

2001 Annual Report

International Association of
Insurance Supervisors



INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Contributing to world-wide financial stability

The member insurance supervisors of the IAIS, drawn from over 100 jurisdictions, resolve to:

- cooperate together to ensure improved supervision of the insurance industry on the domestic as well as on an international level in order to maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders;
- unite their efforts to develop practical standards for supervision of insurance that members may choose to apply;
- liaise or cooperate with other relevant international entities;
- provide mutual assistance to safeguard the integrity of markets; and
- exchange information on their respective experiences in order to promote the development of domestic insurance markets.

✎ Taken from the Preamble of IAIS By-laws ✎

This Annual Report covers in general the period from October 2001 to September 2002

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Foreword

The International Association of Insurance Supervisors (IAIS) was established in 1994 to promote cooperation among insurance regulators and liaise with regulators in other financial sectors. Today, insurance supervisory authorities from over 100 jurisdictions are members. In addition, approximately 70 organisations and individuals are observers. They include professional associations, insurance and reinsurance companies, international financial institutions, consultants and other professionals. The IAIS is led by an Executive Committee, with 14 members from different regions of the globe. Its Secretariat is located at the Bank for International Settlements in Basel, Switzerland.

The IAIS develops principles and standards on insurance supervision. In doing so, it seeks to help establish and maintain fair and efficient insurance markets for the benefit and protection of policyholders.

The IAIS is active in promoting the implementation of its supervisory standards, through training activities. The IAIS also develops textbooks and case studies on supervisory issues.

The IAIS helps assess jurisdictions' observance of standards in close collaboration with the IMF and World Bank. It maintains a list of qualified insurance experts able to conduct assessments. In addition, its members are encouraged to complete the IAIS self-assessment, which is designed to evaluate national supervisory laws and practices against the Insurance Core Principles and accompanying methodology.

The IAIS collaborates closely with other international regulatory organisations. In particular, it is represented in the Financial Stability Forum and is one of the constituting bodies of the Joint Forum participating in all Forum working groups. In addition, the IAIS has provided input to the International Accounting Standards Board's work in establishing standards for insurance accounting.

Each year the IAIS organises around 60 committee meetings and co-organises more than 15 regional seminars. It hosts an Annual Conference to encourage multilateral discussions on topical issues for insurance supervisors and other insurance professionals. The Eighth Annual Conference was held in Bonn on 18-20 September 2001 and the Ninth Annual Conference will be held in Santiago de Chile on 9-11 October 2002.

Chairman's report

Annual conferences have come to symbolise the conclusion of another work year for the IAIS - a celebration of the progress made and our enthusiastic commitment to tackle the many challenges ahead. The tumultuous backdrop to last year's Annual Conference only served to emphasise these challenges and the importance of the insurance sector and our work.

The IAIS held its Eighth Annual Conference in Bonn, Germany on 17-20 September 2001. Less than one week earlier the entire world had been shaken by the terrorist attacks in the United States. The event was shocking on a personal level. But it also had significant implications for us as insurance supervisors. Although final figures have yet to be determined, no one disputes that insurable losses that exceed any previous event will result.

Many members, particularly our American colleagues, were unable to attend the Eighth Annual Conference. This was due, in part, to difficulties arranging travel. In addition, however, many IAIS members had to monitor companies in their jurisdictions to determine the extent of the exposure and the ability of companies to meet their obligations.

The IAIS conducted similar exercises. In October it asked members to report on the effects 11 September had had in their jurisdiction. This exercise was updated in January 2002. In addition, the Reinsurance Subcommittee held a tour de table on this subject at each of its meetings. We used this information not only internally within the IAIS community but also externally to brief other financial sector supervisors and international bodies.

We are pleased to report that the insurance industry responded well, by and large, to this event. There were a few failures but most companies - direct insurers and reinsurers - will be able to meet their obligations to policyholders. Nonetheless it has had an impact on the availability of some coverage - in particular terrorist coverage - and pricing. But more and more, individuals and companies realise how important it is to have adequate insurance coverage; and more and more, policy makers realise the vital role insurance plays in ensuring the strength of the financial sector and the economy generally.

In this report we discuss the work the IAIS undertook over the past year to improve the regulation and supervision of insurance companies. In particular, we will discuss its activities in standard setting and in standard implementation. The IAIS contributes to cross-sectoral activities at an international level as well, and this aspect of our work is also described in the report.

I believe the Annual Report should, in addition, serve as an accountability document. It contains, as always, the financial statements, with a brief analysis of the results. This year, however, we have also included the goals of different working parties projected until 2004.

In response to the many demands and the increasing workload of the IAIS, and with the expectations that the scope of activities will continue to grow, the Association established a formal planning process to develop a strategic vision of the future. At the Annual Conference in Santiago de Chile a Medium Term Work Plan for the Association will be presented. Concurrent with the plan is a proposal for strengthening the financing structure of the IAIS.

The IAIS has come a long way since its formation in 1994. It has acquired a strong and solid worldwide presence. With the commitment of its members whose jurisdictions provide most of the "human capital", the IAIS efficiently and actively works within its committees and subcommittees in the development and implementation of standards. This process has recently been enriched by the knowledge and experience of observers representing the industry.

Much credit for this should be given to Knut Hohlfeld, who currently serves as Secretary General. He established the secretariat in Basel and shaped it into a smoothly running and supportive team. He has maintained contacts with our numerous members and observers and represents the IAIS in a wide range of national and international forums. Knut has been tireless in his efforts over the last five years and we have been the beneficiaries. His constancy and commitment have not gone unnoticed by the insurance supervisory community around the world. Knut will retire this winter. On behalf of the IAIS, I would like to express my profound gratitude for the work he has done and wish him much happiness in his future adventures.

For the last few years new developments and the pace of change have been accelerating. We expect that the coming year will not be different. Our goal is to ensure that insurance supervisors face the enormous challenges, that lie before us, together and with determination.

Manuel Aguilera-Verduzco
Chairman, Executive Committee

Executive Committee members

Mr Manuel Aguilera-Verduzco, *Chairman*
Comision Nacional de Seguros y Fianzas, Mexico

Mr Tom Karp, *Vice-Chairman*
Australian Prudential Regulation Authority (APRA), Australia

Mr Michael Hafeman
Office of the Superintendent of Financial Institutions, Canada

Ms Mónica Cáceres Ubilla
Superintendencia de Valores y Seguros, Chile

Mr Helmut Müller
Bundesanstalt für Finanzdienstleistungsaufsicht, Germany

Mr Steve Butterworth
Guernsey Financial Services Commission, Guernsey

Mr Yoshio Okubo
Financial Services Agency, Japan

Mr Bassel Hindawi *(from 7 January 2002)*
Insurance Regulatory Commission, Jordan

Ms Danuta Walcerz *(until 31 March 2002)*
State Office for Insurance Supervision, Poland

Mr Jan Monkiewicz *(from 21 June 2002)*
Insurance and Pension Funds Supervisory Commission, Poland

Mr Rui Leão Martinho
Instituto de Seguros de Portugal, Portugal

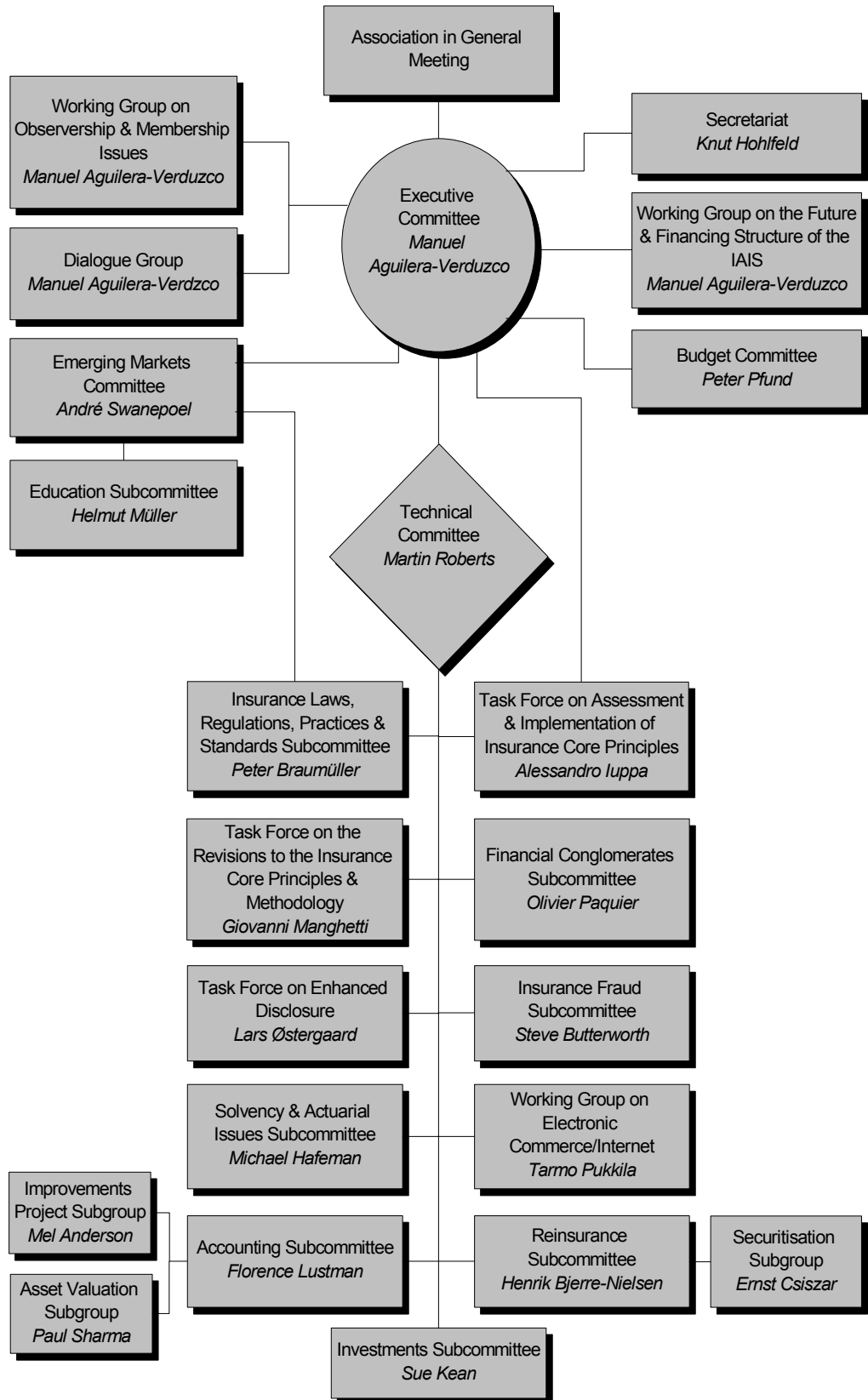
Mrs Hauw Soo Hoon
Monetary Authority of Singapore, Singapore

Mr André Swanepoel
Financial Services Board, South Africa

Mr Martin Roberts
Financial Services Authority, United Kingdom

Mr Alessandro Iuppa
National Association of Insurance Commissioners (NAIC)

IAIS organisation chart



Management of the IAIS

Executive Committee The Executive Committee, with the help of the Secretariat, is responsible for the overall operation of the IAIS. It sets the broad direction of the Association on advice of members and observers and oversees its functioning.

WGFFS The goal of the Working Group on the Future and Financing Structure of the IAIS, established last year, was to develop a strategic vision for the future of the Association, taking into account the continuous growth of IAIS activities, and to establish a scope of action for the near future.

Several steps have been taken to achieve this. Last year, the IAIS working groups established formal planning processes in order to prioritise projects and ensure coordination. Specifically, the medium term challenges are to set standards, reinforce assessments, implement standards, reinforce IAIS cooperation with other international organisations and cross-sector activities, and to strengthen the IAIS organisation and improve its efficiency. The working group report will be presented at the General Meeting in Santiago de Chile. The WGFFS is chaired by Manuel Aguilera-Verduzco, Mexico.

Annual Conference A major responsibility of the Executive Committee is to ensure the sound organisation of the Annual Conference. Despite the terrorist attacks in the United States, the Eighth Annual Conference was held as scheduled on 17-20 September 2001 in Bonn. Over 300 participants attended, taking part in seminars on a wide range of topics and enjoying generous German hospitality. The Executive Committee recognised that many members would be unable to attend the conference and decided to delay voting on resolutions until a continued General Meeting could be arranged. This was held in January 2002 in Tokyo. At that meeting the applications of nine new members and twenty new observers were approved. It was noted that two observers cancelled their subscriptions. Since January the Secretariat has received four applications for membership and seven applications for observership. These applications will be put forward at the General Meeting in Santiago.

Dialogue Group The first meeting of the Dialogue Group was held during the Annual Conference in Bonn. The Group was established primarily to serve as a forum to seek feedback and answer questions from observers. All members and observers can participate and as a result the topics discussed at the September meeting were wide ranging. A second Dialogue Group meeting is planned for 11 October in Santiago de Chile. The Dialogue Group is chaired by Manuel Aguilera-Verduzco, Mexico.

Secretary General With the upcoming retirement of Secretary General Knut Hohlfeld, the Executive Committee launched the recruitment process to find his successor. It is looking for someone with skills in insurance supervision and management and experience in international fora. The Executive Committee hopes to announce a decision at the 2002 General Meeting.

Secretariat Knut Hohlfeld will leave the Secretariat in a strong position. Staff now include the Deputy Secretary General, two Principal Administrators (Catherine Lezon from France joined in January 2002) and three administrative staff, one of whom is funded by the BIS. The Japanese government has shown continued commitment, replacing Masaya Amau who left in April, with Makoto Okubo. The Australian Prudential Regulation Authority extended the term of its secondee, Tony Jelic, for three months. And the Swiss insurance office has hired a part-time staff, Nina Arquint, to manage the IAIS insurance laws and reinsurance databases.

IAIS finances are also in good shape. The 2001 Financial Statements show revenues exceeding expenses by US\$ 283,000. This was due to: *Finances*

- higher fee income because the number of members and observers grew more than anticipated; and
- lower than expected costs, in particular salary and benefits, because the new Principal Administrator joined the Secretariat three months later than planned and the BIS fully paid the salary of one administrative staff rather than only partially funding it as expected.

A draft budget for 2003 has been prepared. The annual fee for members and observers will remain unchanged, however, we anticipate increases in the area of salary and benefits, with the planned succession of the Secretary General at the beginning of 2003 and new contracts for the Deputy Secretary General and one of the Principal Administrators. This will be reflected in the budget and consequent fees for 2004. The Budget Committee is chaired by Peter Pfund, Switzerland. *Budget*

Report on standard setting activities

The IAIS is the recognised international standards-setter for insurance supervision. The Technical Committee oversees this work. Five papers were presented to the membership at the General Meeting in Bonn in September 2001 and subsequently adopted at the Continued General Meeting in Tokyo in January 2002. These were:

- *Principles on Capital Adequacy and Solvency*
- *Supervisory Standard on the Evaluation of Reinsurance Cover of Primary Insurers and the Security of their Reinsurers*
- *Supervisory Standard on the Exchange of Information*
- *Anti-Money Laundering Guidance Notes for Insurance Supervisors and Insurance Entities*
- *Guidance Paper on Public Disclosure by Insurers*

Technical Committee Last year we reported that the Technical Committee agreed that its key priorities should be capital adequacy/solvency, reinsurance, accounting standards and electronic commerce. We noted that:

- the Reinsurance Subcommittee had started work on a paper setting out principles on areas in which the insurance supervisor should have authority or control over reinsurance companies;
- the Solvency Subcommittee anticipated developing standards in each of the areas identified in the *Principles on Capital Adequacy and Solvency*;
- a joint paper was being developed by the Solvency Subcommittee and the Accounting Subcommittee on the critical issue of insurance liabilities; and
- the Working Group on Electronic Commerce was developing a paper identifying in more detail the risks involved in this area from an insurance perspective.

Toward these goals we are pleased to report progress as follows:

- The principles paper, *Minimum Requirements for the Supervision of Reinsurers*, will be tabled for adoption at the General Meeting in Chile in October 2002.
- The Solvency Subcommittee, with input from the Accounting Subcommittee, has prepared a discussion paper, *Quantifying and Assessing Insurance Liabilities*, and two other papers, *The Use of Actuaries as Part of a Supervisory Model* and *Solvency Control Levels*. All three papers have been circulated to members and observers for comment and should be finalised in 2003.
- The Working Group on Electronic Commerce/Internet has finalised its issues paper, *Risks to Insurers posed by Electronic Commerce*.

It had been agreed to undertake a review of the *Insurance Core Principles and Methodology* in 2001 with a view to presenting them to the membership for approval in 2002. A task force was established in October 2001 and began its work by soliciting input from members and observers. Numerous comments were received and it was decided to extend the deadline for this project to allow for a more extensive review. *Revised Insurance Core Principles and Methodology* are now scheduled for completion in 2003.

In addition, it was decided to add anti-money laundering and combating terrorist financing to the priority list. *The Anti-money Laundering Guidance Notes* were adopted in January 2002 with the caveat that they are likely to change following the Financial Action Task Force (FATF) review of its 40 Recommendations. The IAIS, through the Insurance Fraud Subcommittee, intends to work closely with the FATF to contribute to revision of the 40 Recommendations. The Insurance Fraud Subcommittee also assisted the International Monetary Fund and the World Bank in the development of a joint *Methodology for Assessing Legal, Institutional and Supervisory Aspects of Anti-Money Laundering and Combating the Financing of Terrorism*. This methodology paper will guide Financial Sector Assessment Program and Offshore Financial Centre assessors in their reviews.

Having completed the tasks assigned to it the Exchange of Information Subcommittee decided to disband. All outstanding projects are joint tasks with other subcommittees and have been allocated accordingly. We would like to thank Edward Forshaw, UK, who chaired this subcommittee for several years. Under his leadership, the Subcommittee prepared a *Model Memorandum of Understanding, Principles Applicable to the Supervision of International Insurers and Insurance Groups and their Cross-Border Business Operations* and a *Supervisory Standard on the Exchange of Information*. The Subcommittee also worked closely with the Reinsurance Subcommittee in developing the specifications for a database on reinsurers.

The Technical Committee is chaired by Martin Roberts, UK.

Work in Progress

The Technical Committee asked each of its working parties to produce a plan for the period 2002-04, identifying anticipated output, as input to the Associations' medium term plan. The results are summarised in Table 1 (next page).

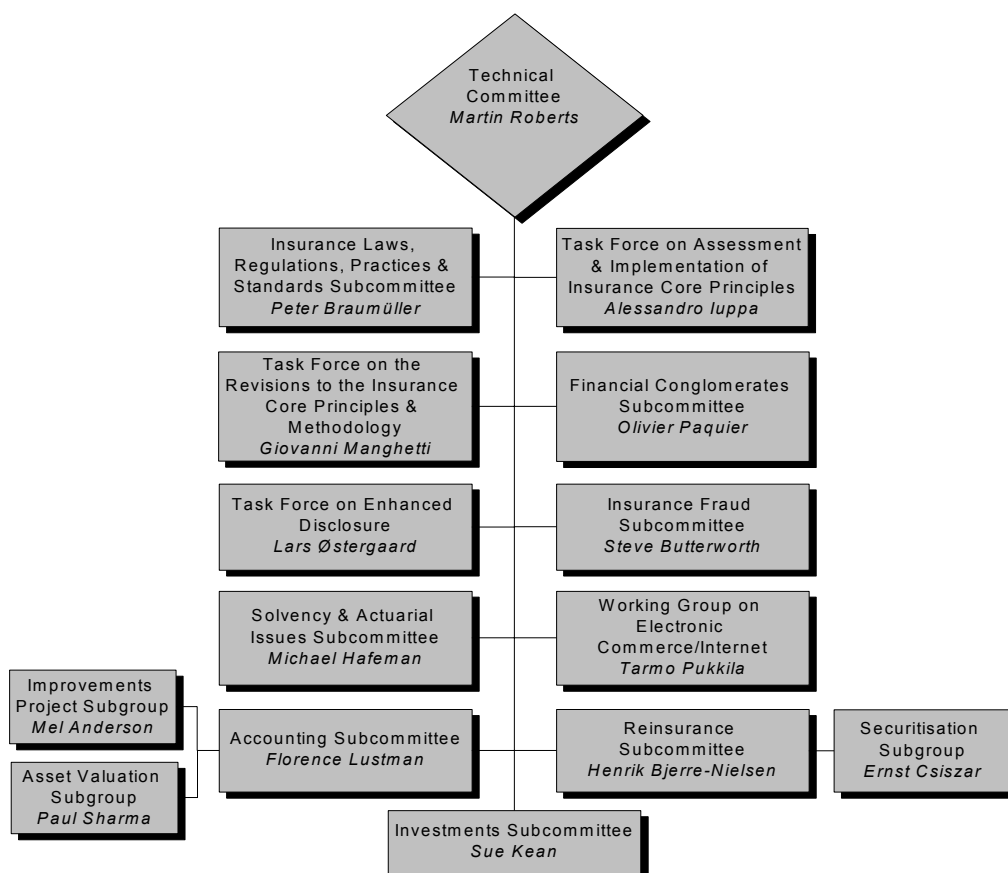


Table 1: Output from the Technical Committee working parties

2002	<ul style="list-style-type: none"> • <i>Principles: Minimum Requirements for the Supervision of Reinsurers</i> • <i>Issues paper: Risks to Insurers posed by Electronic Commerce</i> • <i>Analysis: Issues regarding credit risk transfer between insurance and banking sectors</i> • <i>Results: Survey on insolvency and liquidation</i> • <i>Database: Insurance laws</i> • <i>Database: Reinsurers</i>
2003	<ul style="list-style-type: none"> • <i>Revisions: Insurance Core Principles and Methodology</i> • <i>Revisions: Principles on the Supervision of Insurance Activities on the Internet</i> • <i>Principles: Risk Management Principles for Electronic Commerce in Insurance Products</i> • <i>Standard: Supervision of Reinsurers</i> • <i>Standard: Disclosure of Technical Performance for Non-Life Insurers</i> • <i>Discussion paper: Quantifying and Assessing Insurance Liabilities</i> • <i>Guidance paper: The Use of Actuaries as Part of a Supervisory Model</i> • <i>Guidance paper: Solvency Control Levels</i> • <i>Issues paper: Market risk including asset/liability matching</i> • <i>Issues paper: Insurance Securitisation</i>
2004	<ul style="list-style-type: none"> • <i>Standard: Disclosure of Investment Performance for Non-Life Insurers</i> • <i>Standard: Acceptable Forms of Capital</i> • <i>Guidance paper: Stress Testing</i> • <i>Guidance paper: Levels of Security for Liabilities and for Statutory Solvency Requirements</i> • <i>Guidance paper: Defined Forms of Acceptable Capital Instruments</i>

Accounting Subcommittee The Accounting Subcommittee follows developments by the International Accounting Standards Board (IASB) specifically relating to the insurance accounting standard. The Subcommittee prepared the comment letter on the insurance project's *Draft Statement of Principles* sent by the Chairs of the Technical and Executive Committees to the IASB in June 2002. The Accounting Subcommittee is chaired by Florence Lustman, France.

Asset Valuation Subgroup Through the Subgroup on Asset Valuation the Accounting Subcommittee comments on other IASB work that is relevant to the insurance sector. Based on the work of the IASB the Association submitted comments on the *Draft Standard by the Financial Instruments Joint Working Group of Standard Setters* and the *Exposure Draft of Proposed Preface to International Financial Reporting Standards*. Also, in anticipation of exposure drafts being released for comment in 2002, the Subgroup began discussing the International Accounting Standards (IASs) 32 and 39 and SIC 8 - First-Time Application of IASs as the Primary Basis of Accounting (IAS 1). The Asset Valuation Subgroup is chaired by Paul Sharma, UK.

Improvements Project Subgroup Due to the volume and importance of Subcommittee work on IASB projects, a second Subgroup was established in May 2002 to address the IASB Improvements Project. This project aims to eliminate inconsistencies, redundancies, and conflicts among international accounting standards and frameworks. The Subgroup intends to provide its input by September 2002. The Improvements Project Subgroup is chaired by Mel Anderson, USA.

The Working Group prepared an issues paper, *Risks to Insurers posed by Electronic Commerce*, seeking to identify, and consider in greater depth, the risks associated with internet operations. As a next step, it began drafting a paper on how to manage these risks.

*E-Commerce /
Internet Working
Group*

The E-commerce/Internet Working Group is chaired by Tarmo Pukkila, Finland. He represents the IAIS at meetings of the Financial Stability Forum's Contact Group on E-Commerce. This group is working to coordinate the approaches being taken by various supervisory bodies as they try to track and supervise financial institutions using the internet and other electronic mediums to conduct business.

The Financial Conglomerates Subcommittee provides a link between the IAIS and the work of the Joint Forum¹. During the year, the Subcommittee discussed the reports of the Joint Forum's working groups comparing the core principles, risk management and capital, and corporate governance in the three financial sectors. At its March meeting the Joint Forum agreed on a new work program that will focus on: risk aggregation across multiple businesses and risk categories; operational and credit risk management and the transfer of these risks; the disclosure of financial risks (following-up on the work of the Fisher Report); and cross-sectoral implications of extreme exogenous shocks. The IAIS draws on its broader membership to provide insurance representation in the working groups. In addition, the Chairman of the Subcommittee chaired the latter group.

*Financial
Conglomerates
Subcommittee*

The Subcommittee has offered to provide input into the solvency standard being developed by the Solvency Subcommittee. The focus of its input will be on issues arising when insurance companies are part of a group. The Financial Conglomerates Subcommittee is chaired by Olivier Paquier, France (formerly Thierry Francq, France, until June 2002).

In addition to the anti-money laundering work described above, the Insurance Fraud Subcommittee has focused on issues related to the tracing and of seizing fraudulently gained assets. In this regard it circulated a questionnaire to IAIS members requesting details of actual cases, including types of risks faced and how the cases were handled.

*Insurance Fraud
Subcommittee*

The Subcommittee has been investigating pyramid schemes, which seem to be growing and are particularly misused and abused in emerging markets. The main aim of a pyramid operation is to turn all policy purchasers into agents. The World Federation of Insurance Intermediaries (WFII) produced a paper identifying problems with pyramid schemes and the Subcommittee intends to use this paper, after discussion, as a basis for investigation into the detection and prevention of pyramid operations.

Following the success of the last Tripartite Conference in Guernsey, the Subcommittee intends to arrange another conference in 2003, this time in India. The conference would be held back-to-back with IAIS committee meetings. The Insurance Fraud Subcommittee is chaired by Steve Butterworth, Guernsey.

The Subcommittee finalised the development of the insurance laws database and prepared a new questionnaire that will be used to provide the input. This database will be a valuable source of information on supervisory practices for member jurisdictions. The final launch of the database was delayed because of resource problems; however, the Swiss supervisory authority has now agreed to manage the database on behalf of the IAIS. This Subcommittee is chaired by Peter Braumüller, Austria.

*Insurance Laws,
Regulations,
Practices &
Standards
Subcommittee*

¹ The Joint Forum is a group of technical experts working under the umbrella of the International Association of Insurance Supervisors, the Basel Committee on Banking Supervision, and the International Organization of Securities Commissions. Its work encompasses issues relating to financial conglomerates, as well as issues that are of common interest to the three parent committees.

- Investments Subcommittee** The Subcommittee focused its efforts on the question of credit risk transfer between financial services sectors – a development of particular interest to the Financial Stability Forum. By surveying firms in different jurisdictions the Subcommittee was able to trace selected transactions through the full cycle and understand the risk management processes firms use, trying to determine if the buyers and sellers of risk really understand what they are acquiring or giving up. Preliminary conclusions indicate that these transactions are not purely capital driven; the main reasons firms engage in credit risk transfers are commercial or to take into account different accounting rules. The Subcommittee has circulated its paper to members and observers for comment and is extending the scope of its survey. It hopes to complete this work by the end of 2002. The Investments Subcommittee is chaired by Sue Kean, UK.
- Reinsurance Subcommittee** The Subcommittee drafted a principles paper, *Minimum Requirements for the Supervision of Reinsurers*. It identifies areas in which the insurance supervisor should have authority or control over reinsurance companies. The principles paper has been tabled for adoption at the General Meeting, as noted. The Subcommittee is proceeding with a standard describing best practices for the supervision of reinsurers.
- The Subcommittee provided input into the reinsurers database, scheduled to come on line in 2002, in addition to its standard-setting activities. It also monitored the impact of the events of 11 September on the insurance and reinsurance sectors. The Reinsurance Subcommittee is chaired by Henrik Bjerre-Nielsen, Denmark.
- Securitisation Subgroup** In 2000 the Reinsurance Subcommittee established the Securitisation Subgroup to follow developments and provide information to members on alternative risk transfer products. The Subgroup is drafting an issues paper on insurance securitisation. The paper will primarily serve as an educational primer describing how, by linking the insurance markets with capital markets, securitisation provides a complement to traditional reinsurance. Insurance securitisations were expected to increase significantly after 11 September, however this has not been the case so far. This has been attributed to the high costs and small market for BB rated securities. The Securitisation Subgroup is chaired by Ernst Csiszar, USA.
- Solvency & Actuarial Issues Subcommittee** By January 2002, the *Principles on Capital Adequacy and Solvency* were adopted at the Continued General Meeting in 2002, the papers *Quantifying and Assessing Insurance Liabilities* and the *Use of Actuaries as Part of a Supervisory Model* were drafted, and the start of a third paper had begun, on the solvency control levels (i.e., levels that would trigger supervisory action). The Subcommittee's work plan for the coming years is equally ambitious. In addition to finalising the papers already mentioned, by 2004 it intends to prepare papers on stress testing, the form of statutory solvency margin requirements, the levels of security for liabilities and for statutory solvency requirements and defined forms of acceptable capital instruments. This Subcommittee is chaired by Michael Hafeman, Canada (formerly Craig Thorburn, Australia).
- Task Force on Enhanced Disclosure** The Task Force contributed to the work of the Multidisciplinary Group on Enhanced Disclosure (the Fisher Group) whose report was published in July 2001. It has decided to pursue the Fisher Group recommendations by preparing a disclosure standard for non-life companies, specifically in the areas of performance and investments. This Task Force on Enhanced Disclosure is chaired by Lars Østergaard, Denmark (formerly Terri Vaughan, USA).
- Task Force on the Assessment & Implementation of Insurance Core Principles** IAIS members had conducted self-assessments against the Insurance Core Principles in the spring and winter of 2001. The Task Force discussed the members' experiences with the self-assessments and with the Financial Sector Assessment Programs of the IMF and World Bank. The self-assessment program will be revisited when the revised Insurance Core Principles are finalised in 2003. This Task Force is chaired by Alessandro Iuppa, USA (formerly Manuel Aguilera-Verduzco, Mexico).

The Task Force was set up, as noted earlier, due to a commitment made to members to review the Insurance Core Principles in light of developments in the sector, and self-assessment and FSAP experiences. The Task Force has discussed the structure, format and content for the revised *Core Principles and Methodology* and should have a first draft ready for comment by the end of 2002. It works closely with other relevant subcommittees. This Task Force is chaired by Giovanni Manghetti, Italy.

*Task Force on
the Revisions to
the Insurance
Core Principles
& Methodology*

Observers' Involvement

While, with few exceptions, the working parties of the Technical Committee are made up of representatives from member organisations, we would be remiss if we did not recognise the significant contribution of observers to the standard-setting work of the Association. Observers frequently make presentations on industry practices and developments at meetings of the working parties and provide written comments on papers sent out for consultation. This input has been educational and constructive, helping to speed up the pace of our work and improve the quality of the finished products.

Report on standard implementation activities

In parallel with standard setting, standard implementation is a core IAIS activity. The Emerging Markets Committee and Education Subcommittee have the main responsibility in this area.

Implementation tools: textbooks, manuals and case studies Textbooks, manuals and case studies explain and provide practical examples for implementing principles and standards. IAIS members, in collaboration with the World Bank, drafted four textbooks in the previous year:

- *Supervision of Technical Provisions of the Life Insurance Company*
- *Supervision of Technical Provisions of the Non-Life Insurance Company*
- *Capital Requirements*
- *On-Site Inspection*

Similarly IAIS members developed several case studies that were used in regional seminars (see Table 2, below).

Table 2: Case studies

Case	Used In	When
<i>Spanish</i>	<i>Argentina</i>	<i>June 01</i>
<i>Polish</i>	<i>Poland</i>	<i>June 01</i>
<i>French</i>	<i>Poland</i>	<i>June 01</i>
<i>Panamanian</i>	<i>Peru</i>	<i>November 01</i>
<i>Singaporean (several)</i>	<i>Singapore</i>	<i>June 02</i>
<i>Chilean</i>	<i>Honduras</i>	<i>July 02</i>
<i>South Africa</i>	<i>South Africa</i>	<i>July 02</i>

These textbooks and case studies are being further improved.

With thanks to Steve Butterworth's (Guernsey) initiative, the IAIS revised the training manual. It will be available at the Annual Conference in Santiago de Chile in October 2002.

Translations The *Insurance Core Principles* and other IAIS documents have been translated by members into Arabic, German and Spanish. The German and Spanish translations are available on www.iaisweb.org.

Seminars and experts The IAIS maintains a list of seminars and meetings for insurance supervisors, as well as a list of experts on insurance regulation and supervision. The list of experts is referred to, for example, when the IMF and World Bank request an expert for the insurance segment of a Financial Sector Assessment Program (FSAP) review. The lists are regularly updated and put on the IAIS website.

On-site advice in emerging markets The IAIS has developed a technical assistance programme for insurance supervisors from emerging markets, in collaboration with the IMF and World Bank. The programme primarily helps members address weaknesses identified in FSAP reviews. For example, members now have the possibility to receive on-site advice from qualified insurance experts on their insurance supervisory system.

During the last year the IAIS, in collaboration with supervisory agencies and other institutions, organised 14 regional and global seminars attended in total by approximately 800 participants (see Table 3, below). The seminars focused on the implementation of IAIS principles and standards.

Seminars

Table 3: IAIS Seminars (August 2001 - July 2002)

	Location	Co-organiser(s)	For whom
2001			
August	Port Vila, Vanuatu	Offshore Group of Insurance Supervisors (OGIS)	Offshore jurisdictions
October	Vienna, Austria	Joint Vienna Institute and BIS	Insurance supervisors from economies in transition
November	Lima, Peru	Superintendencia de Banca y Seguros del Peru and ASSAL	Latin American insurance supervisors
2002			
January	Tokyo, Japan	FSA Japan and OECD	Emerging markets mainly from Asia
March	Warsaw, Poland	Polish State Office for Insurance Supervision	Central and eastern European jurisdictions
April	Amman, Jordan	Jordanian Insurance Regulatory Commission	Middle East insurance supervisors
May	Berlin, Germany	Bundesaufsichtsamt für das Versicherungswesen Germany (BAV)	Emerging markets mainly from Central and eastern Europe
June	Basel, Switzerland	IMF and World Bank	Potential assessors of insurance supervisory systems
	Basel, Switzerland	Financial Stability Institute (FSI)	IAIS members
	Singapore	Monetary Authority of Singapore, and Japan International Cooperation Agency (JICA)	Asian insurance supervisors
	Krynica, Poland	Polish Insurance and Pension Funds Supervisory Commission	Central and eastern European jurisdictions
July	San Pedro Sula, Honduras	Comision Nacional de Bancos y Seguros Honduras, ASSAL, and OECD	Latin American insurance supervisors
	Almaty, Kazakhstan	National Bank of Kazakhstan	Central Asian insurance supervisors
	Pretoria, South Africa	South African Financial Services Board	English speaking African jurisdictions

Regional Work plans have been developed by regional chairs, with the intention of coordinating

cooperation activities among different institutions, to ensure IAIS principles and standards are implemented (see Table 4, below).

Table 4: Regional Work Plans

<i>Chairs and collaborators</i>	<i>Region</i>
<i>Guernsey in collaboration with Belize</i>	<i>Offshore jurisdictions</i>
<i>México</i>	<i>Latin América</i>
<i>Poland in collaboration with Russia</i>	<i>Central and eastern Europe</i>
<i>Singapore in collaboration with</i>	<i>Asia</i>
<i>Malaysia,</i>	
<i>South Africa</i>	<i>English speaking Africa</i>

Cooperation with external organisations The IAIS continues to work closely with the IMF and World Bank in assessing and implementing principles and standards. The IAIS self-assessment programme is an essential foundation for the insurance segment of the FSAP reviews.

The IAIS cooperated with the OECD, UNCTAD, International Insurance Foundation (IIF), and the Toronto Leadership Centre in seminar organisation. Recently the Financial Stability Institute (FSI) allocated resources to the insurance sector and the IAIS participated in the selection of their insurance expert.

The Emerging Market Committee and Education Subcommittee's Work Plan The Emerging Markets Committee and Education Subcommittee adopted a medium term work plan that identifies core activities and required resources and describes projects and anticipated outputs. As standard setting and implementation should be a sequential process, close cooperation with the Technical Committee is anticipated, particularly in developing implementation tools and running regional seminars. The work plan is summarised in Table 5 (next page).

Table 5: The Medium Term Work Plan

Category of work	Description of the project, initiative, or continuing work	Anticipated output (eg. standard, issues paper, database etc)
<i>Basic infrastructure</i>	<i>Textbooks and case studies</i>	<i>Produce eight textbooks, manuals, case studies annually</i>
	<i>Translation of documents</i>	<i>Establish procedures for ensuring the translation of IAIS principles, standards, textbooks, case studies and other documents</i>
	<i>Virtual insurance library</i>	<i>Encourage the establishment of a virtual library where members can find relevant information on insurance supervision and regulation</i>
	<i>List of seminars and experts</i>	<i>Maintain a list of seminars and meetings for insurance supervisors and a list of available experts on insurance supervision</i>
	<i>Insurance laws database</i>	<i>Keep insurance laws database up to date</i>
<i>Learning mechanisms</i>	<i>Regional or global seminars</i>	<i>Co-sponsor fifteen regional and risk management seminars a year</i>
	<i>Self-learning material and distance-learning courses</i>	<i>Encourage the development of self-learning courses, material for textbooks, case studies and distance-learning courses</i>
	<i>Arrangement of face-to-face training for insurance supervisors</i>	<i>Facilitate on-the-job training and assignment of advisors</i>
	<i>Nomination of experts for emerging markets</i>	<i>Provide or arrange for on-site advice for emerging markets</i>
<i>Cooperation with external organisations</i>	<i>Liaison and exchange of information with external organisations</i>	<i>Liaise with other international organisations such as IMF, World Bank, OECD, FSI, IIF, etc. with regard to emerging markets and training issues</i>



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Report of the Statutory Auditors to the Honorable Members of the

International Association of Insurance Supervisors, Basel

We have audited the accompanying balance sheets and the related statements of activities of International Association of Insurance Supervisors (the "IAIS") for the year ended December 31, 2001.

These financial statements are the responsibility of the IAIS's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the balance sheets and statements of activities comply with Swiss law and the company's articles of incorporation.

KPMG Fides Peat



Armin Bähler



Stefan Inderbinen

Basel, February 6, 2002

Enclosure:

- Financial statements (statements of financial position, statements of activities and notes)

Enclosure I

Statements of Financial Position as per 31 December

	2001	2000
	USD	USD
ASSETS		
Cash and banks	108,249	183,151
Fiduciary Investment	410,801	0
Money market investment	1,089,707	1,045,512
Accounts receivable, net	200,888	197,495
	<hr/>	<hr/>
Total	1,809,645	1,426,158
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, net	345,504	240,128
Prepaid Subscriptions	10,000	15,000
	<hr/>	<hr/>
	355,504	255,128
	<hr/>	<hr/>
Unrestricted Net assets		
Retained earnings	1,171,030	747,624
Profit for the year	283,111	423,406
	<hr/>	<hr/>
	1,454,141	1,171,030
	<hr/>	<hr/>
Total	1,809,645	1,426,158
	<hr/> <hr/>	<hr/> <hr/>

Enclosure II

Statements of Activities for the years ended 31 December	2001	2000
	USD	USD
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and gains		
Membership fees	605,000	567,430
Observer fees	310,000	225,000
Annual conference registration fees	166,119	182,436
Interest income	64,270	53,162
Miscellaneous income	100	350
	1,145,489	1,028,378
Expenses		
Annual conference expenses	138,337	162,413
Salary and benefits	392,775	303,566
Relocation expenses	5,518	0
Training	3,836	6,659
Fax and telephone	3,316	4,870
Travel and transportation	77,462	63,766
Postage and office supplies	5,616	12,231
Professional services	2,500	2,370
Editing	0	931
Printing	184	5,546
Entertainment	10,408	7,181
Website	117,643	1,425
Education	77,146	20,637
Provision for bad debts	15,000	0
Miscellaneous expenses	12,637	13,377
	862,378	604,972
Increase in unrestricted net assets	283,111	423,406

Enclosure III

Notes to the Financial Statements year ended 31 December 2001

1 NATURE OF ORGANISATION

The International Association of Insurance Supervisors (the "IAIS") is an Association in accordance with Swiss Law. The Association is domiciled in Basel, Switzerland and receives membership and observer fees from members worldwide.

It is an organisation of and for the international insurance supervisory officials. The IAIS provides an independent forum for these officials to promote cooperation among the members in carrying out their responsibilities and to enhance their ability to protect insurance policyholders and promote secure and efficient insurance markets.

2 INCOME TAXES

The Association is exempt from income tax following its move to Switzerland in 1998.

3 CONTRIBUTIONS RECEIVABLE

The IAIS entered into an agreement with the Swiss Government to relocate its corporate headquarters from the United States to Switzerland. As an incentive for the IAIS to relocate to Switzerland, the Swiss Government agreed to contribute the following amounts to the IAIS:

	USD
1997	100,806
1998	125,838
1999	125,838

At 31 December 1999, all contributions due to IAIS had been received.

4 BENEFITS RECEIVED

Since its move to Switzerland in 1998, the IAIS benefits from administration, accounting and other advisory services provided by the Bank for International Settlements, Basel; the total amount of these benefits has not been determined.

IAIS Members

Albania	Albanian Insurance Supervisory Commission
Anguilla	Financial Services Department, Government of Anguilla
Argentina	Superintendencia de Seguros de la Nacion Argentina
Aruba Dutch Caribbean	Centrale Bank van Aruba
Australia	Australian Prudential Regulation Authority (APRA) Motor Accidents Authority of NSW Private Helath Insurance Administration Council (PHIAC)
Austria	Financial Market Authority (FMA)
Bahamas	Office of the Registrar of Insurance Companies, Ministry of Economic Development
Barbados	Ministry of Finance and Economic Affairs
Belgium	Office de Contrôle des Assurances
Belize	Office of the Supervisor of Insurance
Bermuda	Bermuda Government
Bolivia	Superintendencia de Pensiones, Valores y Seguros
Botswana	Ministry of Finance & Development Planning
Brazil	Superintendencia de Seguros Privados (SUSEP)
British Virgin Islands	Financial Services Commission (FSC)
Bulgaria	Insurance Supervision Agency
Canada	Office of the Superintendent of Financial Institutions Financial Services Commission of Ontario Inspecteur General des Institutions Financieres, Québec
Cayman Islands, BWI	Cayman Islands Monetary Authority
Chile	Superintendencia de Valores y Seguros
China	China Insurance Regulatory Commission
Chinese Taipei	Department of Insurance
Cyprus	Ministry of Finance - Insurance Companies Control Service
Czech Republic	Office of the State Supervision for Insurance and Pension Funds
Denmark	Finanstilsynet (Danish Financial Supervisory Authority)
Ecuador	Superintendencia de Bancos
Egypt	Egyptian Insurance Supervisory Authority
El Salvador	Superintendencia del Sistema Financiero
Estonia	Estonian Insurance Supervisory Authority
European Commission	European Commission
Fiji	Reserve Bank of Fiji

Finland	Insurance Supervisory Authority Ministry of Social Affairs & Health
France	Commission de Contrôle des Assurances Ministère de l'Economie, des Finances et de l'Industrie
Georgia	Insurance State Supervision Service of Georgia
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht Bundesministerium der Finanzen
Ghana	National Insurance Commission Ghana
Gibraltar	Financial Services Commission
Greece	Direction of Insurance Enterprises and Actuaries
Guatemala	Superintendencia de Bancos
Guernsey	Guernsey Financial Services Commission
Guinea	Direction des Assurances
Hong Kong	Office of the Commissioner of Insurance
Hungary	Hungarian Financial Supervisory Authority
Iceland	The Financial Supervisory Authority
India	Insurance Regulatory and Development Authority
Ireland	Irish Insurance Supervisory Authority
Isle of Man	Isle of Man Government, Insurance and Pensions Authority
Israel	Ministry of Finance
Italy	ISVAP
Jamaica, W.I.	Financial Services Commission
Japan	Financial Services Agency
Jersey	Jersey Financial Services Commission
Jordan	Insurance Regulatory Commission
Kazakhstan	National Bank of Kazakhstan
Labuan, Malaysia	Labuan Offshore Financial Services Authority (LOFSA)
Latvia	Financial and Capital Market Commission
Lesotho	Central Bank of Lesotho
Liechtenstein	Amt für Volkswirtschaft, Versicherungsaufsicht
Lithuania	State Insurance Supervisory Authority Under the Ministry of Finance
Luxembourg	Commissariat aux Assurances
Macau	Autoridade Monetária e Cambial de Macau
Macedonia	Ministry of Finance
Malaysia	Bank Negara Malaysia
Malta	Malta Financial Services Centre
Mauritius	Financial Services Commission
México	Comision Nacional de Seguros y Fianzas
Nepal	Beema Samiti (Insurance Board)

Netherlands	Pensioen- & Verzekeringskamer Ministerie van Financiën
Netherlands Antilles	Bank van de Nederlandse Antillen
New Zealand	Ministry of Economic Development
Norway	KreditTilsynet
OECD	Organisation for Economic Cooperation & Development
Panama	Superintendencia de Panama
Papua New Guinea	Department of Finance & Treasury
Peru	Superintendencia de Banca y Seguros del Peru (SBS)
Philippines	Insurance Commission
Poland	Insurance and Pension Funds Supervisory Commission
Portugal	Instituto de Seguros de Portugal
Romania	Insurance Supervisory Commission
Russia	Department of Insurance Supervision
Samoa	International Companies Office
Singapore	Monetary Authority of Singapore
Slovak Republic	Financial Market Authority
Slovenia	Insurance Supervisory Authority
South Africa	Financial Services Board
South Korea	Financial Supervisory Service (FSS) & Financial Supervisory Commission (FSC)
Spain	Direccion General de Seguros
Sri Lanka	Insurance Board of Sri Lanka
Suriname	Centrale Bank van Suriname
Sweden	Finansinspektionen
Switzerland	Bundesamt für Privatversicherungen
Tanzania	Ministry of Finance
Thailand	Department of Insurance
Trinidad & Tobago	Central Bank of Trinidad & Tobago
Turkey	Prime Ministry, Undersecretariat of Treasury
Turks & Caicos BWI	Financial Services Commission
Uganda	Uganda Insurance Commission
United Kingdom	Financial Services Authority
Uruguay	Superintendencia de Seguros y Reaseguros
USA	National Association of Insurance Commissioners (NAIC)
Vanuatu	Vanuatu Financial Services Commission

Candidates for membership 2002:

Bahrain	Bahrain Monetary Agency
Croatia	Insurance Supervisory Authority
Honduras	Comision Nacional de Bancos y Seguros
Kuwait	Ministry of Commerce & Industry

IAIS Observers

International Institutions	<p>Asian Development Bank (ADB)</p> <p>Comité Européen des Assurances (CEA)</p> <p>Federación Interamericana de Empresas de Seguros (FIDES)</p> <p>International Actuarial Association (IAA)</p> <p>International Monetary Fund (IMF)</p> <p>World Bank (WB)</p> <p>World Federation of Insurance Intermediaries (WFII)</p>
Australia	Insurance Council of Australia Limited
Canada	<p>Canadian Life & Health Insurance Association Inc.</p> <p>Insurance Bureau of Canada</p> <p>Lawrie Savage & Associates Inc.</p> <p>The Toronto International Leadership Centre for Financial Sector Supervision</p>
Chinese Taipei	<p>Insurance Institute of the Republic of China</p> <p>The Life Insurance Association of the Republic of China</p> <p>The Non-Life Insurance Association of the Republic of China</p>
Colombia	Federacion de Aseguradores Colombianos (FASECOLDA)
Finland	Federation of Finnish Insurance Companies
France	<p>Deloitte Touche Tohmatsu</p> <p>Fédération Française des Sociétés d'Assurance</p>
Germany	<p>Gesamtverband der Deutschen Versicherungswirtschaft</p> <p>KPMG Deutsche Treuhand-Gesellschaft AG</p> <p>Münchener Rückversicherungs-Gesellschaft</p> <p>Tillinghast - Towers Perrin</p>
Italy	Associazione Nazionale fra le Imprese Assicuratrici
Japan	<p>Nippon Life Insurance Company</p> <p>Sumitomo Life Insurance Company, Research Section</p> <p>The Center for Financial Industry Information Systems</p> <p>The Dai-ichi Mutual Life Insurance Company</p> <p>The Life Insurance Association of Japan</p> <p>The Marine & Fire Insurance Association of Japan Inc.</p> <p>The Toa Reinsurance Company Ltd.</p> <p>The Tokio Marine and Fire Insurance Co. Ltd.</p>
Netherlands	Verbond van Verzekeraars
Poland	Polish Chamber of Insurance
Singapore	<p>General Insurance Association of Singapore</p> <p>Life Insurance Association (LIA)</p>

Switzerland	Schweizerischer Versicherungsverband Swiss Re XL Winterthur International
Turkey	Association of the Insurance and Reinsurance Companies of Turkey
United Kingdom	Association of British Insurers Barlow Lyde & Gilbert Clifford Chance Ernst & Young Government Actuary's Department International Underwriting Association of London Lloyd's Pricewaterhouse Coopers Royal & Sun Alliance Insurance Group plc
USA	A.M. Best Company ACE INA Holdings Inc. American Council of Life Insurers American Insurance Association American International Group Inc. Barnert Global Ltd. Insurance Services Office Inc. International Insurance Council International Insurance Foundation Law Office of Carolyn Cobb New York Life International Reinsurance Association of America The Chubb Corporation

Candidates for observership 2002:

Brazil	Federação Nacional das Empresas de Seguros Privados e de Capitalização (FENASEG)
France	SCOR
Germany	Allianz AG
Israel	Association of Life Insurance Companies Ltd
Japan	Meiji Life Insurance Company
Lebanon	I.E. Muhanna & Co.
USA	Principal Financial Group