcommittees, concerning financial inclusion and other forms of insurance, to identify, explore or address specific implementation issues in those areas
- promoting the work of other standard-setting bodies and other third party organisations in work related to specific forms of insurance, such as the IFSB in Takaful (Islamic) insurance
- enhancing and promoting capacity of policymakers, regulators and supervisors to advance insurance market access for low income consumers by:
 - initiating and identifying needs for capacity building
 - generating and disseminating knowledge, diagnostic studies and research
 - developing tools for country-level assessments and implementation
 - developing training material and other learning opportunities
- supporting the Implementation Committee in developing positions that can inform IAIS representatives on the governing bodies of the A2ii
- holding joint meetings, following developments and liaising with other organisations and initiatives involved in financial inclusion, or other specific forms of insurance (e.g. the Microinsurance Network and the Global Partnership for Financial Inclusion, a G20 initiative).

In collaboration with the A2ii and the Microinsurance Network, the FIWG has continued its work on the development of an *Issues Paper on Market Conduct, Distribution Issues and Consumer Protection Relating to Financial Inclusion*. This paper should be finalised by mid-2015.

In addition, the FIWG embarked on a joint project with the IFSB to develop an *Issues Paper on Micro-takaful*. As a specific form of insurance that is required to be Sharia compliant, Takaful is likely to increase access to insurance in regions with an Islamic population.

Going forward, the FIWG will work closely with the

Implementation Committee to ensure that the activities of the A2ii support IAIS Members in the area of supervisory development and capacity building in support of financial inclusion.

The FIWG is chaired by Sriram Taranikanti (India), who replaced Mustapha Lebbar (Morocco). The Vice Chair is Rosemary Henry (Jamaica), who replaced Stephanie Siering (Germany, BaFin).

ACCESS TO INSURANCE INITIATIVE (A2ii)

The A2ii is a global partnership between the IAIS and international development agencies. The mission of the A2ii is to support and inspire insurance supervisors in the promotion of inclusive and responsible insurance. The A2ii was initiated in 2009 by the IAIS, the German Federal Ministry of Economic Cooperation and Development (BMZ), the Consultative Group to Assist the Poor (CGAP), FinMark Trust and the International Labour Organisation (ILO). The IAIS drives the A2ii's agenda through strong representation in its governing structure.

The goal of the A2ii is to strengthen the capacity of policymakers, regulators and supervisors seeking to advance inclusive insurance markets, particularly for low-income clients, by promoting sound, effective and proportionate regulation and supervision of insurance markets based on the IAIS standards.

In support of this goal, the A2ii assists in the application of insurance supervisory material and provides assistance, in particular to emerging markets, in the implementation of ICPs and standards supporting increased access and usage of insurance. In conjunction with G20 financial inclusion work and other initiatives, it helps to develop and maintain sound insurance markets by generating critical knowledge products and tools that supervisors need to enhance access and by providing capacity building support at a regional level. In addition, the A2ii measures on-the-ground impacts by assessing to what extent regulation and supervision supports financial inclusion. This knowledge then feeds into IAIS standard-setting activities.

In line with the A2ii's objective to provide and enable the use of critical knowledge that policymakers and supervisors need, it developed the following technical tools:

- *Training module on Financial Inclusion*. A comprehensive training tool to equip insurance supervisors with adequate

skills and knowledge enabling effective implementation of the concepts set out in the IAIS *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets*.

- *Two synthesis notes on innovative business models and microinsurance regulatory approaches*. These notes enable insurance supervisors to better understand the workings of low-income insurance markets, including guidance on potential regulatory and supervisory implications and responses.
- *Toolkit III: SAPR based on the IAIS Application Paper Supporting Inclusive Insurance Markets*. This involved a review of the supportiveness of IAIS Members' current policies, programs and initiatives to the cause of enhancing inclusive insurance markets. It was noted that forty-six jurisdictions have participated in the SAPR on inclusive insurance and that one third of participants are first time participants in the IAIS self-assessment process.
- *Toolkit IV: Country-level microinsurance development process: operationalising the action plan*. This synthesises lessons across countries to date on how to respond to recommendations. It concentrates on executing the microinsurance action plan, outlines activities, and provides practical tips and lessons.

Since March 2014 the A2ii, in partnership with the IAIS, launched monthly consultation calls on inclusive insurance markets to facilitate peer-learning exchanges among supervisory and regulatory authorities. The calls provide a forum to discuss current regulatory and supervisory topics and trends around access to insurance. Topics discussed have been:

- definition of microinsurance
- use of technological innovation in delivering insurance products
- the agricultural insurance.

The Governing Board of the A2ii is chaired by Jonathan Dixon and includes four other IAIS representatives.

STANDARDS OBSERVANCE SUBCOMMITTEE

The Standards Observance Subcommittee (SOSC) contributes to observance of ICPs and standards by overseeing and reporting on

SAPRs. The IAIS is committed to conducting SAPRs on all ICPs on a thematic basis by 2016.

Members found participation in SAPRs to be a valuable experience. Specifically, Members rely on these reports to identify areas where supervisory practice could be enhanced, regulatory frameworks improved and additional assistance sought. For the IAIS, the findings from the SAPR exercises have informed the standard-setting work of the Technical Committee and its Subcommittees and the work of the Implementation Committee in identifying implementation priorities.

The first ICPs to be assessed were based on recommendations from the FSB's paper *Intensity and Effectiveness of SIFI Supervision*; namely, ICP 1 (Mandate), ICP 2 (Supervisory Powers) and ICP 23 (Group-wide Supervision). The report from the expert review teams conducting the SAPRs of ICPs 1, 2, and 23 provides a high level summary of the findings and is available on the IAIS website.

In 2013, the SOSC completed the SAPR on the theme of Corporate and Risk Governance, which includes ICPs 4 (Licensing), ICP 5 (Suitability of persons), ICP 7 (Corporate Governance) and ICP 8 (Risk Management and Internal Controls). This SAPR identified challenges faced by insurance supervisors and made recommendations on steps the IAIS could take to enhance observance and understanding of these ICPs. These findings are now being reviewed by the Implementation and Technical Committees.

The SOSC also began work on developing a framework for implementation monitoring. Efforts to finalise it will be undertaken by the Implementation Committee.

As part of the Association's comprehensive reorganisation (see Section 4), the SOSC was disbanded effective July 2014. Going forward, SAPRs will be overseen by the Implementation Committee. The SOSC thanks all Members and stakeholders who contributed to its activities over the past years.

The SOSC was chaired by Ekrem Sarper (USA, NAIC). The Vice Chair was Mamta Suri (India).

SUPERVISORY COOPERATION SUBCOMMITTEE

The mandate of the Supervisory Cooperation Subcommittee (SCS) is to strengthen cooperation and the exchange of information among Members, as elaborated in the IAIS MMoU and relevant ICPs. The Subcommittee coordinates with the MMoU Signatories Working Group (SWG) to promote accession and help improve the functioning and effectiveness of cooperation and information exchange both under the MMoU and outside the MMoU.

Over the past year, the SCS finalised its work on an *Application Paper on Supervisory Colleges*. Supervisory colleges are important in the supervision of insurance groups that operate cross-border, including IAIGs. The paper shares supervisors' experiences with cooperation in supervisory colleges and presents good practices for global supervisory colleges. The paper covers the modus operandi of supervisory colleges and specific arrangements needed to accommodate their functioning, including guidance on information exchange and confidentiality issues between supervisors. One of the annexes is an example of a college MoU.

The SCS also discussed revisions to the MMoU to accommodate cooperation among supervisors in a supervisory college. In the last year all signatory authorities to the MMoU agreed to a change that accommodates the transfer of IAIS Membership from one Member to another pursuant to a change of supervisory architecture.

As part of the Association's comprehensive reorganisation (see Section 4) and given the completion of the revision of the MMoU and the *Application Paper on Supervisory Colleges*, the SCS was disbanded and its work on the MMoU is continuing under the SWG.

The SCS was chaired by Michael Kehr (Germany, BaFin).

SIGNATORIES WORKING GROUP

The SWG monitors validation of applications to the MMoU, comments on validation reports and recommends new signatories. It is also responsible for:

- promoting and reviewing the functioning and effectiveness of cooperation and information exchange under the MMoU, including monitoring compliance of signatories with the MMoU framework

- maintaining dialogue with stakeholders on subjects related to the exchange of confidential supervisory information in multilateral contexts
- strengthening cooperation and the exchange of information via multilateral frameworks (e.g. college agreements) for information exchange.

Since its inception in 2007, the MMoU has become a true global supervisory tool, with a growing number of jurisdictions interested in joining. As of August 2014, there were 42 signatories to the MMoU – jurisdictions representing nearly 60% of worldwide premium volume. The IAIS welcomed the following signatories over the last year:

- Capital Markets, Insurance and Savings Division, Israel
- Financial Services Commission, Mauritius
- Superintendencia de Seguros Privados (SUSEP), Brazil
- California Department of Insurance, USA
- State Corporation Commission, Bureau of Insurance, Virginia, USA.

The SWG also reviewed the process and practices for the validation of applications. Improvements, such as starting the validation sooner without waiting for a basket of three applications, should shorten the duration of the validation process. However, some delays, for example due to the need to adopt new legislation or procedures by an applicant, affect the duration of an assessment and are outside the control of the IAIS.

The IAIS is grateful for all of the expert volunteers who participate in the MMoU validation process.

The SWG is chaired by Michael Kehr (Germany, BaFin).

14. REPORT FROM THE CHAIR OF THE SUPERVISORY FORUM



Doug Slape
Chair, Supervisory Forum

The Executive Committee established the Supervisory Forum in 2011. It provides expert input from a supervisory practice perspective into IAIS activities, thus helping to strengthen the effectiveness of insurance supervision and foster convergence of supervisory practices. Forum members are senior practitioners involved in the supervision of internationally active insurance groups. They are committed to participating actively and, in doing so, create an environment of trust in which information on supervisory practice and experience is shared.

The Supervisory Forum acts as a sounding board and provides input into other IAIS work. For example, in early 2014 the Supervisory Forum released a paper, *Observations on Supervisory Colleges from a Practical Perspective*, which was the result of its 2012 and 2013 discussions about supervisory colleges, including discussions with four IAIGs headquartered in North America and Europe. The report consolidates observations and information gained from those discussions, providing a practical perspective on what works well in supervisory colleges and what some of the challenges are. The Supervisory Cooperation Working Group drew on this work in preparing its *Application Paper on Supervisory Colleges*.

The Supervisory Forum routinely discusses matters that are referred to it by other Subcommittees as well as emerging and topical issues relevant to the supervision of IAIGs. It provides summaries of its discussions shortly after each meeting for the benefit of all Members. Representatives from other Subcommittees and subject matter experts attend its meetings to explore specific topics.

Meeting four times over the last year, the Supervisory Forum discussed:

- supervisory colleges
- supervisory intervention
- effective approaches to group governance
- risk appetite frameworks
- relationship between macroprudential surveillance and microprudential supervision
- proactive and forward-looking supervision
- ComFrame.

It also met with the Central-Eastern and South-Eastern European Insurance Supervision Initiative (CESEE ISI) to discuss supervisory colleges and challenges to supervisors in implementing group governance requirements.

As a result of the Association's comprehensive reorganisation (see Section 4), from July 2014 the Supervisory Forum's Secretariat support is provided by the NAIC.

The Supervisory Forum is chaired by Doug Slape (USA, Texas), who replaced Jörg Krause (Germany, BaFin). The Vice Chair is Jörg Krause.

15. REPORT FROM THE CHAIR OF THE AUDIT AND RISK COMMITTEE



Ian Laughlin
Chair, Audit and Risk Committee

The Audit Committee was established in 2009. In 2013 its mandate was expanded to incorporate oversight of risk management and it became the Audit and Risk Committee (ARC). The Committee is responsible for monitoring the Association's:

- risk management framework and internal control system and compliance with relevant laws, regulations, rules and procedures
- strategic and operational performance
- financial reporting
- relationship with the external auditor.

Risk management and internal controls

Significant progress was made in developing the *Risk Management Framework*. The risk register and risk map were presented to the Executive Committee for approval on a trial basis in January 2014. The Framework is now being woven into operations, with the Secretary General providing regular updates on the most substantial risks facing the Association and how these are being managed.

Work is progressing on the *Risk Appetite Statement* which sets out the IAIS' risk tolerances in regard to reputational, standard-setting, strategic, financial and operational exposures. The Risk Appetite Statement was used in developing the *2015-19 Strategic Plan and Financial Outlook* to ensure risks remained within acceptable limits.

The IAIS *Business Continuity Plan* is complete and has been integrated into operations.

Strategic and operating performance

With introduction of the Executive Dashboard, the Committee is closely monitoring the adequacy and effectiveness of the Association's assessment and reporting of its strategic and operational performance. The Committee continues to make recommendations for improving the Executive Dashboard, as well as other reports.

Financial reporting and relationship with the external auditor

The ARC, in cooperation with the Budget Committee, reviews and monitors the Association's financial reporting processes, as well as the external audit of the Association's accounts, to ensure they are prudent and appropriately handled.

The Audit and Risk Committee is chaired by Ian Laughlin (Australia, APRA). The Vice Chair is Kevin McCarty (USA, Florida).

16. REPORT FROM THE CHAIR OF THE BUDGET COMMITTEE



Victor Rod
Chair, Budget Committee

The 2013 IAIS financial statements were prepared in accordance with Swiss law; where possible, International Financial Reporting Standards were applied. The statements were audited by Ernst & Young, who issued a clean audit opinion. The audited financial statements show a surplus of CHF 641,708 compared with an approved budgeted net expenditure of CHF 437,000.

The surplus was due largely to:

- savings in key areas, in particular:
 - salaries, benefits and relocation expenses, where individual circumstances and lower benefit entitlements resulted in costs being less than budget
 - implementation activities because fewer than anticipated training seminars were held
- higher income, in particular:
 - more Members and Observers than anticipated joined the Association
 - an unexpected surplus from the 2013 Annual Conference in Chinese Taipei.

Partly offsetting these was higher than budgeted expenditure on a major upgrade of the website, originally planned for 2011-12,

that was deferred to 2013. Also, the June Committee meetings are typically hosted by an IAIS Member but in 2013 additional meeting expenses were incurred as these were hosted in Basel outside the BIS, although the cost was largely offset by corresponding savings in travel costs for the Secretariat.

Revenue is budgeted to exceed expenditure by CHF 19,850 in 2014 – an improvement over the financial forecast for 2014 set out in the *2011-15 Strategic Plan and Financial Outlook*. I am hopeful the final result for 2014 will be even more favourable.

Nevertheless, the IAIS faces significant challenges in resourcing its work over the next five years. New and high-priority projects have emerged since the last financial outlook that the Committee took into account in developing the financial outlook for 2015-19.

The IAIS maintains its conservative investment policy. Funds are invested primarily in bank current and deposit accounts, as well as in certain investments with capital protection. These provide a high degree of capital security.

The IAIS continues to receive support from certain Members and third parties in the form of grants or in-kind support, 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 2013-14 by the Bank for International Settlements, the Bermuda Monetary Authority, the Financial Supervisory Commission (Chinese Taipei), the Financial Services Agency (Japan), the Financial Supervisory Service (Republic of Korea) and the Monetary Authority of Singapore.

The Budget Committee is chaired by Victor Rod (Luxembourg). Its Vice Chair is Ryan Workman (USA, NAIC).



17. AUDITOR'S REPORT



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To the Members of
International Association of Insurance Supervisors, Basel

Basle, 19 June 2014

Report on the financial statements

At your request, we have audited the accompanying financial statements of the International Association of Insurance Supervisors (the "IAIS"), which comprise the Statement of Financial Position, the Statement of Activities, the Statement of Cash Flows and Notes, for the year ended 31 December 2013.

Managements' responsibility

The Management is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the by-laws of the association. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Management is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements for the year ended 31 December 2013 comply with Swiss law and the by-laws of IAIS.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 69b Swiss Civil Code (CC) in connection with article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 69b CC in connection with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Management.

Ernst & Young Ltd

John Alton
Licensed audit expert
(Auditor in charge)

Marco Stampfli
Licensed audit expert

18. FINANCIAL STATEMENTS

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013
(IN SWISS FRANCS)

	Note	2013	2012
ASSETS			
Cash and cash equivalents	6	7,992,583	5,443,604
Investments held to maturity	7	2,000,000	3,000,000
Accounts receivable	8	1,243,687	1,194,083
Prepayments and accrued interest		58,863	17,991
Total assets		11,295,133	9,655,678
LIABILITIES			
Accounts payable	9	2,557,378	1,936,666
Deferred revenue	10	1,205,140	777,917
Provision for standard implementation activities	14	596,958	647,146
Total liabilities		4,359,476	3,361,729
UNRESTRICTED NET ASSETS			
Balance brought forward from previous year		6,293,949	6,046,475
Net result from activities		641,708	247,474
Total unrestricted net assets		6,935,657	6,293,949
Total liabilities and unrestricted net assets		11,295,133	9,655,678

There were no movements in equity during the year 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 2013
 (IN SWISS FRANCS)

	Note	2013	2012
OPERATING REVENUE			
Membership fees		3,905,300	3,545,400
Observership fees		2,601,900	2,330,000
Annual conference income	12	1,221,100	1,190,157
Miscellaneous income		–	14,986
Total operating revenue		7,728,300	7,080,543
OPERATING EXPENSES			
Administration	11	30,783	54,115
Annual conference expenses	12	1,012,775	967,374
Audit		8,500	7,400
Consultancy fees		–	23,261
Editing		7,429	8,293
Implementation activities		112,456	129,292
Information services		59,510	61,680
Insurance		44,286	45,413
Meetings		157,477	93,171
Provision for bad debts	8	60,007	18,500
Relocation		88,545	87,984
Salaries		4,665,523	4,763,395
Training		18,386	14,878
Travel		545,163	525,529
Website & IT		305,793	63,704
Total operating expenses		7,116,633	6,863,989
Net result from activities before investment income and exchange rate movements		611,667	216,554
Investment income	13	30,041	32,407
Net foreign exchange differences	15	–	(1,487)
Net result from activities		641,708	247,474

The accompanying notes form part of these financial statements.

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS
 STATEMENT OF CASH FLOW
 FOR THE YEAR ENDED 31 DECEMBER 2013
 (IN SWISS FRANCS)

	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net results from activities		641,708	247,474
Adjustments for:			
Investment income		(30,041)	(32,407)
Net foreign exchange loss		–	1,487
		611,667	216,554
(Increase) in accounts receivable		(49,604)	(1,192,584)
(Increase) / decrease in prepayments and other receivables		(40,872)	7,830
Increase in accounts payable and other advances received		620,712	596,416
Increase / (decrease) in deferred revenue		427,223	(318,425)
(Decrease) in provision for standard implementation activities		(50,188)	(44,338)
Net cash from / (used in) operating activities		1,518,938	(734,547)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of time deposit		1,000,000	–
Interest received		30,041	32,407
Net cash from investing activities		1,030,041	32,407
Effects of exchange rate changes on cash and cash equivalents		–	(1,487)
Net increase / (decrease) in cash and cash equivalents		2,548,979	(703,627)
Cash and cash equivalents at beginning of year	6	5,443,604	6,147,231
Cash and cash equivalents at end of year	6	7,992,583	5,443,604

The accompanying notes form part of these financial statements.

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

a. Statement of compliance

The financial statements have been prepared in accordance with Swiss Law. Where possible, International Financial Reporting Standards are considered in the preparation of the financial statements.

b. Basis of preparation

The financial statements have been prepared on the historical cost basis, and income and expense items are recorded on the accruals basis. The principal accounting policies are set out below.

c. 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.

d. 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 Income Statement.

e. Cash and cash equivalents

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

f. Investments

Investments in time deposits, fixed term structured products, bonds and treasury notes are held to maturity and are accounted for at amortised cost using the effective interest method.

Returns from investments are accounted for in interest income.

g. Receivables and Accounts payable

Receivables 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 amortised cost.

h. Provision for bad debts

Provisions are recognised as a charge to the Income Statement if the Association has concern over the recovery of outstanding receivables. The policy of the Association is to write off membership fees that remain unpaid for two consecutive years, or upon confirmation of non-recovery if earlier.

i. Withholding taxes

Interest income is reported net of withholding taxes and included as part of investment income.

j. Provision for standard implementation activities

With effect from 2010, the costs of standard implementation activities are expensed in the year incurred. The previous treatment was for unspent budgeted amounts to be accrued in a provision for standard implementation activities. The balance on the provision is being utilised to fund expenditure on specified implementation initiatives, which are in addition to ongoing annual expenditure. Movements on the provision are set out in Note 14.

3. BENEFITS RECEIVED

The IAIS is hosted by the Bank for International Settlements (BIS) and benefits from administration, accounting, office space and other advisory services which are provided by the BIS. The BIS also administers a staff pension scheme of which a number of IAIS staff are entitled to membership. The pension obligations lie with the BIS and the IAIS has no legal commitment for the payment of pension amounts to staff.

The Association also benefits from Members' secondment of staff to its Secretariat. The total amount of these benefits has not been determined.

4. THIRD PARTY CONTRIBUTIONS

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

FSA Japan Grant

Funds are contributed annually to support the IAIS' activities and are held in a separate CHF-denominated bank account, in which there was a balance of CHF 403,292 as at 31 December 2013. These funds are held outside the IAIS financial statements; all transactions are financially independent from the IAIS and the financial records are independently audited.

IAIS Education Fund

The fund represents contributions received from donors to be used for educational purposes. The balance of the fund as at 31 December 2013 was equivalent to CHF 129,024. The funds are held outside the IAIS financial statements; all transactions are financially independent from the IAIS and the financial records are independently audited.

5. INCOME TAXES

The Association is exempt from income tax.

	2013	2012
6. CASH AND CASH EQUIVALENTS		
CHF Current accounts	5,978,648	3,431,252
CHF Short term savings accounts	2,013,935	2,012,352
	7,992,583	5,443,604

	2013	2012
7. INVESTMENTS		
Investments held to maturity		
Time deposits	1,000,000	2,000,000
Floating rate note	1,000,000	1,000,000
	2,000,000	3,000,000

The amount held in a time deposit matures in December 2014, and the investment in a floating rate note matures in December 2016.

The floating rate note is a structured product with full capital protection and a five year term. Capital will be repaid on maturity in December 2016; interest is variable, based on CHF LIBOR and subject to a minimum (floor) and maximum (cap).

	2013	2012
8. ACCOUNTS RECEIVABLE		
Annual conference (Note 12)	1,221,100	1,190,157
Membership fees receivable	65,687	35,326
Other	600	600
	1,287,387	1,226,083
Less: provision for bad debts	(43,700)	(32,000)
	1,243,687	1,194,083

	2013	2012
MOVEMENT IN PROVISION FOR BAD DEBTS		
Charge to operating expenses:		
Provision made during the year	43,700	32,000
Amounts written off / (recovered) in year	16,307	(13,500)
Charge to operating expenses	60,007	18,500
Movement in provision:		
Opening balance	32,000	93,000
Provision made during the year	60,007	18,500
Amounts written off in year	(48,307)	(79,500)
Closing balance	43,700	32,000

	2013	2012
9. ACCOUNTS PAYABLE		
Annual conference expenses (Note 12)	1,024,620	977,046
Advances received	69,542	78,442
Audit	16,500	8,000
Bank for International Settlements	1,041,435	515,901
Implementaion:		
Seminars	79,018	86,807
Translations	–	27,977
Other	37,665	20,305
Website & IT	47,617	–
Other	240,981	222,188
	2,557,378	1,936,666

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

	2013	2012
10. DEFERRED REVENUE		
As at 31 December 2013 some Members and Observers had paid fees in advance for the year 2014. These amounts will be reflected as income in the Statement of Activities for 2014.		
Membership fees	695,601	348,338
Observership fees	509,539	429,579
	1,205,140	777,917

	2013	2012
11. ADMINISTRATION		
Bank charges	4,481	3,341
Copies & postage	519	460
Printing & documentation	16,713	12,076
Telephone & fax	9,004	32,986
Miscellaneous	66	5,252
	30,783	54,115

	2013	2012
12. ANNUAL CONFERENCE		
Income		
Conference fee and sponsorship income	1,221,000	1,190,157
Expenditure		
Conference expenditure incurred by host	1,024,620	977,046
Other conference expenditure paid	–	12,987
Expenditure from 2012 (2011) conference reimbursed in year	(15,982)	(22,659)
Exchange difference on remittance of net surplus	4,137	–
	1,012,775	967,374

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 15.

	2013	2012
13. INVESTMENT INCOME		
Interest on:		
Bank accounts	3,485	5,782
Time deposits	14,864	14,828
	18,349	20,610
Floating rate note	11,692	11,797
	30,041	32,407

The Association presents interest net of withholding tax. See also Note 2.

14. PROVISION FOR STANDARD IMPLEMENTATION ACTIVITIES

In 2008 and 2009, budgeted amounts earmarked for standard implementation activities that were not incurred were set up as a provision for standard implementation activities, resulting in a provision at the start of 2010 of CHF 728,690. In 2010, there was a change in accounting policy and unspent budgeted amounts are no longer accrued. The balance on the provision is being utilised to fund expenditure on specified implementation initiatives, which is in addition to ongoing annual expenditure. Movements on the provision are as follows:

	2013	2012
Opening balance	647,146	691,484
Expenditure charged against provision during year	(50,188)	(44,338)
Closing balance	596,958	647,146

15. INVESTMENT POLICY AND RISK MANAGEMENT

The Budget Committee meets three times a year and assesses the financial risks that could have an impact on the Association. The Secretariat monitors the day-to-day activities of the Association and provides regular reports to the Budget Committee.

The Association derives income primarily from membership fees. As a non-profit making organisation, it invests surplus income to fund future operations. Security of capital, represented by unrestricted reserves, has the highest priority within the investment policy, to ensure that the Association can continue as a going concern to support its activities for the foreseeable future.

Consistent with the investment policy, as at 31 December 2013 the IAIS' investments in financial assets other than cash comprised of investments in a bank time deposit and in a structured product with full capital protection (see Note 7 above), minimising exposure to credit risk and market risk.

Liquidity risk

The Association holds sufficient liquid funds to ensure that it is able to meet its liabilities as they fall due.

Foreign currency risk

The revenue and expenditure of the Association are predominantly received and paid in Swiss francs. To minimise the exposure of investments to foreign currency risk, investments are held in Swiss franc-denominated financial assets. The Association's bank accounts are also denominated in Swiss francs.

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 2013 annual conference was held in Chinese Taipei. Conference income was receivable, and the majority of conference expenditure incurred, in New Taiwan Dollars (NTD). The financial statements for the conference were prepared in NTD and the conference income and expenditure were converted at a rate of 1 CHF : 34.562 NTD for inclusion in the financial statements. See also Note 12 above.

Credit Risk

The major source of funding for the Association is Member and Observers fees. Members represent insurance regulators and supervisors from over 200 jurisdictions in nearly 140 countries and Observers represent more than 140 insurance professionals, insurers, reinsurers and trade associations. Due to the nature of the Association's activities, credit risk is low.

EXECUTIVE COMMITTEE MEMBERS

AUGUST 2014

APPENDIX I



Peter Braumüller
Austria
Financial Market Authority
Chair



Naruki Mori
Japan
Financial Services Agency
Vice Chair



Kevin McCarty
USA, Florida
Florida Office of
Insurance Regulation
Vice Chair



Ian Laughlin
Australia
Australian Prudential
Regulation Authority
Chair of Audit and Risk Committee



Bernard DuPont
Canada
Office of the Superintendent of
Financial Institutions; replaced
Gaetano Geretto, Canada, Office
of the Superintendent of Financial
Institutions, Jan. 2014



Cindy Scotland
Cayman Islands
Cayman Islands Monetary Author-
ity; replaced Gordon Rowell, Cayman
Islands, Cayman Islands Monetary
Authority, Mar. 2014



Ernesto Rios
Chile
Superintendencia de Valores y
Seguros; replaced Fernando Coloma,
Chile, Superintendencia de Valores y
Seguros, Mar. 2014



Junbo Xiang
China
China Insurance Regulatory
Commission

APPENDIX I
EXECUTIVE COMMITTEE MEMBERS



Gabriel Bernardino
EIOPA
European Insurance and
Occupational Pensions Authority



Thomas Schmitz-Lippert
Germany
Bundesanstalt für
Finanzdienstleistungsaufsicht



Michael Oliver
Gibraltar
Financial Services Commission



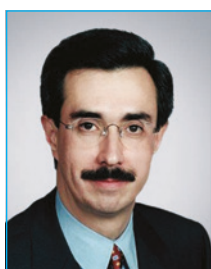
TS Vijayan
India
Insurance Regulatory and
Development Authority;
replaced J. Hari Narayan, India,
Insurance Regulatory and
Development Authority, Mar. 2013



Heungchan Park
Korea (Republic of)
Financial Supervisory Service;
replaced Luke Park, Korea (Republic
of), Financial Supervisory Service,
Jun. 2014



Victor Rod
Luxembourg
Commissariat aux Assurances
[Chair of Budget Committee *](#)



Manuel Aguilera-Verduzco
Mexico
Comisión Nacional
de Seguros y Fianzas



Hassan Boubrik
Morocco
Direction des Assurances et
de la Prévoyance Sociale

APPENDIX I
EXECUTIVE COMMITTEE MEMBERS



Daniel Schydrowsky
Peru
Superintendencia de Banca,
Seguros y Administradoras Privadas
de Fondos de Pensiones del Peru



Khalid S. Althieb
Saudi Arabia
Saudi Arabian Monetary Agency;
replaced Walid Genadry, Lebanon,
Ministry of Economy and Trade,
Insurance Control Commission,
Oct. 2013



Siew Yee Loo
Singapore
Monetary Authority of Singapore; re-
placed Luz Foo, Singapore, Monetary
Authority of Singapore, Sept. 2013



Julia Cillikova
Slovakia
National Bank of Slovakia



Jonathan Dixon
South Africa
Financial Services Board
**Chair of the Implementation
Committee**



Nina Arquint
Switzerland
Swiss Financial Market Supervisory
Authority; replaced Patrick Raaflaub,
Switzerland, Swiss Financial Market
Supervisory Authority, Mar. 2014



Tom Leonardi
USA, Connecticut
Connecticut Department of Insur-
ance; replaced Terri Vaughan, USA,
National Association of Insurance
Commissioners, Jan. 2013



Michael McRaith
USA
Federal Insurance Office, United
States Department of Treasury
Chair of the Technical Committee

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

2013 – 2014 REGIONAL TRAINING SEMINARS

APPENDIX II

The IAIS sponsored and organised the following training seminars for insurance supervisors over the past year.

DATE	LOCATION	ORGANISER(S)	MAIN TOPICS
September 2013	Santiago, Chile	Asociación de Supervisores de Seguros de América Latina (ASSAL), Financial Stability Institute (FSI), IAIS	Group-wide supervision and supervisory colleges; Introduction to Internationally Active Insurance Groups (IAIGs) and Global Systemically Important Insurers (G-SIIs); Corporate governance; Discussion on Regional Experiences.
September 2013	Beirut, Lebanon	Insurance Control Commission of Lebanon, Arab Forum of Insurance Regulatory Commissions (AFIRC), Examination Resources, IAIS	On-site and off-site supervision; Overview of new Insurance Core Principles (ICPs); Risk-based approaches for review and reporting; Evaluation of reinsurance arrangements; Description of group-wide supervision.
April 2014	Abu Dhabi, United Arab Emirates	Insurance Authority of United Arab Emirates, FSI, IAIS	Overview of the revised ICPs; IAIS Self-Assessment and Peer Review and the Financial Sector Assessment Programme (FSAP); Early-warning indicators and other supervisory tools; Implementation and practical application of IAIS supervisory materials.
April 2014	Asunción, Paraguay	Insurance Superintendence of Paraguay's Central Bank, ASSAL, IAIS	Overview of macroprudential surveillance and insurance supervision; Description of public disclosure; Implementation of macroprudential and group supervision models in Latin America; Presentation on recent developments in Latin America.

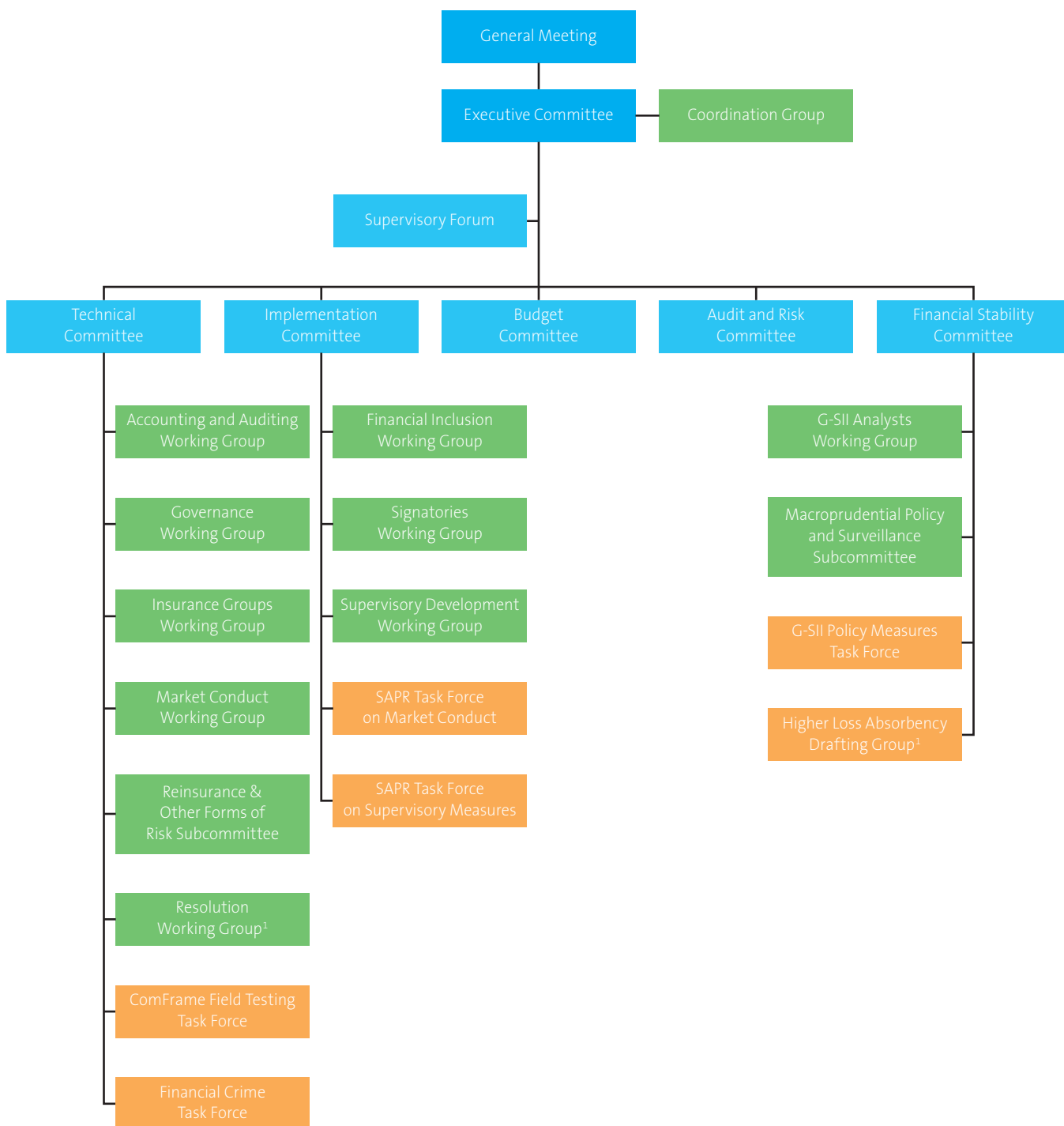
APPENDIX II

2013 – 2014 REGIONAL TRAINING SEMINARS

DATE	LOCATION	ORGANISER(S)	MAIN TOPICS
August 2014	San José, Costa Rica	ASSAL, FSI, IAIS	Overview of supervisory review and reporting: assessment methodologies and supervisory plans; Corporate governance supervision; Risk management and internal controls.
September 2014	Ezulwini, Swaziland	Registrar of Insurance and Retirement Funds (RIRF), FSI, IAIS	Risk-based supervision and solvency assessment; Macroprudential surveillance and supervision; Enterprise risk management for solvency purposes; Supervisory intervention and dealing with problematic entities.

IAIS ORGANISATIONAL STRUCTURE AUGUST 2014

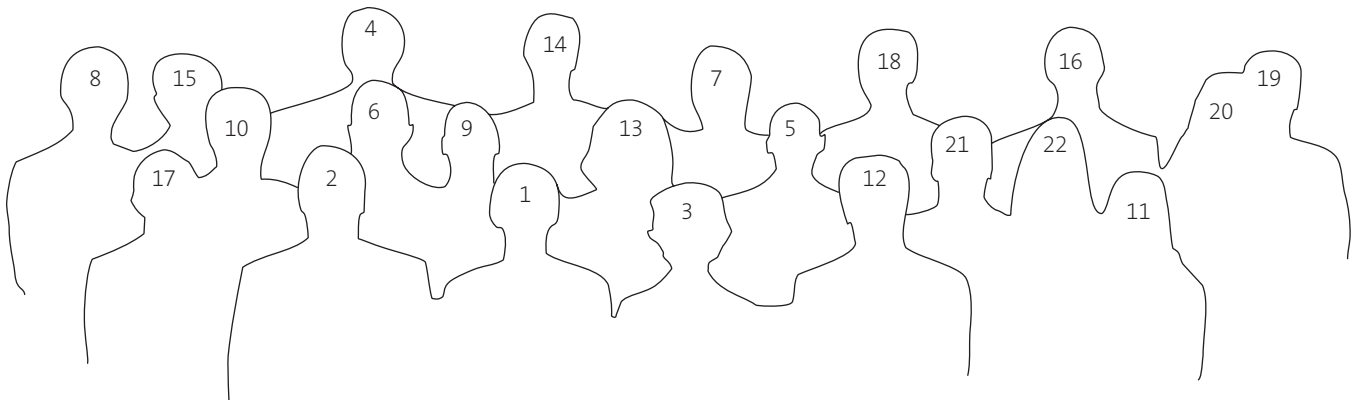
APPENDIX III



¹ Reports jointly to the Financial Stability and Technical Committees

STAFF OF THE IAIS SECRETARIAT AUGUST 2014

APPENDIX IV



The staff of the IAIS Secretariat play a key role in supporting the Association. Secretariat members from October 2013 to September 2014 were:

Staff are financed by the IAIS unless indicated by an asterisk ()*

1. Yoshihiro Kawai Secretary General	12. John Maroney Head of Financial Stability	<i>Not pictured:</i>
2. George M. Brady Deputy Secretary General	13. Nina Moss Member of the Secretariat	Shimika Rojas* (Bermuda Monetary Authority) Member of the Secretariat
3. Catherine Lezon Deputy Secretary General	14. Bernhard Mayr Member of the Secretariat	Peter van den Broeke Member of the Secretariat
4. Marc Causevic From August 2014 Member of the Secretariat	15. Tsuyoshi Saito* (Financial Services Agency, Japan) Member of the Secretariat	Sebastian von Dahlen Member of the Secretariat and Economic Counsellor
5. Peter Cooke Member of the Secretariat	16. Andrew R. Stolfi Member of the Secretariat and Communication Officer	Carine Notter* (BIS) Technical Administrator
6. Conor Donaldson Member of the Secretariat	17. Sicheng Su* (Monetary Authority of Singapore) From January 2014 Member of the Secretariat	Anne-Marie Kelly Administrative Officer
7. Jules Gribble Member of the Secretariat	18. Pierre-Jean Vouette From July 2014 Member of the Secretariat	Melinda Chung* (Financial Supervisory Commission, Chinese Taipei) Until January 2014 Former Member of the Secretariat
8. Shinya Kobayashi* (Financial Services Agency, Japan) Member of the Secretariat	19. Peter Windsor Member of the Secretariat	Dave Finnis Until March 2014 Former Member of the Secretariat
9. Lance Leatherbarrow Member of the Secretariat	20. Anna Aubel Administrative Officer	Aina Liepins Until July 2014 Former Member of the Secretariat
10. Jun Lee* (Financial Supervisory Service, Republic of Korea) Member of the Secretariat	21. Joao Carneiro Administrative Officer	Han Wang* (China Insurance Regulatory Commission) Until January 2014 Former member of the Secretariat
11. Carole Lin* (Financial Supervisory Commission, Chinese Taipei) From January 2014 Member of the Secretariat	22. Sylvie Ellet Administrative Officer	Ann Neale Until September 2014 Former Administrative Officer

