

# Annual Report 2006-07

*Activities from October 2006 to September 2007  
including 2006 financial statements*



International Association  
of Insurance Supervisors

## International Association Of Insurance Supervisors

### *Contributing to worldwide financial stability*

The IAIS was established in 1994. Its membership includes insurance regulators and supervisors from over 190 jurisdictions in nearly 140 countries. Its objectives are to:

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

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

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## Foreword

The International Association of Insurance Supervisors (IAIS) was established in 1994 to promote cooperation amongst insurance supervisors and other financial sector supervisors. Over the years the membership has continued to grow steadily. Today insurance supervisors from over 190 jurisdictions in nearly 140 countries are members, and more than 120 organisations and individuals representing professional associations, insurance and reinsurance companies, international financial institutions, consultants and other professionals are observers.<sup>1</sup> This involvement reflects the increasingly global nature of insurance markets and the need for consistent supervisory standards and practices. In addition, it recognises the important contribution that strong supervisory regimes can make to financial stability. The IAIS provides an effective forum for standard-setting and implementation activities by providing opportunities to both practitioners and policy makers to share their expertise, experience and understanding.

The IAIS's activities are carried out under the guidance of its Executive Committee, which comprises 15 voting members elected from different regions of the globe. The Executive Committee is complemented by the Technical Committee, the Implementation Committee and the Budget Committee, supported by their working parties. The activities of the IAIS are supported by its Secretariat, located at the Bank for International Settlements in Basel, Switzerland. The chairs of the Technical Committee, Implementation Committee and Budget Committee are ex officio non-voting members of the Executive Committee, if they do not otherwise hold voting membership of the committee.

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

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

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

Every year the IAIS hosts an Annual Conference to encourage multilateral discussions on topical issues for insurance supervisors and other insurance professionals. The 13th Annual Conference was held in Beijing, China on 18-21 October 2006, on the theme *Fostering Development and Managing Risk – Challenges for Insurance Supervision*. The theme for this year's conference, which is being held in Fort Lauderdale, Florida, U.S. on 16-19 October 2007, is *A Global Climate for Change – the Future of Insurance Supervision*.

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

## Message from the Chairman

This report describes the main activities and achievements of the IAIS during the period September 2006 to October 2007. In it you will also read about the initiatives taken to plan for the future and strengthen the efficiency and effectiveness of the organisation.

First, however, I would like to say that I was proud to become chairman of the IAIS Executive Committee in February this year. It is an honour to be able to serve the IAIS and I am enjoying the challenges of leading an organisation which is gaining increasing profile and respect on the international stage. I would also like to acknowledge the significant contribution of Alessandro Iuppa, my predecessor, both for his leadership as chair of the Executive Committee and for his active participation over many years of close involvement with the IAIS. I am delighted to welcome Walter Bell, chairman of the NAIC and commissioner of the State of Alabama, U.S. as vice-chairman of the committee.



*Michel Flamée*  
*Chairman, Executive Committee*

The IAIS has grown significantly over recent years. Its input is sought not only by insurance supervisors in developed and developing markets, but also by other financial sector regulators, professional bodies and international associations. Success has been accompanied by increased expectations and demands on its resources and, as a result, our challenge has been to adapt the organisation to promote operational efficiency. With this in mind, during the year the Executive Committee carried out a review of the IAIS's goals, structure and processes, which had not changed significantly since the organisation was established.

The review confirmed the importance of standard setting and the implementation of these standards to members and observers. The report also made recommendations aimed at enhancing how we go about these activities. Amongst other things, for example, it was resolved that the IAIS seek to encourage policy discussions and the setting of priorities and direction by the Executive Committee and the main committees which report to it, to obtain feedback from IAIS observers, to encourage regional coordination of training activities and other regional issues, to promote better coordination between the standard-setting and standard-implementation activities, and to promote more active participation and greater efficiency of working parties and better align the structure with the standard-setting framework. I believe that these initiatives will improve IAIS operational efficiency and effectiveness. They will also enhance transparency and dialogue. The Executive Committee will nevertheless continue to monitor IAIS strategic operations and take additional steps when necessary to ensure ongoing efficiency.

This year we also focused on establishing a sensible funding policy in the medium term. This has resulted in a new paper *Work plans and financial outlook 2008-2012*, which sets out a prioritised forecast of activities in standard setting and standard implementation, including work undertaken in cooperation with other organisations. It considers the responsibilities of the Secretariat and assesses the future resources needed to provide stable support to the priority activities.

With these essential planning documents in place, I look forward to the year ahead as we move forward in an efficient manner to fulfil our mandate of improving insurance supervision worldwide and contributing to global financial stability.

## Overview of the year 2006-07

### I. Solvency assessment and financial reporting

*.... a coherent risk-based methodology for the setting of regulatory financial requirements.*

During 2006-07 we continued the important work in formulating a consistent, reliable and transparent approach to the assessment of insurer solvency worldwide. Last year we reported that significant progress had been made in developing the *IAIS common structure for the assessment of insurer solvency* ('structure paper'), and we finalised and published the paper earlier this year. The paper presents a coherent risk-based methodology for the setting of regulatory financial requirements. It describes the respective roles of technical provisions and required capital and discusses the key concepts that underpin these components in the context of a risk-based solvency regime. While the focus of the paper is on financial requirements, it also addresses the more qualitative components of a solvency regime – namely governance and market conduct.

The structure paper also provides a basis for developing additional IAIS standards and guidance on solvency assessment, and work in this area has continued with the completion of three new guidance papers described on page 10.

A significant development within the field of solvency assessment was this summer's launch by the European Commission of the proposal for the Solvency II framework Directive. Solvency II will provide useful input

to IAIS initiatives as it will lead a large number of insurance supervisors, both inside and outside the European Union, to rethink the way in which transnational supervision is organised. Many IAIS members, including its members within the European Union, are interested in how the new European framework will change prudential supervision for insurers. The IAIS is particularly interested in examining the way in which Solvency II addresses complex financial structures and groups, including how these measures take into account the importance of adequate supervision of small and medium-sized insurance companies.

*Ideally reporting provided for regulatory purposes should be consistent with general-purpose financial reports, with as few changes as possible necessary to satisfy prudential requirements.*

IAIS work related to solvency assessment will continue to follow developments in international financial reporting standard setting. Ideally reporting provided for regulatory purposes should be consistent with general-purpose financial reports, with as few changes as possible necessary to satisfy prudential requirements. With this objective in mind we continue to monitor developments at the International Accounting Standards Board (IASB) very closely. Earlier this year the IASB published a discussion paper on Phase II of its Insurance Contracts Project (Phase II). The international financial reporting standard (IFRS) which results from the Phase II project will have a significant impact upon financial reporting by insurers. Providing input to the

IASB – especially on Phase II – continues to be a top priority for us. Like the IAIS, the IASB is taking a principles-based approach to the development of its international financial reporting standards. Looking further ahead, if general-purpose financial statements (adjusted as necessary) form the basis for insurer solvency assessment in a principles-based environment, consistency in the implementation and application of IFRS may become a key issue.

## II. Enhancing cooperation

*...the MMOU marks a significant step by the IAIS in enhancing cooperation and communication amongst member jurisdictions.*

The adoption of the *Multilateral Memorandum of Understanding* (MMOU) by the Executive Committee in February 2007 marks a significant step by the IAIS in enhancing cooperation and communication amongst member jurisdictions. The MMOU framework defines a set of principles and procedures for sharing information, as well as views and assessments. A separate section of the IAIS website is now dedicated to MMOU-related issues and contains an application form for members to submit if they wish to become signatories to the MMOU. Currently the IAIS is seeking nominations from its members for validators to assess applications. To facilitate implementation of the MMOU framework a workshop for members was held in Basel in May 2007. Similar workshops are proposed in other jurisdictions in the near future, including in Japan in November 2007 and in Latin America during the first half of 2008. The validation process and admission of signatories is expected to start soon.

Please also see box on next page.

## III. Reinsurance market report

At the beginning of the year under review we published the 2006 edition of our *Global reinsurance market report*. The report reviews the financial health of the reinsurance sector following the unprecedented levels of natural catastrophe losses that occurred during 2005. International institutions, such as the International Monetary Fund and the Financial Stability Forum, have found this annual report useful for monitoring the reinsurance sector and its possible impact on global financial stability. At the date of this report the 2007 edition is nearing completion.

## IV. New initiatives

*.... The task force will set out the main elements of a corporate governance framework, focusing on those aspects which are specifically relevant to insurance.*

The IAIS considers corporate governance to be a major component in a supervisory framework. It has set specific requirements for insurers in this area in various principles and standards. During the year the Technical Committee established a Corporate Governance Task Force to take stock of existing requirements and identify other general corporate governance requirements. From this base, the task force will set out the main elements of a corporate governance framework, focusing on those aspects which are specifically relevant to insurance. Once the task force has completed its initial work a more permanent subcommittee dealing with governance and compliance issues will be established.

### **Multilateral Memorandum of Understanding - Enhancing cooperation and information exchange**

Cooperation and information exchange amongst insurance supervisors are critically important in cross-border crisis situations. They can also help supervisors conduct their day to day activities more efficiently. In addition, cooperation and information exchange promote convergence of supervisory standards and procedures between and within jurisdictions, thus contributing to the financial stability of the whole sector. Several IAIS supervisory papers promote this cooperation, and the IAIS has a model Memorandum of Understanding (MOU), adopted in 1997, which supervisors can use as a tool in negotiating bilateral MOUs.

The increasing integration of financial markets and the growing number of internationally active insurers and reinsurers has made the need for mutual cooperation and information exchange more urgent. Despite the many IAIS papers addressing aspects of these issues, practical difficulties continue to exist. IAIS members wanted more concrete arrangements to facilitate information exchange to be made available. A project commenced in October 2005, culminating in the Multilateral Memorandum of Understanding (MMOU) framework which was adopted by the Executive Committee in February 2007. The insurance industry followed the progress closely and contributed to the work.

The adoption of the MMOU framework is an important step towards broadening contacts and creating mutual trust and confidence amongst insurance supervisory authorities. It also recognises that the ability to share information and provide assistance requires a high standard of confidentiality. It also provides a strong signal to the insurance industry – as well as to supervisors from other financial services sectors such as the Basel Committee and IOSCO, and international institutions like the International Monetary Fund, the World Bank and the Financial Stability Forum – that insurance supervisors are intent on working together.

The framework consists of the MMOU text and its annexes, as well as a separate paper on *Accession and administration procedures*. It establishes a formal basis for facilitating cross-border communication between supervisors, regarding the supervision of both insurance companies and insurance groups, where cross-border matters arise. The MMOU covers issues such as licensing, ongoing supervision and winding-up processes. It is also applicable to the supervision of other regulated entities, such as insurance intermediaries, and to anti-money laundering and combating the financing of terrorism where the requesting and requested authorities have a legitimate interest.

Accession to the MMOU is not obligatory for any IAIS member, but closer cooperation and information exchange amongst insurance supervisors are considered essential to strengthening insurance supervisory regimes and promoting global financial stability. In order to create an environment of mutual trust and confidence for all signatories, accession to the MMOU depends on the ability of a jurisdiction to comply with its strict confidentiality requirements. So far the number of members expressing interest in applying for MMOU accession is encouraging. It includes jurisdictions from both major insurance markets and different regions. This gives us reason to expect that the MMOU will succeed in enhancing cooperation between insurance supervisors on a global level.

The *Insurance core principles and methodology* are the foundation of the IAIS's standard-setting work. As the range of IAIS supervisory papers expands, and as industry and supervisory practice evolves, it is necessary periodically to review the core principles to ensure that they remain appropriate, comprehensive and current. The last review of the core principles was undertaken in 2003 and we are expecting another review and updating of the principles in 2008. A task force is being established to undertake this review.

### **V. Standard-implementation initiatives**

***... a need to invest more resources in implementation activities.***

During the year we launched a new educational initiative for improving and harmonising insurance supervision, placing particular emphasis on assisting emerging markets in implementing IAIS supervisory papers. The project will be funded partly from IAIS resources and partly from the sponsorship of members and observers.

### Project for the Education of Insurance Supervisors

The IAIS is undertaking a new education project that will include:

- online interactive courses
- workshops and distance learning events
- a qualification framework
- maintenance, development and translation of existing material
- research and information sharing.

With an emphasis on helping emerging markets implement IAIS principles and standards, the project will supplement IAIS seminars, allowing us to reach a much broader audience. The ultimate goal is to improve and harmonise insurance supervision for financial sector stability.

The project will provide an ideal platform for the effective delivery of the Core Curriculum material already developed by the IAIS and the World Bank. The Core Curriculum includes a comprehensive set of learning material for insurance supervisors comprising 36 basic-level modules covering all 28 core principles, plus five complex case studies. The education project will develop interactive courses (online and on CD/DVD) in the areas of both direct insurance and reinsurance covering: the supervisory system, the supervised entity, ongoing supervision, prudential requirements, markets and consumers, and anti-money laundering and combating the financing of terrorism.

The online courses will use a combination of text, graphics and interactive tools, demonstrated to increase motivation and knowledge retention. They will include case studies and examples to bridge the gap between theory and practice and help supervisors apply their knowledge. A special section will be developed within the IAIS website. Other projects related to the education of insurance supervisors – holding workshops and distance learning events, for example – will also be promoted.

The project will be supported by voluntary contributions from IAIS members and observers; the funds will be managed separately from the general accounts of the IAIS. Members or observers who are interested in supporting this initiative will find information on the IAIS website or should contact the Secretariat.

During the period from October 2006 to September 2007, the IAIS sponsored and helped to organise 13 regional seminars for insurance supervisors in Latin America, Asia & Oceania, Central & Eastern Europe, the Middle East & North Africa, Offshore jurisdictions, and Sub Sahara Africa. In addition, the IAIS participated in several other seminars and conferences. For each event insurance supervisors from approximately 15-20 jurisdictions received training based on the *Insurance core principles* and the papers which build upon them, as well as other supervisory subjects. The seminars include lectures and panel discussions, using educational tools, such as case studies, as appropriate. Examples of the subjects covered by the case studies are risk-based supervision, corporate governance, preventive and

corrective measures, licensing, and market conduct and consumer protection. The events have been well received.

***The new task force will identify the minimum statistical, technical and financial information required in the supervisory process.***

To assist IAIS members – particularly those in emerging markets – gather and analyse information for supervisory purposes, this year we set up a Task Force on Information Gathering and Analysis. The task force will identify the minimum statistical, technical and financial information required in the supervisory process. It will make basic recommendations on the collection of data (bearing in mind the need for consistency,

comparability, accuracy, transparency and reasonableness) and discuss basic ratios and types of analysis that can be used.

Other standard-implementation initiatives included support for improvements to the insurance laws database, and contributions to an issues paper on microinsurance.

## VI. Microinsurance

*.... the initiatives aim both to encourage insurers to serve low income segments and to allow microinsurers to evolve within the formal insurance sector.*

Microinsurance provides the low income population in emerging markets with access to insurance. It is increasingly being promoted by various stakeholders – including supervisors, insurers, governments and donors. The initiatives aim both to encourage insurers to serve low income segments and to allow microinsurers to evolve within the formal insurance sector. Whilst microinsurance is focused at emerging market jurisdictions where the insurance markets are not well developed, it should nevertheless be run in accordance with generally accepted insurance practices. This means that the risk insured under a microinsurance policy is managed based upon insurance principles and funded by premiums.

In conjunction with the Consultative Group for Assisting the Poor, during the year the IAIS published a paper *Issues in regulation and supervision of microinsurance*. The paper is addressed primarily to insurance supervisors, particularly IAIS members in developing countries. It explains the current state of micro-insurance, its important role in developing inclusive financial systems, and why it needs

to be regulated and supervised along professional lines.

The IAIS intends to continue work in this area by establishing a working group to enhance dialogue between supervisors on micro-insurance and determine the key principles in its regulation and supervision. This will be followed by drafting a guidance paper.

## VII. Roadmaps for standard setting and implementation

As mentioned in the Chairman's message, one of the main themes of the year has been the improvement of operational efficiency and effectiveness. Consistent with this theme, during the year we completed roadmaps for both our standard-setting and standard-implementation activities. The roadmaps are comprehensive workplans which set out the priorities and main areas of work to be undertaken, taking into account the resources available.

*... one of the main themes of the year has been the improvement of operational efficiency and effectiveness.*

The *Roadmap for standard-setting activities within the framework for insurance supervision 2007-09* ('standard-setting roadmap') has assisted the Technical Committee in prioritising standard-setting activities and organising its working parties for efficient allocation of resources. It includes proposals to restructure the working parties over a period of two to three years for better alignment with the framework for insurance supervision. Of particular note in 2007, the Reinsurance Transparency Group is to become a subgroup of the Reinsurance Subcommittee and new working groups on microinsurance and Takaful

are being established under the umbrella of governance and compliance.

The standard-setting roadmap also establishes a regular cycle for the Technical Committee's planning and management of work. The roadmap identifies the main stages in the standard-development process and estimates the time needed to complete work in each of those stages.

The standard-setting roadmap underlines the important role that the Technical Committee plays in ensuring the quality and technical integrity of standards developed and issued by the IAIS. It also helps to ensure overall consistency and comprehensiveness of IAIS supervisory papers, and will serve as a vehicle for communication of work priorities and processes to members and observers. The standard-setting roadmap should promote greater transparency as well as support the due process for receiving contributions from stakeholders.

The *Roadmap for standard-implementation activities 2007-2009* ('implementation roadmap') builds on the previous work of the Implementation Committee and its working parties and identifies key future activities. The implementation roadmap also addresses organisational and financial issues. In order to undertake the tasks outlined in the implementation strategy, it proposes strengthening the structure of the Implementation Committee by establishing an Implementation Activities Approval Subcommittee and a Task Force on Information Gathering & Analysis (see page 5). In addition, the mandates of its existing working parties have been updated.

*The roadmaps....will serve as vehicles for communication of work priorities and processes to members and observers.*

Both roadmaps will be updated on an annual basis, and we will review progress against the priorities and timetables set out.

## **VIII. Financial review and outlook**

The IAIS financial statements for the year 2006 resulted in a surplus of CHF 744,550. This was achieved in spite of an exchange rate loss upon the conversion of a US dollar investment, due to unfavourable exchange rate movements during 2006. The positive result was due mainly to fees from new members and observers, a surplus from the annual conference and the continued application of cost reduction measures within the framework of strong financial and budgetary controls.

In order to minimise future exchange rate risk, the IAIS has taken the decision to invest in Swiss franc-denominated investments even if the interest yield is lower than on investments in other currencies. Nevertheless, there remains some exchange rate risk that could cause volatility in the Association's reserves. Specifically, exchange rate risk arises because the annual conference takes place in different member jurisdictions. As a result, the majority of expenditure and all conference income are in a currency other than the Association's reporting and main operating currency of the Swiss franc.

In addition to membership fees the IAIS also receives various types of support from third parties. The total level of the support, in the form of either grants or support in kind, is almost equal to the IAIS annual budget for operating expenses. The IAIS is grateful to

these third parties for their substantial contributions (see page 9).

Nevertheless it is essential for the IAIS to ensure that it has adequate reserves to remain fully operational in the future. Thus a risk-based reserve policy has been established to help determine the optimum amount of reserves. It includes both a minimum reserve, based on stress testing, and a dynamic target reserve, based on total annual expenses including estimated third party support.

**...measures which will allow the IAIS to continue to provide an effective forum for standard setting and implementation in the knowledge that core activities are supported from sustainable funding.**

The 2008 budget that is being proposed for adoption at the 2007 general meeting includes membership and observership fees that are consistent with the fee basis set out in the *Workplans and financial outlook 2008-2012*.

This document describes the workplans for 2008-2012 for standard setting and standard implementation, including work done in cooperation with other organisations and taking into consideration the responsibilities of the Secretariat. In particular, it provides a prioritised forecast of activities for the purpose of assessing the volume of future resources needed. The document is expected to be adopted at the 2007 general meeting and will replace the *Medium term working plan* of 2003.

The overall principle applied in the *Workplans and financial outlook 2008-2012* is that Secretariat support for core IAIS activities should be from stable staff positions and that these resources should be financed by

membership fees. Reliance on third party financial support is seen as a contingent risk to the Association since such support may be withdrawn at any time. For planning purposes, the IAIS should recognise that third party contributions will not necessarily continue.

The implementation roadmap indicates a need to invest more resources in implementation activities, such as the new education project described on page 5. The IAIS has decided to fund this project partly from the IAIS budget, and partly via voluntary contributions from members and observers, which would be earmarked for specific standard-implementation activities. The estimated budget allocated to finance this standard-implementation initiative will be managed separately from the general account.

The above measures will allow the IAIS to continue to provide an effective forum for standard setting and implementation in the knowledge that core activities are supported from sustainable funding.

## **IX. Secretariat activities**

**... the Secretariat supported over 70 meetings of IAIS working parties.**

The Secretariat aims to serve IAIS members and observers effectively, and continually to improve the efficiency of the IAIS's operations. It supports members and observers, in particular in the areas of standard setting, standard implementation, and communication.

During the year the Secretariat supported over 70 meetings of IAIS working parties covering the standard setting, implementation and financial aspects of IAIS's operations. This included support to the standard-setting activities of the Technical Committee and its

working parties at some 50 meetings over the year – many of which took place over two or three days. In addition, the Secretariat organised or assisted with the 13 regional seminars and workshops listed in Appendix IV, and attended or spoke at others, helping to increase insurance supervisors' knowledge of the IAIS and of its supervisory papers.

The Secretariat also continued to improve communication with the launch of a substantially upgraded website, in addition to providing the usual regular reports on meetings, calendar updates, newsletters and annual report, and assisting in the organisation of the annual conference. The Secretariat now has an increased role in the administration of the IAIS insurance laws database. Looking ahead, there will be significant work involved in the administration of processes within the MMOU.

The Secretariat's efforts to improve IAIS operations during the year focussed on proactively supporting the initiatives to enhance operational efficiency and effectiveness. It also worked with the Financial Outlook Task Force in carrying out the review and analysis that has resulted in the *Workplans and financial outlook 2008-12*.

In cooperation with members the Secretariat succeeded in recruiting four new members and 24 new observers since the 2006 general meeting.<sup>2</sup>

During the year the Secretariat represented the IAIS, helping to enhance cooperation with various organisations including the

Consultative Group for Assisting the Poor, the Coordination Group,<sup>3</sup> the Financial Stability Forum, the International Monetary Fund, the International Organisation of Pension Supervisors, the Islamic Financial Standards Board, the Joint Forum, the IFAC Monitoring Group, the Organisation for Economic Co-operation and Development, and the World Bank. At these meetings the Secretariat plays a role in identifying key issues, coordinating members' views, presenting them and reporting the results back to members.

## X. Support from stakeholders

### ...substantial support from third parties...

The IAIS appreciates the continued support of all members and observers. As indicated above, in addition to membership fees the IAIS also receives substantial support from third parties in the form of either grants or support in kind. The IAIS is grateful to these parties for their substantial contributions and would like to acknowledge the special support provided during the year by the Bank for International Settlements, the China Insurance Regulatory Commission, BaFin (Germany), the Financial Services Agency (Japan), Bank Negara Malaysia, the Dutch National Bank, the Insurance Regulatory and Development Authority (India), the Financial Supervisory Service (Republic of Korea), and the Swiss Federal Office of Private Insurance.

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2 Subject to ratification at 2007 general meeting

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3 A group formed of the Chairs and Secretary Generals of the IAIS, the Basel Committee and IOSCO.

## Report on standard-setting and other technical activities

The IAIS is the recognised international standard setter for insurance supervision. The Technical Committee oversees and steers this work. The Technical Committee is chaired by Alfred Gross, U.S./Virginia (Tom Karp, Australia until April 2007). Its vice-chairman is Peter Braumüller, Austria.

### Standard-setting achievements during 2006-07

The following papers were completed during the year under review:

|                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Structure paper</b><br><i>The IAIS common structure for the assessment of insurer solvency</i> | <p>Finalising this paper represents an important step in the formulation of a more consistent, reliable and transparent approach to the assessment of insurer solvency worldwide. The paper presents a coherent risk-based methodology for the setting of regulatory financial requirements. It describes the respective roles of technical provisions and required capital and discusses the concepts that underpin the determination of these components in the context of a risk-based solvency regime.</p> |
| <b>Guidance paper</b><br><i>Capital requirements</i>                                              | <p>This paper focuses on the principles-based requirements for a solvency regime in relation to regulatory capital requirements. It outlines the key features expected in a solvency regime, with the objective of facilitating greater comparability and convergence in the assessment of insurer solvency internationally.</p>                                                                                                                                                                               |
| <b>Guidance paper</b><br><i>Enterprise risk management for capital and solvency purposes</i>      | <p>This paper stresses the importance, from an operational and supervisory perspective, of enterprise risk management frameworks. Insurers are encouraged to establish risk and capital management policies, practices and structures, to apply them consistently across their organisations and to use them in their management and solvency assessment processes.</p>                                                                                                                                        |
| <b>Guidance paper</b><br><i>The use of internal models</i>                                        | <p>This paper sets out a high-level framework for supervisors to use in reviewing insurers' internal models. Internal models can be used to assess risk, both quantitatively and qualitatively, and manage capital. The paper considers the use of internal models in the dual contexts of determining the insurer's own economic capital needs and assessing the insurer's regulatory capital requirements.</p>                                                                                               |
| <b>Position paper</b><br><i>Valuation of technical provisions for solvency purposes</i>           | <p>This paper collates previously articulated positions by the IAIS relating to valuation, derived from the Structure Paper and the first and second Liabilities Papers. It provides a concise and readily accessible summary which will be an important foundation for future work in developing standards on solvency assessment, including a standard on valuation. It can also serve as a useful source of reference.</p>                                                                                  |
| <b>Issues paper</b><br><i>Issues in regulation and supervision of microinsurance</i>              | <p>This paper, prepared jointly with the Consultative Group for Assisting the Poor (CGAP), discusses the regulation and supervision of microinsurance. It provides input to insurance supervisors when applying the IAIS <i>Insurance core principles</i> to insurance services for lower income segments in emerging market jurisdictions.</p>                                                                                                                                                                |
| <b>Discussion paper</b><br><i>Mutual recognition of reinsurance supervision</i>                   | <p>As a first step towards the mutual recognition of reinsurance supervision, this paper identifies minimum principles in the regulation and supervision of reinsurance. Compliance with these principles could allow jurisdictions to rely on another regime to carry out some or all of the supervisory functions. This should result in more efficient reinsurance markets and regulatory processes, as well as strengthening cooperation and trust between reinsurance supervisors.</p>                    |

|                                                                                                                     |                                                                                                                                                                                                                                                                                                                          |
|---------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Multilateral memorandum of understanding (MMOU)</b><br><i>for the sharing of information between supervisors</i> | The MMOU was adopted in February 2007 to encourage broader contacts and cooperation amongst insurance supervisors worldwide, thus facilitating mutual assistance and the exchange of supervisory information in the course of day to day business.                                                                       |
| <b>Market report</b><br><i>Global reinsurance market report – 2006 edition</i>                                      | Published in November 2006, this third annual report is based upon global reinsurance market statistics for the financial year 2005, covering a high proportion of reinsurance activity worldwide.                                                                                                                       |
| <b>Survey report</b><br><i>Report on preventing, detecting and remedying fraud in insurance</i>                     | These survey findings provide a broad overview of the current problems that insurers and supervisors experience in the battle against fraud. In conjunction with the 2006 guidance paper, these survey results will assist insurance supervisors and intermediaries in the prevention, detection and remedying of fraud. |

## Work in progress

### Accounting Subcommittee

The subcommittee monitors developments in the field of accounting related to insurers and insurance supervision. It responds for the IAIS where appropriate, providing input to the International Accounting Standards Board on issues other than those which are handled by the Insurance Contracts Subcommittee (see below), and to the International Federation of Accountants on auditing standards. It also liaises with other organisations dealing with matters of mutual interest. In October 2006 a decision was made to merge the activities of the Enhanced Disclosure Subcommittee with those of the Accounting Subcommittee. As a result the subcommittee is now responsible for monitoring developments in the field of public disclosures by insurers and for the IAIS's standard-setting activity in this area. The Accounting Subcommittee is chaired by Henning Göbel, Germany (formerly Tomoko Amaya, Japan).

### Corporate Governance Task Force

The IAIS has always recognised the need for insurers to have in place sound corporate governance policies and procedures. Corporate governance is an essential element of supervision. In order to take stock of current industry practice and existing work in this area, both within the IAIS and by other bodies, the Technical Committee established a task force in late 2006. The task force plans to describe the elements of a corporate governance framework, including identifying those elements specific to insurance. The Corporate Governance Task Force is chaired by Peter van den Broeke, Netherlands.

### Financial Conglomerates Subcommittee

This subcommittee provides a link between the IAIS and the Joint Forum. This year the subcommittee carried out a survey on the definition of groups with the aim of producing a broad and acceptable definition. During the year the subcommittee completed a substantial amount of work on a paper on *Principles of group-wide supervision*, which is expected to be finalised during the coming year. The subcommittee then plans to develop standards and guidance on group-wide supervision. The Financial Conglomerates Subcommittee is chaired by Noël Guibert, France.

### IAIS-CGAP Joint Working Group on Microinsurance

The IAIS-CGAP Joint Working Group was formed in February 2006 with a view to supporting the development of inclusive financial systems in emerging market jurisdictions. Having completed an issues paper on microinsurance, the joint working group now intends to conduct a survey of IAIS members on the role of mutuals and cooperatives in microinsurance. It will also conduct educational seminars on this topic. In addition, the group will analyse the applicability of the core principles to microinsurance, and this is expected to provide useful input when the core principles are revised. Finally, the joint working group intends to develop a guidance paper on the regulation and supervision of microinsurance. Until June 2007 the Joint Working Group on Microinsurance was chaired by Mashudu Munyai, South Africa.

### **Insurance Contracts Subcommittee**

This subcommittee monitors the International Accounting Standards Board's (IASB) projects on insurance contracts, financial instruments and revenue recognition and responds for the IAIS where appropriate. During the year the subcommittee prepared comments on the IASB's discussion paper on *Fair value measurements*. In May 2007 the IASB issued for comment a discussion paper *Preliminary views on insurance contracts*, resulting from Phase II of its insurance contracts project. At the date of this report work is nearing completion in preparing comments to the IASB on the discussion paper. The subcommittee will continue to provide input to the IASB throughout the Phase II project, both through written comments and through representation on the IASB's Insurance Working Group. The Insurance Contracts Subcommittee is chaired by Rob Esson, U.S./NAIC.

### **Insurance Fraud Subcommittee**

Having completed a guidance paper in 2006 and, this year, a report on a survey on preventing, detecting and remedying fraud in insurance – done in conjunction with the International Association of Insurance Fraud Agencies – the subcommittee intends to focus on preparing relevant training material. The IAIS has observer status in the Financial Action Task Force (FATF) and is represented at its plenary meetings by the chairman of the Insurance Fraud Subcommittee. Members of the subcommittee participate in the FATF's Working Group on Evaluations and Implementation and the Interpol Working Group on Money Laundering & Terrorist Financing. The Insurance Fraud Subcommittee is chaired by Peter van den Broeke, Netherlands.

### **Pension Coordination Group**

In November 2006 the Pension Coordination Group finalised a working agreement between the IAIS and the International Organisation of Pension Supervisors (IOPS). The group's activities focus on the effective implementation of that working agreement by expanding and strengthening collaboration with IOPS, as well as facilitating cooperative initiatives with other international bodies involved in pension supervision, including the OECD. The Pension Coordination Group is chaired by Mihály Erdos, Hungary.

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

The subcommittee continues to explore the concept of mutual recognition of reinsurance supervision amongst supervisors. Using the results of a survey on reinsurance supervision it finalised a discussion paper on mutual recognition and plans to prepare an issues paper and a guidance paper on the topic in 2008. In addition, the subcommittee intends to revise the *Standard on evaluation of the reinsurance cover of primary insurers* and to revisit and upgrade the current *Guidance paper on finite reinsurance* to a standard. Work is also ongoing on a *Guidance paper on the regulation and supervision of captives*. The Reinsurance and Other Forms of Risk Transfer Subcommittee is chaired by Steven Goldman, U.S./ New Jersey (formerly Julie Bowler, U.S./Massachusetts).

### **Reinsurance Transparency Group**

The Reinsurance Transparency Group is responsible for completing the annual IAIS global reinsurance market report. The reports present worldwide reinsurance statistics in a manner which had not previously been available. Work is now in progress on the production of the fourth report, based upon 2006 global reinsurance data. This 2007 edition will provide an increased focus on life reinsurance. The Reinsurance Transparency Group is chaired by Julian Adams, United Kingdom.

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

The subcommittee is responsible for developing a cohesive set of papers on solvency assessment. This year it completed guidance papers on capital requirements, enterprise risk management for capital and solvency purposes, and the use of internal models by insurers. Together with the Insurance Contracts Subcommittee, the subcommittee prepared a *Position paper on the valuation of technical provisions for solvency purposes*. In developing its solvency assessment papers, the subcommittee has sought professional input from the International Actuarial Association (IAA) on aspects of the measurement of liabilities – in particular, the determination of the current estimate and risk margin components of technical provisions. There is potential for this cooperative working relationship to be expanded during 2007-08, with the IAA contributing to the development of supporting guidance material on a number of technical and practical aspects of the solvency

assessment regime. The Solvency and Actuarial Issues Subcommittee is chaired by Rob Curtis, United Kingdom.

| <b>Plans for new and future work include:</b>                                                                           | <b>Expected completion</b> |
|-------------------------------------------------------------------------------------------------------------------------|----------------------------|
| Principles on group-wide supervision                                                                                    | 2008                       |
| Standard (and guidance) on the valuation of assets and liabilities, including technical provisions                      | 2008                       |
| Standard (and guidance) on capital requirements and resources                                                           | 2008                       |
| Standard (and guidance) on enterprise risk management for capital and solvency purposes                                 | 2008                       |
| Standard (and guidance) on the use of internal models by insurers                                                       | 2008                       |
| Standard on risk transfer, disclosure and analysis of finite reinsurance (revision and upgrade of guidance paper)       | 2008                       |
| Standard on the evaluation of the reinsurance cover of primary insurers and the security of their reinsurers (revision) | 2008                       |
| Follow-up supervisory papers (standards and/or guidance) based on the principles of group-wide supervision              | 2008 and beyond            |
| Guidance paper on the regulation and supervision of captive insurers                                                    | 2008                       |
| Issues paper on mutual recognition of reinsurance supervision                                                           | 2008                       |
| Guidance paper on mutual recognition of reinsurance supervision                                                         | 2008                       |
| Issues paper on group solvency assessment                                                                               | 2009                       |
| Standard (and guidance) on the regulation and supervision of microinsurance                                             | Beyond 2008                |
| Revision of issues paper on life insurance securitisation                                                               | Beyond 2008                |
| Revision of issues paper on non-life insurance securitisation                                                           | Beyond 2008                |
| Issues paper on contract certainty                                                                                      | Beyond 2008                |
| Global reinsurance market reports                                                                                       | Annual                     |
| Comment paper(s) in respect of further input into Phase II of the IASB's Insurance Contracts Project                    | Ongoing                    |

## **Report on standard-implementation activities**

Developing well-regulated insurance markets is a primary goal of the IAIS. This depends on the practical and effective implementation of its standards in all member jurisdictions. The Implementation Committee plays a key role in facilitating the adoption of standards. It is chaired by Manuel Aguilera-Verduzco, México, and its vice-chair is Nóra Kiss, Hungary.

To carry out the implementation strategy, the Implementation Committee will continue to rely on the Regional Coordination Subcommittee and the Insurance Laws, Regulations, Practices and Standards Subcommittee, both of which now have updated mandates.

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

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

Regional coordinators represent America, Asia & Oceania, Sub Sahara Africa, Central & Eastern Europe & Transcaucasia, Middle East & North Africa, Offshore & Caribbean Islands, and Western Europe. They assist and coordinate activities within their respective regions. The Regional Coordination Group is chaired by Bassel Hindawi, Jordan.

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

The Insurance Laws, Regulations, Practices and Standards Subcommittee collects and analyses regulatory information through the insurance laws database. The database is an online facility that compiles information about insurance laws, regulations and practices in IAIS member jurisdictions. An analytical report based on the data updated in 2006 is being prepared for publication this year.

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

After two years' work, in July 2007 the subcommittee completed improvements to the contents of the database, complemented by many technical enhancements. For example, to reflect recent insurance supervisory trends, two new chapters – *Risk Assessment and Risk Management*, and *Supervision of Insurance Groups and Financial Conglomerates* – were added. In addition, the database questionnaires were expanded in an effort to obtain a more comprehensive picture of jurisdictions' supervisory systems.

With the approval of the implementation roadmap, the subcommittee has added coordination of the *Insurance core principles* self-assessment exercises to its mandate. The subcommittee is chaired by Valérie Staehli, Switzerland (formerly Peter Braumüller, Austria).

In addition two new groups have been established:

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

This subcommittee will evaluate and approve applications for financial support for implementation activities and monitor progress in training activities against established milestones and budgets. The subcommittee is chaired by Manuel Aguilera-Verduzco, México.

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

This task force has been established to identify the minimum statistical, technical and financial information required for supervisory purposes. It will make basic recommendations on information gathering and analysis and publish these as guidance paper, which is expected to be completed during 2007-2008. The Task Force is chaired by Norma Rosas, México.

The implementation roadmap also identifies other activities that can be undertaken or enhanced to assist more effective implementation of standards. These include:

### ***Translations***

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

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

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

### ***Training seminars***

In collaboration with the Financial Stability Institute (FSI) and other international or local organisations, the IAIS arranges training seminars for insurance supervisors. It also publishes a list of such seminars to assist insurance supervisors in their planning and budgeting for training. The seminars focus on specific core principles or other supervisory issues depending on the interest and needs of the audience. Commencing in 2008, the IAIS will also organise an annual seminar to address its most recent standard-setting achievements, work in progress, and emerging issues.

To measure the effectiveness of the training seminars, the implementation roadmap proposes developing an online survey facility to gather feedback before and after training events.

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

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

### ***Cooperation with external organisations***

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

## Audited financial statements for the year ended 31 December 2006



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

We have audited the accounting records and the financial statements (statement of financial position, statement of activities, statement of cash flows and notes) of the International Association of Insurance Supervisors (the "IAIS") for the year ended 31 December 2006.

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

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

In our opinion, the accounting records and the financial statements comply with relevant Swiss law and the Association's by-laws.

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

PricewaterhouseCoopers AG

A handwritten signature in blue ink, appearing to read 'Ralph R Reinertsen', is written over a light blue horizontal line.

Ralph R Reinertsen  
Auditor in charge

A handwritten signature in blue ink, appearing to read 'Garrett C Thompson', is written over a light blue horizontal line.

Garrett C Thompson

Basel, 30 May 2007

Enclosures:

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

**International Association of Insurance Supervisors**  
**Statement of Financial Position**  
**As at 31 December 2006**  
**(in Swiss francs)**

|                                                      | <b>Note</b> | <b>2006</b>      | <b>2005</b>      |
|------------------------------------------------------|-------------|------------------|------------------|
| <b>ASSETS</b>                                        |             |                  |                  |
| Cash and cash equivalents                            | <b>7</b>    | 2,337,024        | 1,998,289        |
| Investments held to maturity                         | <b>8</b>    | 2,069,234        | 1,317,760        |
| Accounts receivable                                  | <b>10</b>   | 1,328,829        | 691,129          |
| Prepayments                                          | <b>11</b>   | 5,813            | 4,981            |
| <b>Total assets</b>                                  |             | <b>5,740,900</b> | <b>4,012,159</b> |
| <b>LIABILITIES</b>                                   |             |                  |                  |
| Accounts payable                                     | <b>12</b>   | 1,466,915        | 594,011          |
| Deferred revenue                                     | <b>13</b>   | 669,658          | 547,750          |
| Advances received                                    | <b>5</b>    | 2,600            | 13,221           |
| <b>Total liabilities</b>                             |             | <b>2,139,173</b> | <b>1,154,982</b> |
| <b>UNRESTRICTED NET ASSETS</b>                       |             |                  |                  |
| Balance brought forward from previous year           |             | 2,857,177        | 1,849,011        |
| Unrestricted net assets for the current year         |             | 744,550          | 1,008,166        |
| <b>Total unrestricted net assets</b>                 |             | <b>3,601,727</b> | <b>2,857,177</b> |
| <b>Total liabilities and unrestricted net assets</b> |             | <b>5,740,900</b> | <b>4,012,159</b> |

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

The accompanying notes form part of these financial statements.

**International Association of Insurance Supervisors**  
**Statement of Activities**  
**For the year ended 31 December 2006**  
**(in Swiss francs)**

|                                                     | Note | 2006             | 2005             |
|-----------------------------------------------------|------|------------------|------------------|
| <b>CHANGES IN UNRESTRICTED NET ASSETS</b>           |      |                  |                  |
| <b>Operating revenue</b>                            |      |                  |                  |
| Membership fees                                     |      | 1,715,250        | 1,405,500        |
| Observership fees                                   |      | 999,000          | 875,000          |
| Annual conference income                            | 10   | 1,321,712        | 645,040          |
| <b>Total operating unrestricted revenue</b>         |      | <b>4,035,962</b> | <b>2,925,540</b> |
| <b>Operating expenses</b>                           |      |                  |                  |
| Administration                                      | 14   | 15,883           | 17,539           |
| Annual conference expenses                          | 12   | 1,211,816        | 550,723          |
| Audit                                               |      | 2,715            | 6,000            |
| Editing                                             |      | 12,759           | -                |
| Education and training                              |      | 93,722           | 103,643          |
| Meetings                                            |      | 4,080            | 6,683            |
| Provision for bad debts                             | 10   | 11,321           | 5,283            |
| Relocation                                          |      | 71,984           | 985              |
| Salaries                                            |      | 1,446,852        | 1,269,117        |
| Travel                                              |      | 226,824          | 149,162          |
| Website                                             |      | 131,983          | 51,237           |
| <b>Total operating expenses</b>                     |      | <b>3,229,939</b> | <b>2,160,372</b> |
| <b>CHANGES IN OPERATING UNRESTRICTED NET ASSETS</b> |      | <b>806,023</b>   | <b>765,168</b>   |
| Interest income                                     | 15   | 42,824           | 37,861           |
| Donation                                            | 9    | -                | (15,916)         |
| Net foreign exchange (losses)/gains                 | 3    | (104,297)        | 221,053          |
| <b>CHANGES IN UNRESTRICTED NET ASSETS</b>           |      | <b>744,550</b>   | <b>1,008,166</b> |

The accompanying notes form part of these financial statements.

**International Association of Insurance Supervisors**  
**Statement of Cash Flows**  
**For the year ended 31 December 2006**  
**(in Swiss francs)**

|                                                               | Note | 2006             | 2005               |
|---------------------------------------------------------------|------|------------------|--------------------|
| <b>Cash flows from operating activities</b>                   |      |                  |                    |
| Operating unrestricted net assets                             |      | 806,023          | 765,168            |
| Adjustments for:                                              |      |                  |                    |
| Increase in accounts receivable                               |      | (649,618)        | (229,245)          |
| (Increase)/decrease in prepayments                            |      | (832)            | 602                |
| Increase in accounts payable                                  |      | 872,542          | 143,876            |
| Increase in deferred revenue                                  |      | 121,908          | 202,567            |
| Decrease in advances received                                 |      | (8,667)          | (10,560)           |
| <b>Net cash from operating activities</b>                     |      | <b>1,141,356</b> | <b>872,408</b>     |
| <b>Cash flows from investing and other activities</b>         |      |                  |                    |
| Sale/(purchase) of treasury bills                             |      | 1,213,162        | (1,284,127)        |
| Purchase of bonds                                             |      | (2,069,234)      | -                  |
| Interest received                                             | 15   | 42,824           | 37,861             |
| Donation                                                      | 9    | -                | (15,916)           |
| <b>Net cash (used in)/from investing activities</b>           |      | <b>(813,248)</b> | <b>(1,262,182)</b> |
| Effects of exchange rate changes on cash and cash equivalents |      | 10,627           | 188,642            |
| <b>Net increase/(decrease) in cash and cash equivalents</b>   |      | <b>338,735</b>   | <b>(201,132)</b>   |
| <b>Cash and cash equivalents at beginning of year</b>         | 7    | <b>1,998,289</b> | <b>2,199,421</b>   |
| <b>Cash and cash equivalents at end of year</b>               | 7    | <b>2,337,024</b> | <b>1,998,289</b>   |

The accompanying notes form part of these financial statements.

## **International Association of Insurance Supervisors**

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

**Year ended 31 December 2005**

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

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

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

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

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

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

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

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

The functional and presentation currency is the Swiss franc.

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

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

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

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

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

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

Returns from investments are accounted for in interest income.

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

Accounts receivable and accounts payable are principally short-term amounts relating to the settlement of transactions as a result of activities of the organisation. They are included in the statement of financial position at cost.

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

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

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

The revenue and expenditure of the Association are predominantly received and paid in Swiss francs. The Association holds cash and investments in Swiss francs (CHF) and US dollars (USD). The year end exchange rate used to convert monetary assets and liabilities was 1 USD : 1.220 CHF (2005: 1.317 CHF).

The Association 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 in one which also often differs from the local currency.

The 2006 annual conference was held in Beijing, China. Conference expenditure was incurred in Renminbi (RMB) and the majority of conference income was received in US dollars. The year end exchange rates used to convert receivables and payables arising from the conference were 6.38 RMB : 1 CHF and 7.78 RMB : 1 USD.

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

### **4. BENEFITS RECEIVED**

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

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

The total amount of the above benefits has not been determined.

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

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

#### **DNB Dutch Contribution**

USD 50,000 was contributed in October 2002. The balance as at 31 December 2006 was USD 2,131 (CHF 2,600). Funds are recorded on the statement of financial position as advances received.

#### **FSA Japan Grant**

During the year the FSA Japan contributed a grant equivalent to CHF 348,782, bringing total contributions since April 2002 to CHF 1,895,720. The balance as at 31 December 2006 was CHF 218,342. Funds are held in a separate UBS CHF bank account. All transactions are financially independent from the IAIS and the financial records are independently audited.

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

During the year the World Bank contributed a grant of USD 200,000, bringing total contributions since January 2004 to USD 600,000. The balance as at 31 December 2006 was USD 7,790. Funds are held in a separate UBS USD bank account. All transactions are financially independent from the IAIS and the financial records are independently audited.

### **6. INCOME TAXES**

The Association is exempt from income tax.

## 7. CASH AND CASH EQUIVALENTS

|                          | 2006             | 2005             |
|--------------------------|------------------|------------------|
| USD Current account      | 82,328           | 68,030           |
| CHF Current account      | 1,454,696        | 1,930,259        |
| CHF Money market deposit | 800,000          | -                |
|                          | <u>2,337,024</u> | <u>1,998,289</u> |

## 8. INVESTMENTS

|                   | 2006             | 2005             |
|-------------------|------------------|------------------|
| US Treasury notes | -                | 1,317,760        |
| CHF Bond          | 2,069,234        | -                |
|                   | <u>2,069,234</u> | <u>1,317,760</u> |

As at 31 December 2006, a 4.5% EIDG 07 (SWX) Bond with a nominal value of CHF 2,000,000 was held. The Bond will be held until maturity on 10 June 2007. The effective interest rate basis (using a rate of 1.21%) was used to account for this investment.

## 9. FOUNDER CONTRIBUTION TO INITIAL ENDOWMENT OF FOUNDATION

In 2005 the IAIS became a founding member of the Public Interest Oversight Board (PIOB), and contributed an amount of 10,000 euros to the initial endowment of the PIOB Foundation.

## 10. ACCOUNTS RECEIVABLE

|                               | 2006             | 2005            |
|-------------------------------|------------------|-----------------|
| Annual conference             | 1,321,712        | 645,040         |
| Membership fees receivable    | 9,978            | 61,154          |
| Other                         | 7,117            | 1,589           |
|                               | <u>1,338,807</u> | <u>707,783</u>  |
| Less: provision for bad debts | <u>(9,978)</u>   | <u>(16,654)</u> |
|                               | <u>1,328,829</u> | <u>691,129</u>  |

The amount receivable in respect of the annual conference 2006 was RMB 8,431,041.

### Movement in provision for bad debts:

|                                           | 2006            | 2005          |
|-------------------------------------------|-----------------|---------------|
| Opening balance                           | 16,654          | 11,371        |
| Additional provision made during the year | 19,225          | 5,283         |
| Doubtful debts recovered                  | <u>(7,904)</u>  | <u>-</u>      |
| Charge to operating expenses              | 11,321          | 5,283         |
| Bad debts written off                     | <u>(17,997)</u> | <u>-</u>      |
| Closing balance                           | <u>9,978</u>    | <u>16,654</u> |

The provision relates to the recoverability of certain outstanding membership fees.

## 11. PREPAYMENTS

Prepayments consist of the future year's website maintenance and running costs, as well as travel costs paid in advance.

## 12. ACCOUNTS PAYABLE

|                                    | 2006             | 2005           |
|------------------------------------|------------------|----------------|
| Annual conference expenses         | 1,177,113        | 539,866        |
| Audit                              | 4,500            | 5,785          |
| Bank for International Settlements | 166,469          | 13,117         |
| Seminars                           | 36,574           | 32,760         |
| Website improvements               | 73,230           | -              |
| Other                              | 8,729            | 2,483          |
|                                    | <u>1,466,915</u> | <u>594,011</u> |

Total expenses in respect of the annual conference 2006 were CHF 1,211,816 of which CHF 34,703 had been paid at the date of this report. The balance payable of CHF 1,177,113 represents RMB 7,508,661.

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

## 13. DEFERRED REVENUE

As at 31 December 2006 some members and observers had paid fees in advance for the year 2007. These amounts will be reflected as income in the Statement of Activities for 2007.

|                   | 2006           | 2005           |
|-------------------|----------------|----------------|
| Membership fees   | 346,658        | 307,250        |
| Observership fees | 323,000        | 240,500        |
|                   | <u>669,658</u> | <u>547,750</u> |

## 14. ADMINISTRATION

|                          | 2006          | 2005          |
|--------------------------|---------------|---------------|
| Bank charges             | 5,396         | 4,926         |
| Copies & postage         | 1,064         | 1,512         |
| Printing & documentation | 77            | 2,376         |
| Telephone & fax          | 9,346         | 8,725         |
|                          | <u>15,883</u> | <u>17,539</u> |

## 15. INTEREST INCOME

|                       | 2006          | 2005          |
|-----------------------|---------------|---------------|
| Bank accounts         | 12,600        | 3,006         |
| Bonds                 | 13,593        | -             |
| Money market deposits | 2,641         | 10,359        |
| Treasury notes        | 13,990        | 24,496        |
|                       | <u>42,824</u> | <u>37,861</u> |

## Executive Committee

(Serving since 2006 Annual General Meeting)

### Chairman

|                                                |                                                   |         |
|------------------------------------------------|---------------------------------------------------|---------|
| Michel Flamée<br>(Chairman from February 2007) | Commission bancaire, financière et des assurances | Belgium |
|------------------------------------------------|---------------------------------------------------|---------|

### Vice-chairman

|                                            |                                                                      |               |
|--------------------------------------------|----------------------------------------------------------------------|---------------|
| Walter Bell<br>(Member from February 2007) | National Association of Insurance Commissioners;<br>State of Alabama | United States |
|--------------------------------------------|----------------------------------------------------------------------|---------------|

### Other members at date of this report

|                                     |                                                                       |               |
|-------------------------------------|-----------------------------------------------------------------------|---------------|
| John Trowbridge<br>(From May 2007)  | Australian Prudential Regulation Authority                            | Australia     |
| Peter Braumüller                    | Financial Market Authority                                            | Austria       |
| David Oakden<br>(From January 2007) | Office of the Superintendent of Financial Institutions                | Canada        |
| Antoine Mantel<br>(From May 2007)   | Autorité de Contrôle des Assurances et Mutuelles                      | France        |
| Thomas Steffen*                     | Bundesanstalt für Finanzdienstleistungsaufsicht                       | Germany       |
| Peter Neville                       | Guernsey Financial Services Commission                                | Guernsey      |
| László Asztalos                     | Hungarian Financial Supervisory Authority                             | Hungary       |
| C.S. Rao                            | Insurance Regulatory and Development Authority                        | India         |
| Nobuyoshi Chihara                   | Financial Services Agency                                             | Japan         |
| Bassel Hindawi                      | Insurance Commission                                                  | Jordan        |
| Manuel Aguilera-Verduzco            | Comisión Nacional de Seguros y Fianzas                                | México        |
| Low Kwok Mun                        | Monetary Authority of Singapore                                       | Singapore     |
| Alfred Gross*<br>(From April 2007)  | National Association of Insurance Commissioners;<br>State of Virginia | United States |

### Former members

|                                                   |                                                                    |               |
|---------------------------------------------------|--------------------------------------------------------------------|---------------|
| Alessandro Iuppa<br>(Chairman until January 2007) | National Association of Insurance Commissioners;<br>State of Maine | United States |
| Tom Karp<br>(Until May 2007)                      | Australian Prudential Regulation Authority                         | Australia     |
| Carl Hiralal<br>(Until December 2006)             | Office of the Superintendent of Financial Institutions             | Canada        |
| Florence Lustman<br>(Until May 2007)              | Autorité de Contrôle des Assurances et Mutuelles                   | France        |
| Mashudu Munyai<br>(Until June 2007)               | Financial Services Board                                           | South Africa  |
| Ana Acosta y Lara<br>(Until June 2007)            | Superintendencia de Seguros y Reaseguros                           | Uruguay       |

\* Non-voting member

## Current members of Executive Committee and Secretary General



Michel Flamée  
Chairman



Walter Bell  
Vice-chairman



John Trowbridge  
Australia



Peter Braumüller  
Austria



David Oakden  
Canada



Antoine Mantel  
France



Thomas Steffen  
Germany



Peter Neville  
Guernsey



László Asztalos  
Hungary



C. S. Rao  
India



Nobuyoshi Chihara  
Japan



Bassel Hindawi  
Jordan



Manuel Aguilera-  
Verduzco  
México



Low Kwok Mun  
Singapore



Alfred Gross  
United States



Yoshihiro Kawai  
Secretary General

## IAIS Secretariat

The IAIS Secretariat supports members and observers in all areas of IAIS activity – in particular the areas of standard setting, standard implementation, and communication. Members of staff of the Secretariat from October 2006 to September 2007 were:

### *Financed by:*

#### **Secretary General**

|                 |      |
|-----------------|------|
| Yoshihiro Kawai | IAIS |
|-----------------|------|

#### **Deputy Secretary General**

|                 |      |
|-----------------|------|
| Catherine Lezon | IAIS |
|-----------------|------|

#### **Members of the Secretariat**

|                 |                                                          |
|-----------------|----------------------------------------------------------|
| Arup Chatterjee | FSA Japan/IRDA India to July 2007; IAIS from August 2007 |
|-----------------|----------------------------------------------------------|

|             |                                              |
|-------------|----------------------------------------------|
| Peter Cooke | BIS to December 2006; IAIS from January 2007 |
|-------------|----------------------------------------------|

|             |      |
|-------------|------|
| Karen Doran | IAIS |
|-------------|------|

|                                        |                        |
|----------------------------------------|------------------------|
| Hoik Eun ( <i>From February 2007</i> ) | FSS, Republic of Korea |
|----------------------------------------|------------------------|

|                                  |             |
|----------------------------------|-------------|
| Greg Gu ( <i>From May 2007</i> ) | CIRC, China |
|----------------------------------|-------------|

|                |            |
|----------------|------------|
| Shinichi Kishi | FSA, Japan |
|----------------|------------|

|            |      |
|------------|------|
| Lone Mørup | IAIS |
|------------|------|

|                                            |      |
|--------------------------------------------|------|
| Nancy Sinclair ( <i>From August 2007</i> ) | IAIS |
|--------------------------------------------|------|

|                                                    |                |
|----------------------------------------------------|----------------|
| Sebastian Von Dahlen ( <i>From February 2007</i> ) | BaFin, Germany |
|----------------------------------------------------|----------------|

|                                          |                      |
|------------------------------------------|----------------------|
| Jeffery Yong ( <i>From August 2007</i> ) | Bank Negara Malaysia |
|------------------------------------------|----------------------|

#### **Administrative officers**

|              |                                                    |
|--------------|----------------------------------------------------|
| Sylvie Ellet | FSA Japan to December 2006; IAIS from January 2007 |
|--------------|----------------------------------------------------|

|                  |      |
|------------------|------|
| Anne-Marie Kelly | IAIS |
|------------------|------|

|               |     |
|---------------|-----|
| Carine Notter | BIS |
|---------------|-----|

|                                      |      |
|--------------------------------------|------|
| Ann Neale ( <i>From April 2007</i> ) | IAIS |
|--------------------------------------|------|

#### **Former Secretariat staff**

|                                                   |      |
|---------------------------------------------------|------|
| Choon Choon Blanchard ( <i>Until March 2007</i> ) | IAIS |
|---------------------------------------------------|------|

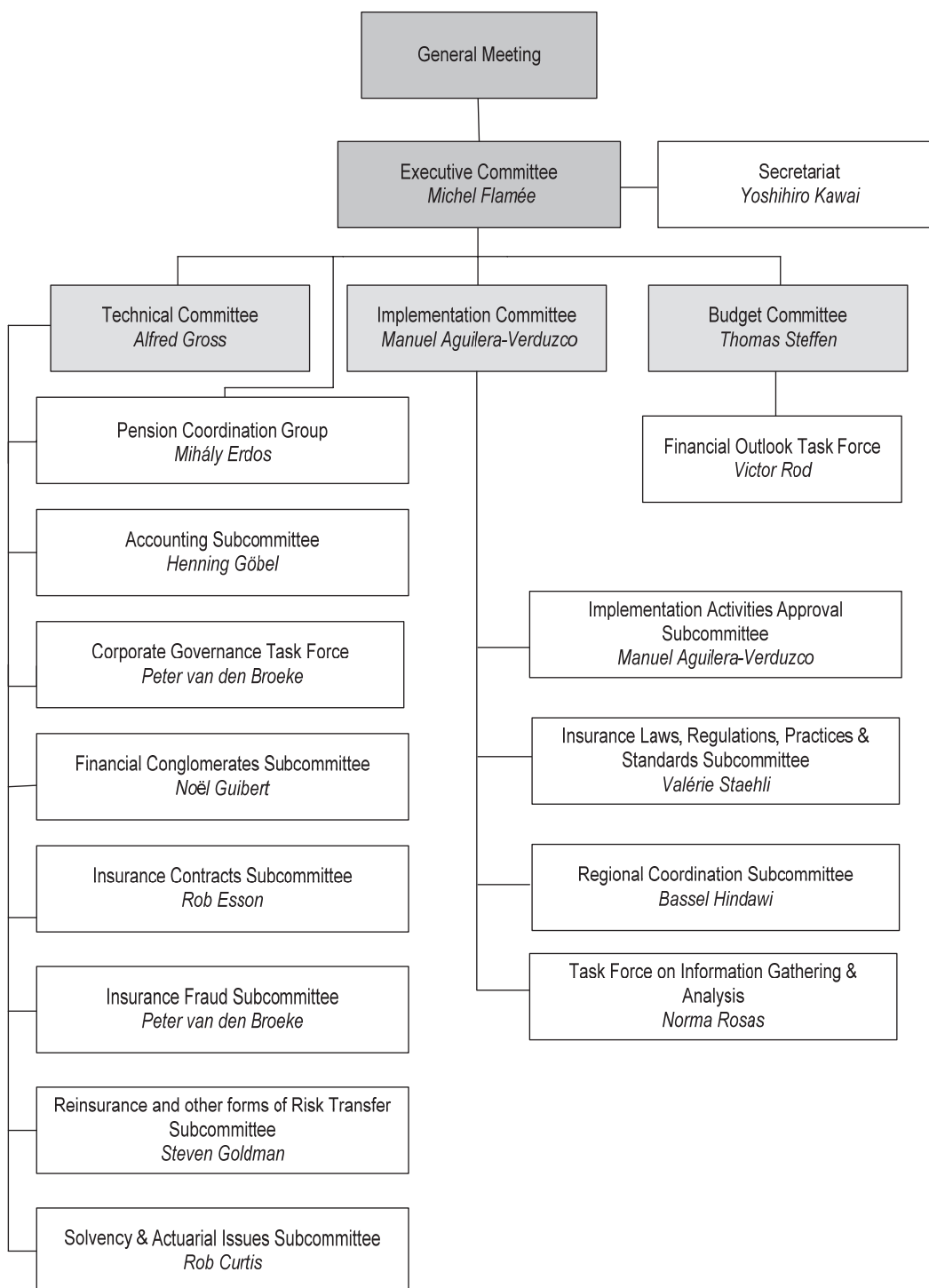
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|-------------------------------------------|------|
| Luc Cardinal ( <i>Until August 2007</i> ) | IAIS |
|-------------------------------------------|------|

|                                                         |                  |
|---------------------------------------------------------|------------------|
| Alberto Dreassi (intern) ( <i>Until December 2006</i> ) | DNB, Netherlands |
|---------------------------------------------------------|------------------|

|                                            |             |
|--------------------------------------------|-------------|
| Zhenzhen Jiang ( <i>Until March 2007</i> ) | CIRC, China |
|--------------------------------------------|-------------|

|                                              |                        |
|----------------------------------------------|------------------------|
| In Seok Seong ( <i>Until February 2007</i> ) | FSS, Republic of Korea |
|----------------------------------------------|------------------------|

## IAIS Organisational structure



Subgroups of working parties of the Technical Committee are not shown.

### Training seminars during 2006-07

The IAIS assisted or sponsored and organised the following training seminars for insurance supervisors during the year October 2006 to September 2007:

|                 | Location                        | Organiser(s)                                                                                               | Main topics covered                                                                                                                                                                      |
|-----------------|---------------------------------|------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| November        | Warsaw, Poland                  | Financial Supervisory Commission (FSC) – Poland, IAIS, Toronto Centre                                      | Suitability of persons; dealing with troubled financial institutions; licensing; corporate governance                                                                                    |
|                 | Cusco, Peru                     | Superintendence of Banking, Insurance and Private Pension Fund Administrators – Peru, ASSAL, IAIS, FIDES   | Market and consumers; actuaries, external auditors and management as part of the supervisory process; asset-liability management; new insurance products developments                    |
|                 | Johannesburg, South Africa      | Financial Services Board – South Africa, IAIS, FSI                                                         | Risk-based solvency and supervision; enterprise risk management; corporate governance; interventions, sanctions and winding-up                                                           |
| December        | Mumbai, India                   | Insurance Regulatory and Development Authority – India, IAIS, FSI                                          | Group-wide and cross-border supervision; corporate governance; intermediaries and market conduct; insurance fraud and anti-money laundering                                              |
| March           | Phnom Penh, Cambodia            | Ministry of Economy and Finance – Cambodia, ASEAN Insurance Training & Research Institute, IAIS            | Risk focused supervision; risk mitigation techniques; risk management in financial conglomerates; enterprise risk management in practice                                                 |
| April           | Dead Sea, Jordan                | Insurance Commission – Jordan, IAIS, FSI                                                                   | Supervisory assessment of risks; asset-liability management; risk mitigation and reinsurance; corporate governance; insurance laws database                                              |
| May             | Rio de Janeiro, Brazil          | Brazilian Private Insurance Superintendence (SUSEP), ASSAL, IAIS, OECD, FSI                                | Risk-based solvency framework; risk-based supervisory assessment; role of reinsurance and other risk mitigants; asset-liability management; corporate governance and internal control    |
| June            | Vilnius, Lithuania              | Insurance Supervisory Commission – Lithuania, IAIS, FSI                                                    | Reporting and accounting practices; corporate governance and internal control; supervisory remedial action; implementation of risk-based supervisory methods; enterprise risk management |
|                 | Tortola, British Virgin Islands | British Virgin Islands Financial Services Commission, Caribbean Regional Technical Assistance Centre, IAIS | Licensing; suitability of persons; change in control and portfolio transfers; corporate governance and internal control                                                                  |
|                 | Basel, Switzerland              | FSI                                                                                                        | Reinsurance                                                                                                                                                                              |
| July/<br>August | Beatenberg, Switzerland         | FSI                                                                                                        | Licensing; supervisory framework for risk-based solvency; risk-focused supervisory processes; identifying and dealing with troubled insurance companies                                  |
| September       | Melbourne, Australia            | Australian APEC Study Centre, APRA, IAIS                                                                   | Corporate governance; risk framework; reinsurance; solvency; disclosure                                                                                                                  |
|                 | Haywards Heath, UK              | Offshore Group of Insurance Supervisors (OGIS), Guernsey FSC, IAIS                                         | Captive types and structure; licensing insurance managers and captives; regulatory risks of captives; ongoing supervision of a captive                                                   |