

Annual Report 2008-09

*Activities from October 2008 to September 2009
including 2008 financial statements*



International Association
of Insurance Supervisors

ISSN: 1561-235X (print)
ISSN: 1812-2280 (online)
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Foreword

The International Association of Insurance Supervisors (IAIS) was established in 1994. Its membership includes insurance regulators and supervisors from over 190 jurisdictions in some 140 countries. More than 130 organisations and individuals representing professional associations, insurance and reinsurance companies, international financial institutions, consultants and other professionals are observers.¹ As stated in Article 2 of the IAIS By-laws, 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; and
- contribute to global financial stability.

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

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

The IAIS develops principles, standards and guidance for effective insurance supervision. 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 Board. 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. The IAIS is a member of the Monitoring Group, which is a group of international regulatory bodies and related organisations committed to advancing the public interest in areas related to international audit quality. It has observer status with the International Forum of Independent Audit Regulators as well as with the Financial Action Task Force, which combats money laundering and terrorist financing.

Each year the IAIS holds an annual conference to encourage multilateral discussions on topical issues for insurance supervisors and other insurance professionals. The 15th Annual Conference was held in Budapest, Hungary on 12-14 October 2008 with the theme of *Insurance and the Globalisation of Financial Services: Challenges for Worldwide Regulation and Supervision*. The theme for this year's conference, which will be held in Rio de Janeiro, Brazil on 21-24 October 2009, is *Insurance as a Means of Socio-Economic Development; Financial crisis and the future of insurance markets*.

¹ Full lists of IAIS Members and Observers are available on the IAIS website: www.iaisweb.org.

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Report from the Chair of the Executive Committee



Peter Braumüller
Chair, Executive Committee

The IAIS has been very active since the last annual report, continuing its role in standard development and implementation and providing input to international actions to address the global financial crisis as well as examining its own activities and positions as

the lessons learned from the crisis have continued to develop.

International actions to address the global financial crisis

The precipitation of the financial crisis prompted the gathering of the Leaders of the Group of Twenty (G-20) in Washington D.C. on 15 November 2008 to issue a declaration outlining an Action Plan to implement five agreed principles of reform:

- Strengthening transparency and accountability
- Enhancing sound regulation
- Promoting integrity in financial markets
- Reinforcing international cooperation
- Reforming international financial institutions

At the same time, the IAIS identified a range of pressure points on the insurance sector which were tested against the existing and planned standard setting and implementation workstreams of the IAIS to ensure continued relevance of these initiatives in light of the financial crisis.

Both these developments resulted in the issuance of a strategic response from the IAIS to address lessons learned from the financial crisis specific to the insurance sector which outlined five areas of focus:

- Chart a comprehensive focus of the IAIS on the supervision of internationally active insurance groups and systemically

important institutions, contagion effects and unregulated entities

- Provide guidance on supervisory colleges for insurance groups
- Enhance supervisory cooperation and information exchange mechanisms
- Align workplans for greater emphasis on issues arising from the crisis
- Enhance focus on macroprudential assessments

To take forward the G-20 Washington D.C. Action Plan, working groups were formed comprising members of the G-20 as well as international standard setting bodies. The IAIS was an active member of the working group on *Enhancing Sound Regulation and Strengthening Transparency*. The reports from the working groups were subsequently endorsed at the G-20 London Summit in April 2009 with several recommendations relating directly to the IAIS, as follows:

- As a supplement to their core mandate, the mandates of all national financial regulators, central banks, and oversight authorities, and of all international financial bodies and standard setters (IAIS, IASB, BCBS and IOSCO) should take account of financial system stability.
- In order to achieve consistency globally, international bodies and standard setters – such as the FSB, IAIS, IOSCO, BCBS, BIS and others – will develop macroprudential tools to address systemic vulnerabilities and provide national authorities, which are responsible for their implementation, with options.
- All systemically important financial institutions, markets and instruments should be subject to an appropriate degree of regulation and oversight, consistently applied and proportionate to their local and global systemic importance. National authorities should have the authority to expand the perimeter of regulation in a timely way, recognizing that it may vary across countries and through time. They should do so in close coordination with appropriate global fora and standard-setters (including the IAIS) in order to achieve as much consistency as possible across jurisdictions.
- As requested by the G-20, the IAIS, BCBS and IOSCO, working through the Joint

Forum, are reviewing the differentiated nature and scope of financial regulation, with emphasis on unregulated institutions, instruments and markets and systemically important institutions. A final report is expected by late 2009.

- Recognizing that the degree of development of financial systems varies considerably across the G-20, national authorities should commit to assist each other in enhancing their capacity to strengthen regulatory frameworks. In addition, the IAIS, IOSCO, and BCBS should have the appropriate capacity to provide technical assistance. The needs of emerging market economies deserve particular consideration.

The G-20 London Summit also saw the creation of the Financial Stability Board (FSB) to succeed the Financial Stability Forum following a call by leaders of the G-20 countries to expand the membership and mandate of the FSB. The expanded role of the FSB is aimed at strengthening its effectiveness as a mechanism for national authorities, standard setting bodies and international financial institutions to address vulnerabilities. The FSB also aims to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability.

The new structure of the FSB is comprised of:

- FSB Plenary: decision making body comprising member countries, standard setting bodies, international financial institutions and the Secretariat.
- Steering Committee: to provide operational guidance between Plenary meetings.
- Three Standing Committees on Vulnerabilities Assessment, Supervisory and Regulatory Cooperation and Standards Implementation.

As member of the FSB Plenary, Steering Committee and Standing Committees on Supervisory Regulator Cooperation and Standards Implementation, the IAIS will continue to provide insurance regulatory and supervisory perspectives in the work of the FSB to achieve the common pursuit of global financial stability.

IAIS response to the financial crisis

As mentioned above, the IAIS has developed a strategic response to address these international actions and recommendations as

well as the lessons learned from the financial crisis specific to the insurance sector.

Internationally active insurance groups

Consistent with the IAIS goal to pursue higher levels of convergence of supervisory practices, a New Focus Task Force was created in October 2008 to provide a report for discussion at the June 2009 Triannual meeting on how the IAIS could address internationally active insurance groups, through options on topics such as a common assessment framework. Based on this report, the Executive Committee established the Common Assessment Framework Task Force in July 2009 to carry out research into the design and practicality of a common assessment framework for insurance group supervision. Its research will include a comparison of existing group supervision frameworks, a look into experiences with group-wide supervision, analysis of possible options and an assessment of necessary resources going forward. The Executive Committee will make a decision on whether/how to further proceed based on this Task Force's report, which is due in January 2010.

Supervisory colleges for insurance groups

The IAIS has continued its work on supervisory colleges. A survey was conducted in April 2009 to obtain feedback on IAIS Members' experiences with supervisory colleges for insurance groups. The results of this survey served as basis for the IAIS to provide insurance perspectives to the FSB's initiative of identifying good practices from experience on supervisory colleges and informed the development of the IAIS guidance paper on the use of supervisory colleges in group-wide supervision, scheduled to be adopted in October 2009.

Supervisory cooperation and information exchange

A key component of the IAIS's efforts to enhance supervisory cooperation and information exchange mechanisms is the Multilateral Memorandum of Understanding (MMoU). The MMoU establishes a formal basis for cooperation and information exchange between supervisors regarding the supervision of insurance companies where cross-border aspects arise. On 25 June 2009, the MMoU became operational with the first three insurance supervisory authorities becoming signatories: the Bermuda Monetary

Authority, the Financial Supervisory Commission of Chinese Taipei and the Federal Financial Supervisory Authority of Germany. Additional applications from around the world to join the MMoU are under review and the number of signatories to this important IAIS initiative shall continue to grow.

Alignment of workplans and ICP review

In addition to its usual standard setting activities, the IAIS Technical Committee is working on a comprehensive review of the Insurance Core Principles (ICPs) and corresponding standards. The pressure points and issues arising from the financial crisis will not only be taken into account in the ICP review process, but also the workplans, priorities and timelines of the various working parties under the Technical Committee which shall be reflected in the 2010-2011 Roadmap for Standard Setting within the Framework of Insurance Supervision. The Implementation Committee has reviewed its strategy and is addressing medium-to-long term IAIS education and implementation activities, as well as further developing concepts such as self assessment and peer review.

Macroprudential assessments

To support IAIS's participation in the FSB, the role and composition of the IAIS Financial

Stability Task Force (FSTF) were enhanced to provide the necessary technical input and a coordinating role within the IAIS on relevant work streams. In particular, the FSTF will consider potential interactions, if any, between systemic risk and the insurance sector in the context of a macroprudential approach, including the development of macroprudential tools.

Further details on these important developments in the areas of IAIS standard setting and standard implementation work are provided in the relevant parts of this annual report.

The events of the past year have provided a challenge, but with the support and contributions of our Members and Observers, the IAIS has played an important role in addressing the issues presented by the financial crisis and is taking steps as an organisation to be prepared for other challenges that may lie ahead.



Peter Braumüller
Chair, Executive Committee

Report from the Chair of the Technical Committee



Alfred Gross
Chair,
Technical Committee

The Technical Committee steers and oversees the IAIS's insurance supervision standard setting work consistent with strategic guidance from the Executive Committee. A long-term IAIS goal is achieving appropriate convergence of globally accepted

standards of supervisory practice. The development of supervisory papers is an essential element in facilitating and promoting this greater convergence. As greater convergence occurs, increased recognition of supervisory standards between jurisdictions should result. Such an environment will enhance the effectiveness of the supervision of cross-border activities and of supervisory cooperation – issues that have been highlighted in the IAIS study and assessment of lessons learned from the financial crisis.

Each year, the Technical Committee prepares its *Roadmap for Standard Setting within the Framework of Insurance Supervision*. The Roadmap outlines the IAIS's two-year workplan and timetable for developing international supervisory papers on insurance supervision and clarifies the role and scope of various working parties' activities. The Roadmap is also an important vehicle for facilitating the planning and management of the Technical Committee and for enhancing the communication of work priorities and processes to Members and Observers.

Progress has been made during the year against priorities identified in the 2009 Roadmap. Two new working parties were established: the Market Conduct Subcommittee and the Insurance Core Principles (ICP) Coordination Group. The Market Conduct Subcommittee is responsible for developing international supervisory standards on insurers' behaviour in the marketplace. The ICP Coordination Group will take forward the work initiated by the ICP Review Task Force on updating the insurance

core principles (ICPs) and applying a new framework for the assessment methodology. In addition, a number of supervisory and supporting papers were developed – details on these papers are presented later in this report.

Priorities for the next two years will focus on:

- 1) IAIS standard-setting response to issues related to the financial crisis; and
- 2) review of ICPs and supervisory papers.

The IAIS standard-setting response to the financial crisis includes actions being taken to reinforce insurance regulation and improve the resilience of the global insurance sector against challenges posed by the financial crisis. The review of the ICPs and supervisory papers includes reviewing the core principles and restructuring supervisory papers to ensure there is a clear link between ICPs, Standards and Guidance papers. The output from the ICP review will ensure that Members understand that observance of Standards is expected from all jurisdictions. Toward this end, Standards will be revised so that they form the criteria for assessing observance of the ICPs.

Since the October 2008 Triannual Meeting, the Technical Committee has maintained a list of pressure points in the global insurance sector that have arisen as a result of the financial crisis based on jurisdictional observations. The pressure points were mapped to current and potential new workstreams. To ensure an integrated approach was taken, the pressure points were further mapped against the Financial Stability Board recommendations to enhance market and institutional resilience, and the G20 2008 and 2009 Declarations (Washington and London). The pressure points are updated on a regular basis and are used to help assess the adequacy of existing IAIS initiatives in addressing these observations. The diagnosis of the lessons learned from the financial crisis will continue, and in turn the IAIS will continue to update its own internal assessment and determination of any steps to be taken in response.

A handwritten signature in dark ink, appearing to read 'Alfred W. Gross'.

Alfred Gross
Chair, Technical Committee

Standard-setting and other technical activities

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

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

Accounting Subcommittee

The Accounting Subcommittee monitors developments in the field of accounting related to insurers and insurance supervision. It responds on behalf of the IAIS where appropriate, including input to the International Accounting Standards Board (IASB) on issues other than those which are handled by the Insurance Contracts Subcommittee (see below). This subcommittee is also responsible for issues relating to auditing and provides input to the International Federation of Accountants on auditing standards developed by its standard setting board, the International Auditing and Assurance Standards Board (IAASB) and liaises with other organisations dealing with matters of mutual interest. During 2008-2009, the subcommittee provided significant input to the IAASB's clarity project which involved revision of many International Standards on Auditing. This year, the subcommittee completed the *Issues paper on the role of and relationship between the Actuary and the external auditor in the preparation of financial reports*. This paper discusses the relationship between the actuary and the external auditor from the perspective of the insurance supervisor. The subcommittee is responsible for monitoring developments in the field of public disclosures by insurers and revisions to the disclosure elements of the Insurance Core Principles and corresponding standards. In this role, the subcommittee conducted its Survey on Implementation of IAIS Disclosure Standards and published a report in December 2008. The Accounting Subcommittee is chaired by Henning Göbel, Germany and its Vice-chair is Michel Colinet, Belgium.

Governance and Compliance Subcommittee

The Governance and Compliance Subcommittee develops supervisory papers on corporate governance applicable to the insurance industry and is responsible for revisions to the Insurance Core Principles in the area of corporate governance. In cooperation with the OECD, the subcommittee conducted a survey to identify best corporate governance practices. The survey findings were used as a basis for the *Issues Paper on Corporate Governance* that was released jointly with the OECD in July 2009. The paper discusses the core elements of corporate governance including governance structures, functions of the board, control functions, the actuarial function and auditors, disclosure and transparency, relationship with stakeholders and interaction with the supervisor. The Subgroup on Microinsurance which currently assists with capacity building initiatives and will develop guidance on microinsurance reports to this subcommittee as well. The Governance and Compliance Subcommittee is chaired by Maarten Hage, Netherlands and its Vice-chair is Ann Nee Kee, Singapore.

Insurance Contracts Subcommittee

This Insurance Contracts Subcommittee monitors the IASB's projects on insurance contracts, financial instruments (including fair value measurement) and revenue recognition and responds on behalf of the IAIS where appropriate. The purpose of this monitoring is to provide input to International Financial Reporting standards from an insurance supervisory perspective. The IAIS supports the use of general purpose financial reporting for supervisory purposes as much as possible. During the year, there were significant developments in the IASB insurance contracts and financial instruments projects and the subcommittee provided several comment letters. Together with the Solvency and Actuarial Issues Subcommittee, this subcommittee is working on the development of supervisory papers on the valuation of assets and liabilities, including technical provisions, for solvency purposes. The Insurance Contracts Subcommittee is chaired by Rob Esson, NAIC/USA and its Vice-chair is David Rush, Australia.

Insurance Core Principles (ICPs) Coordination Group

The ICP Coordination Group was established in 2009 to take forward the work of the ICP Review Task Force. The Technical Committee made the decision that Standards should be drafted such that they will form the observance criteria for the relevant ICPs. As a result, a full review of existing Standards is being undertaken. To allow adequate time to review all existing Standards, the revisions to the ICPs will be completed in 2011. The essential criteria from the current ICPs will be incorporated into Standards. By reviewing and re-crafting existing Standards, the IAIS will have a comprehensive set of Standards in a consistent format, language and style. The ICPs and corresponding Standards have been allocated to working parties for review in line with their areas of expertise. In accordance with the mandate of the ICP Coordination Group, the review of existing Standards will not re-open previously agreed issues unless there is a clear rationale such as to incorporate lessons learned from the financial crisis. The role of the Coordination Group is to coordinate the ICP review to ensure comprehensiveness and consistency of approach, to resolve any issue of overlap and ultimately provide a revised set of ICPs in 2011. The ICP Coordination Group consists of working party chairs and representatives from the IMF and World Bank and is chaired by Kwok Mun Low, Singapore.

Insurance Groups and Cross-sectoral Issues Subcommittee

The Insurance Groups and Cross-sectoral Issues Subcommittee develops supervisory papers on group-wide supervision and is responsible for revisions to the Insurance Core Principles and corresponding standards in respect of group and supervisory cooperation issues. This year, the subcommittee completed the *Guidance paper on the use of supervisory colleges in group-wide supervision*, which was timely given developments in this area within other international fora including the effort by the Financial Stability Board (FSB) to ensure all systemically important financial institutions have effective supervisory colleges in place. This paper provides guidance on the interrelationship between the group-wide supervisor and the supervisory college, the role and functions of a supervisory college including in crisis management and the establishment and operational structure of a supervisory college. A survey was conducted among IAIS Members to establish experiences with supervisory colleges for insurance entities. The results of this survey were used as input to the development of the Guidance paper and served as basis for the IAIS to provide insurance perspectives to the FSB initiative on identifying good practices from experience on global supervisory colleges. The subcommittee also worked with the Solvency and Actuarial Issues Subcommittee to complete the *Issues paper on group-wide solvency assessment and supervision* to explore the practical issues and challenges associated with this subject matter. This subcommittee also fulfils an important role as the link between the IAIS and the Joint Forum, proactively coordinating the contributions of IAIS Members to this forum. The Insurance Groups and Cross-sectoral Issues Subcommittee is chaired by Axel Oster, Germany and its Vice-chair is Craig Swan, Bermuda.

Market Conduct Subcommittee

The Market Conduct Subcommittee is charged with developing international supervisory standards on insurers' behaviour in the marketplace. It will build on existing work on market conduct and consider the market conduct of insurers and intermediaries in the selling and handling of insurance products and services and in disclosure of information to customers. The subcommittee is responsible for revisions to the market conduct elements of the Insurance Core Principles and developing corresponding standards and guidance. The Market Conduct Subcommittee oversees the work of the Insurance Fraud Working Group which analyses fraudulent activities committed by or against insurance companies and drafts papers on the prevention and detection of insurance fraud and on anti-money laundering and combating the financing of terrorism. This working group also liaises with other international bodies addressing issues of insurance fraud and AML/CFT, such as the International Association of Insurance Fraud Agencies and the Financial Action Task Force. The Market Conduct Subcommittee is chaired by Diane Colton, Guernsey and its Vice-chair is Adel Mounir Rabeh, Egypt.

Pension Coordination Group

In active implementation of the working agreement between the IAIS and the International Organisation of Pension Supervisors (IOPS), the Pension Coordination Group (PCG) reviews and comments on the IOPS guidelines, monitoring the consistency of the standard setting work and the

publications between the IAIS and IOPS. Additionally, the PCG monitors the developments of other international bodies involved in pension supervision, in particular the OECD Working Party on Private Pensions. During the past year, the PCG responded to the invitation to comment on the IOPS Guideline for Supervisory Intervention, Enforcement and Sanctions and closely tracked the development of the Risk-based Supervision Toolkit of IOPS. The Pension Coordination Group is chaired by Mihály Erdős, Hungary.

Reinsurance and Other Forms of Risk Transfer Subcommittee

The Reinsurance and Other Forms of Risk Transfer Subcommittee is responsible for revisions to the Insurance Core Principles and corresponding standards and guidance in the area of reinsurance and other forms of risk transfer. Following the adoption in October 2008 of the *Guidance paper on mutual recognition of reinsurance supervision*, the subcommittee has been exploring ways to facilitate recognition of reinsurance supervision amongst supervisors. A survey was conducted in the summer of 2009 on market access requirements for reinsurers worldwide, the results of which will inform future work on facilitating mutual recognition. The subcommittee oversees the work of the Reinsurance Transparency Group, which prepares the IAIS Global Reinsurance Market Report (GRMR). This report is based on data submitted by the world's largest reinsurers and assesses reinsurance market stability and linkages of the reinsurance sector. In 2009, the report will start being released in two editions, a mid-year report covering qualitative market developments and the end-year report covering more quantitative aspects. The first mid-year edition, which focuses on developments in (re)insurance securitisation, was released in August 2009. The Reinsurance and Other Forms of Risk Transfer Subcommittee was chaired by Steven Goldman, New Jersey/USA who resigned in July 2009; the process to appoint a new Chair was underway at the time of print of this annual report. Its Vice-chairs are Jeremy Cox, Bermuda and Robert Meindl, Germany.

Solvency and Actuarial Issues Subcommittee

The Solvency and Actuarial Issues Subcommittee researches and analyses issues related to solvency requirements, solvency assessment and risk management of insurance companies, and it develops supervisory papers on these topics. This year it completed the *Standard and Guidance paper on the structure of capital resources for solvency purposes*. These papers discuss the purpose and role of capital resources and the determination and assessment of capital resources for solvency purposes. In cooperation with the Insurance Groups and Cross-sectoral Issues Subcommittee, it developed the *Issues paper on group-wide solvency assessment and supervision* that was issued in March 2009. Together with the Insurance Contracts Subcommittee, this subcommittee will continue the development of supervisory papers on the valuation of assets and liabilities, including technical provisions, for solvency purposes. Consistent with its objective to develop a comprehensive suite of papers on solvency assessment, ongoing work by the subcommittee includes the development of supervisory papers on regulatory requirements for investment for solvency purposes and work on supervisory review and reporting. An important priority going forward will be the extension of this set of solo-based supervisory papers to group application. The Solvency and Actuarial Issues Subcommittee is chaired by Rob Curtis, United Kingdom. Its Vice-chair was Nobuyasu Sugimoto, Japan who resigned in July 2009; the process to appoint a new Vice-chair was underway at the time of print of this annual report.

Standard-setting achievements during 2008-09

The following papers were completed during the year under review:

Standard and Guidance paper <i>The structure of capital resources for solvency purposes</i>	These papers establish high-level principles-based requirements for a solvency regime in relation to capital resources. The aim of the papers is to support the enhancement, improved transparency and comparability and convergence of the assessment of insurer solvency internationally. The papers discuss the purpose and role of capital resources and the determination and assessment of capital resources for solvency purposes.
Guidance paper <i>Use of supervisory colleges in group-wide supervision</i>	This Guidance paper is a further element of a growing set of IAIS papers on group-wide supervision and complements the <i>Principles on group-wide supervision</i> (Oct 2008) and <i>Guidance paper on the role and responsibilities of a group-wide supervisor</i> (Oct 2008). The paper provides guidance on the use of a supervisory college as a further element of an international framework for group-wide supervision – as a mechanism to facilitate cooperation and exchange of information among involved supervisors and coordination of supervisory activities on a group-wide basis.
Issues Paper <i>Group-wide solvency assessment and supervision</i>	This paper explores the issues of group-wide solvency assessment and supervision for insurance groups. Consideration is given to the practical issues and challenges associated with the establishment of a risk-sensitive approach to group-wide solvency assessment which is broadly consistent with the present IAIS Standards and Guidance material on solo solvency assessment. The paper provides a preliminary analysis of the range of possible approaches to group-wide solvency assessment and supervision and their interaction with solo solvency assessment.
Issues Paper <i>Corporate governance</i>	This paper, prepared jointly with the OECD, discusses core elements of corporate governance including governance structures, functions of the board, control functions, the actuarial function and auditors, disclosure and transparency, relationship with stakeholders, and interaction with the supervisor. The paper does not prescribe any particular rules or framework but rather provides background and explores the main issues relevant to the corporate governance of insurers. It will serve as the basis for future supervisory papers on governance and as input for revising the Insurance Core Principles.
Issues Paper <i>Role of and relationship between the actuary and the external auditor in the preparation and audit of financial reports</i>	This paper describes good practice regarding the relationships between the actuary and the external auditor from the insurance supervisor perspective. It reiterates or elaborates on positions set out in other IAIS work regarding relevant IAIS requirements or expectations. Topics discussed include roles and responsibilities, communication, reporting, relationship between external auditor and insurance supervisor, and professional standards and qualifications.
Market report <i>Global reinsurance market report – 2008 edition</i>	The fifth annual GRMR, published in late 2008, was based upon global reinsurance data submitted by the world's largest reinsurers for the financial year 2007. The report assesses reinsurance market stability and linkages of the reinsurance sector as well as the impact of the financial market turmoil on the reinsurance sector.
Market report <i>Developments in (Re) Insurance Securitisation</i> <i>Global reinsurance market report – 2009 mid-year edition</i>	The first mid-year edition of the GRMR discusses issues of insurance securitisation, looking at its main characteristics and functions, key similarities and differences with banking securitisations, and regulatory and supervisory approaches. The report represents an additional development to the on-going work by the Reinsurance Transparency Subgroup on the global reinsurance market and contributes to the development of macro-prudential surveillance tools for insurance currently under consideration by the IAIS.

Report from the Chair of the Implementation Committee



*J. Hari Narayan
Chair,
Implementation
Committee*

It has been an eventful year for the Implementation Committee. During the period from October 2008 to September 2009, the IAIS sponsored and helped organise fifteen regional seminars for insurance supervisors in South America, Asia, Central & Eastern Europe, Offshore Centres,

the Middle East, and Africa. In addition, the IAIS participated in several other seminars and conferences. For each event, insurance supervisors from 15-25 jurisdictions received training based on the Insurance Core Principles and the supervisory papers which build upon them, as well as on other relevant subjects. The seminars include lectures and panel discussions, using educational tools, such as case studies, as appropriate. Examples of the subjects frequently covered by the seminars are risk-based supervision, licensing, corporate governance, preventive and corrective measures, group-wide supervision, asset-liability management, valuation of technical provisions, and capital adequacy and solvency.

In June 2009 the IAIS took an important step of making the Multilateral Memorandum of Understanding (MMoU) regime operational. The MMoU is an important tool for strengthening cooperation and information exchange among insurance supervisors worldwide. With the MMoU in place, insurance supervisors will be better equipped to improve the effectiveness of cross-border supervision

of insurance companies. The MMoU will also contribute to the global effort to ensure that systemically important financial institutions are appropriately regulated.

Another noteworthy step which is currently in progress is the initiative for capacity building of insurance supervisors through effective training and coordination of technical assistance. The IAIS has been working on an educational initiative for improving and harmonising insurance supervision, placing particular emphasis on assisting emerging markets in implementing IAIS principles and standards. In order to support this initiative, the IAIS will be a part of the charter which establishes the Access to Insurance Initiative (A2II), which is scheduled to be launched in October 2009. The A2II is a global programme with multiple partners designed to support standard implementation initiatives for enhancing regulatory capacity through training, translation, learning tools, and access to expertise and experience.

The core activities of the Implementation Committee continue to be ably supported by the four working parties: Implementation Activities Approval Subcommittee; Insurance Laws, Regulations, Practices and Standards Subcommittee; Regional Coordination Subcommittee; and Task Force on Information Gathering and Analysis. The following report provides details on the work of these working parties and other important implementation activities over the past year.

A handwritten signature in blue ink, appearing to be 'J. Hari Narayan'.

*J. Hari Narayan
Chair, Implementation Committee*

Standard-implementation activities

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

The *Roadmap for Standard Implementation Activities* establishes the IAIS standard implementation strategy, areas of work and corresponding workplans. To carry out this strategy and work, the Implementation Committee relies on the following four working parties:

Implementation Activities Approval Subcommittee

The Implementation Activities Approval Subcommittee evaluates and approves applications for financial support for implementation activities and monitors progress in training activities against established milestones and budgets. The subcommittee also oversees the capacity development of supervisors. The subcommittee is chaired by J. Hari Narayan, India.

Insurance Laws, Regulations, Practices and Standards Subcommittee

The Insurance Laws, Regulations, Practices and Standards Subcommittee (ILS) 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. It comprises of 22 chapters and generally covers all areas of insurance regulation and supervision. The database helps IAIS Members improve their legislation by enabling them to draw upon best practices elsewhere. Around 80 jurisdictions have now contributed data. Those that have filled in the 22 chapters represent 62% of worldwide market share. The ILS encourages 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 available to non-Members, and many IAIS Observers and third parties have applied for access.

An analytical report, focusing on two new chapters of the database – Risk Assessment and Management (Chapter 21) and Supervision of Insurance Groups and Financial Conglomerates (Chapter 22) – was published on the IAIS website at the end of 2008. The next report, focusing on Products and Tariffs (Chapter 7), Control Procedures and Examinations (Chapter 16) and Winding-up Procedures (Chapter 18) is being prepared for publication this year.

Consistent with the Implementation Roadmap, the ILS has been asked to develop and later support an internet tool facilitating the Insurance Core Principles (ICPs) self-assessment exercises. This new internet tool will be based on the revised ICPs, which are expected to be completed by end of 2011. This subcommittee is chaired by François Tempé, France.

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.

In light of the implementation strategy outlined in the Implementation Roadmap, regional coordinators have been asked to take on the following tasks: coordinating the translation programme; supporting implementation activities; and encouraging the regional members to update the Insurance Laws Database.

Regional coordinators represent: the Americas; Asia & Oceania; Sub Sahara Africa; Central, Eastern Europe & Transcaucasia; the Middle East & North Africa; Offshore & Caribbean Islands; Western Europe; and French-speaking jurisdictions. They assist and coordinate activities within their respective regions. The Regional Coordination Subcommittee is chaired by Michael Oliver, Gibraltar and its Vice-chair is Walid Genadry, Lebanon.

Task Force on Information Gathering and Analysis

The Task Force on Information Gathering and Analysis was established to identify the minimum statistical, technical and financial information required for supervisory purposes. It will make basic recommendations on information gathering and analysis and publish these as an application paper, which is expected to be completed around the end of 2010. This task force is chaired by Norma Rosas, Mexico.

Other implementation activities

The Implementation Roadmap also identifies other activities to be undertaken or enhanced to assist more effective implementation of IAIS standards. These include:

Translations

The IAIS encourages the translation of its supervisory papers, training material and case studies to ensure their maximum use. Translations prepared by Members of IAIS supervisory papers into Arabic, French, German, Portuguese, Russian and Spanish are 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 2009-2010 is to complete translations of all top priority IAIS documents and training material into 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. A list of seminars held during the year 2008-09 is included in Appendix III. Commencing in 2008, the IAIS also organises an annual global seminar to address its most recent standard-setting achievements, work in progress, and emerging issues. This year's global seminar took place in June, back-to-back with the triannual meetings held in Chinese Taipei.

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

Development of learning tools to assist standard implementation

The Implementation 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 contains standardised and well organised material and can be used to 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 Implementation 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 National Association of Insurance Commissioners (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.

Multilateral Memorandum of Understanding (MMoU)

The objective of the MMoU is to establish a formal basis for cooperation and information exchange between the signatory authorities regarding the supervision of insurance companies where cross border aspects arise. Beyond the licensing, ongoing supervision and winding-up processes of insurance companies, the MMoU shall be applicable to the supervision of other regulated entities such as insurance intermediaries and to anti-money laundering and combating the financing of terrorism matters, in such cases where the requesting and requested authority have those responsibilities. In this sense, it is important to mention that the ability to share information and provide assistance requires a high standard of confidentiality protection.

The Implementation Committee plays an important role in the accession procedure of the IAIS MMoU and in the monitoring of its operation. Currently the Interim Signatories Working Group (ISWG) (comprising of members of the former MMoU Working Group and jurisdictions which submitted applications by the end of February 2008) is assisting the Implementation Committee in this key area. The ISWG shall be expanded to include MMoU signatories as and when they are approved and shall be replaced by the Signatories Working Group (SWG) once ten MMoU signatories are in place. Accession of the first three signatories took place on 25 June 2009, thereby making the MMoU operational. It is expected that there will be ten signatories by the end of 2009, which will lead to the formal transition of the ISWG into the SWG.

Report from the Chair of the Budget Committee



*Victor Rod
Chair,
Budget Committee*

The IAIS 2008 financial statements were audited by Deloitte following their appointment as independent auditors at the October 2008 General Meeting. The financial statements have been prepared according to Swiss law and where possible, International

Financial Reporting Standards have been considered. The surplus for the 2008 financial year was CHF 596,096. The positive result was due mainly to higher net recruitment of Members and Observers than expected, lower salary and relocation costs, a surplus from the 2008 Annual Conference and continued application of cost reduction measures within the framework of strong financial and budgetary controls. The IAIS continues to maintain its prudent investment policy, and in view of prevailing market conditions has continued to invest an amount representing its target reserve in a Swiss Government bond to provide a high degree of capital security. The 2008 surplus further strengthens the reserve, and this will provide a source of funding to support future IAIS activities in light of the Executive Committee's review of the strategic direction of the IAIS.

The Workplans and Financial Outlook 2008-2012, approved at the October 2007 General Meeting, included a revolving budget for standard implementation activities. Budgeted amounts that are not incurred in a particular year remain earmarked for standard implementation activities. In the financial statements, the unspent amounts are accrued as a provision for standard implementation activities. In 2008, CHF 430,000 was budgeted for standard implementation activities and actual expenses incurred were CHF 137,561. The remaining amount totalling CHF 292,439

was set up as a provision for standard implementation activities in the 2008 financial statements.

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

According to current budget control figures which do not yet include the Annual Conference results, the 2009 financial year will end with a surplus. However, the surplus is projected to be lower than 2008. The lower surplus is mainly due to a decrease in the number of Observers and increased travel costs. The increase in travel costs is a result of more meetings than originally planned, due in part to the IAIS responding to the financial crisis.

In light of the financial crisis and potential new workstreams as the IAIS considers its future strategy, it is important that the Association's financial position remain strong. Member and Observer fees for 2010 will be set at the level provided in the Workplans and Financial Outlook 2008-2012. This will ensure that the Association remains in a solid financial position from which to plan for its future activities and requirements.

A handwritten signature in black ink, appearing to be 'V. Rod', with a long horizontal line extending to the left.

*Victor Rod
Chair, Budget Committee*

Audited financial statements for the year ended 31 December 2008



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Independent Auditor's Report
to the Members of the
International Association of Insurance Supervisors

Basel

Report on the financial statements

At your request, we have audited the accompanying financial statements of the International Association of Insurance Supervisors (the "IAIS") which comprise the Statement of Financial Position as at 31 December 2008, the Statement of Activities, Statement of Cash Flows and the Notes for the year then ended. The prior year figures have been audited by another auditor, who has issued an unqualified audit opinion dated 25 June 2008.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2008 comply with relevant Swiss law and the by-laws of the IAIS.

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

DELOITTE LTD

Tobias Pfeiffer
Partner

Christophe Aepli
Manager

Basel, 4 June 2009
TPF/CAE/sme

Enclosures:

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

Wirtschaftsprüfung • Steuerberatung • Consulting • Corporate Finance •

Member of
Deloitte Touche Tohmatsu

International Association of Insurance Supervisors

Statement of Financial Position

As at 31 December 2008

(in Swiss francs)

	Note	2008	2007
ASSETS			
Cash and cash equivalents	6	3,183,141	3,092,748
Investments held to maturity	7	3,059,836	2,084,029
Accounts receivable	8	749,752	855,625
Total assets		6,992,729	6,032,402
LIABILITIES			
Accounts payable	9	1,126,329	1,083,688
Deferred revenue	10	676,532	620,250
Advances received	4	2,272	2,403
Provision for standard implementation activities	14	292,439	
Total liabilities		2,097,572	1,706,341
UNRESTRICTED NET ASSETS			
Balance brought forward from previous year		4,326,061	3,601,727
Net result from activities		569,096	724,334
Total unrestricted net assets		4,895,157	4,326,061
Total liabilities and unrestricted net assets		6,992,729	6,032,402

There were no movements in equity during the year other than those included in the Statement of Activities.

The accompanying notes form part of these financial statements.

International Association of Insurance Supervisors
Statement of Activities
For the year ended 31 December 2008
(in Swiss francs)

	Note	2008	2007
Operating revenue			
Membership fees		2,190,750	1,966,000
Observership fees		1,496,000	1,244,250
Annual conference income	12	727,303	787,826
Total operating revenue		4,414,053	3,998,076
Operating expenses			
Administration	11	23,177	16,686
Annual conference expenses	12	588,460	738,425
Audit		5,100	6,000
Editing		7,969	6,184
Standard implementation activities	14	137,561	92,792
Provision for standard implementation activities	14	292,439	-
Meetings		28,605	16,397
Provision for bad debts	8	2,000	-
Relocation		39,318	95,532
Salaries		2,303,264	2,044,057
Staff training		-	3,632
Travel		304,461	277,937
Website		69,952	66,000
Total operating expenses		3,802,306	3,363,642
Net result from activities before investment income and exchange rate movements		611,747	634,434
Investment (loss)/income	13	(15,708)	111,531
Net foreign exchange (loss)/income	15	(26,943)	(21,631)
Net result from activities		569,096	724,334

The accompanying notes form part of these financial statements.

International Association of Insurance Supervisors
Statement of Cash Flows
For the year ended 31 December 2008
(in Swiss francs)

	Note	2008	2007
Cash flows from operating activities			
Net results from activities		569,096	724,334
Adjustments for:			
Investment loss/(income)		15,708	(111,531)
Net foreign exchange loss		26,943	21,631
		<u>611,747</u>	<u>634,434</u>
Decrease/(increase) in accounts receivable		105,873	473,204
Decrease/(increase) in prepayments		-	5,813
(Decrease)/increase in accounts payable		42,641	(383,227)
(Decrease)/increase in deferred revenue		56,282	(49,408)
(Decrease) in advances received		(131)	-
Increase in provision for standard implementation activities		292,439	
Net cash from operating activities		<u>1,108,851</u>	<u>680,816</u>
Cash flows/(used in) from investing activities			
Proceeds from maturity of bond, including interest		2,055,250	2,090,000
Purchase of bonds		(3,037,345)	(2,055,925)
Interest received, other than on bonds	13	44,012	62,661
Withholding taxes written off	13	(53,431)	
Net cash from/(used in) investing activities		<u>(991,514)</u>	<u>96,736</u>
Effects of exchange rate changes on cash and cash equivalents		<u>(26,944)</u>	<u>(21,828)</u>
Net increase in cash and cash equivalents		90,393	755,724
Cash and cash equivalents at beginning of year	6	<u>3,092,748</u>	<u>2,337,024</u>
Cash and cash equivalents at end of year	6	<u>3,183,141</u>	<u>3,092,748</u>

The accompanying notes form part of these financial statements.

1. NATURE OF ORGANISATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

c. Scope of financial statements

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

d. Functional and presentation currency

The functional and presentation currency is the Swiss franc.

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

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

e. Cash and cash equivalents

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

f. Investments

Investments in bonds and treasury notes are held to maturity and are accounted for at amortised cost using the effective interest method.

Returns from investments are accounted for in interest income.

g. Receivables and Accounts payable

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

h. Provision for bad debts

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

i. Withholding taxes

In 2008, the accounting policy in respect of withholding taxes on investment income changed and these amounts are now expensed and reported as part of investment income. In 2007, withholding taxes were capitalised.

j. Provision for standard implementation activities

The Workplans and Financial Outlook 2008-2012, approved at the October 2007 General Meeting, included a revolving budget for standard implementation activities. Budgeted amounts that are not incurred in a particular year remain earmarked for standard implementation activities and accrued in the provision for standard implementation activities.

3. BENEFITS RECEIVED

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

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

The total amount of these benefits has not been determined.

4. THIRD PARTY CONTRIBUTIONS

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

DNB Dutch Contribution

USD 50,000 was contributed in October 2002. The balance as at 31 December 2008 was USD 2,131 (CHF 2,272). Funds are recorded in the Statement of Financial Position as advances received.

FSA Japan Grant

During the year the FSA Japan contributed a grant equivalent to CHF 408,207. Funds are held in a separate CHF-denominated bank account with a balance of CHF 366 as at 31 December 2008. All transactions are financially independent from the IAIS and the financial records are independently audited.

E-learning project

Contributions during the year amounted to CHF 90,000. The balance held in bank accounts as at 31 December 2008 was equivalent to CHF 141,039, including the effect of exchange rate movements on foreign currency contributions received. During 2008, CHF 40,363 was paid for the development of a pilot program. All transactions are financially independent from the IAIS and the financial records are independently audited.

5. INCOME TAXES

The Association is exempt from income tax.

6. CASH AND CASH EQUIVALENTS

	2008	2007
USD Current account	268,004	240,707
CHF Current account	2,908,829	2,843,607
EUR Current account	6,308	8,434
	<u>3,183,141</u>	<u>3,092,748</u>

7. INVESTMENTS

Investments held to maturity

	2008	2007
Swiss Government bond:		
At amortised cost	<u>3,059,836</u>	<u>2,084,029</u>

As at 31 December 2008 a 3.25% EIDG 08 (SWX) bond with a nominal value of CHF 3,000,000 was held, which matured on 11 February 2009. The investment was accounted for using the effective interest method (using a rate of 2.16%).

8. ACCOUNTS RECEIVABLES

	2008	2007
Annual conference (Note 12)	727,303	787,826
Membership fees receivable	23,320	-
Withholding tax		53,431
Other	<u>21,129</u>	<u>14,368</u>
	<u>771,752</u>	<u>855,625</u>
Less: provision for bad debts	<u>(22,000)</u>	<u>-</u>
	<u>749,752</u>	<u>855,625</u>

Movement in provision for bad debts:

	2008	2007
Opening balance	-	9,978
Provision made during the year	22,000	-
Doubtful debts recovered	<u>(20,000)</u>	<u>-</u>
Charge to operating expenses	2,000	-
Bad debts written off	<u>20,000</u>	<u>(9,978)</u>
Closing balance	<u>22,000</u>	<u>-</u>

9. ACCOUNTS PAYABLE

	2008	2007
Annual conference expenses (Note 12)	579,672	764,100
Audit	7,000	5,900
Bank for International Settlements	308,039	275,256
Seminars	68,969	22,547
Website improvements	48,627	-
Relocation	30,000	-
Other	84,021	15,885
	<u>1,126,329</u>	<u>1,083,688</u>

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

10. DEFERRED REVENUE

As at 31 December 2008 some Members and Observers had paid fees in advance for the year 2009. These amounts will be reflected as income in the Statement of Activities for 2009.

	2008	2007
Membership fees	364,032	246,250
Observership fees	312,500	374,000
	<u>676,532</u>	<u>620,250</u>

11. ADMINISTRATION

	2008	2007
Bank charges	5,429	6,465
Copies & postage	2,047	781
Printing & documentation	6,350	-
Telephone & fax	9,351	9,440
	<u>23,177</u>	<u>16,686</u>

12. ANNUAL CONFERENCE

	2008	2007
Income		
2008 (2007) conference fee and sponsorship income (Note 8)	<u>727,303</u>	<u>787,826</u>
Expenditure		
Other 2008 conference expenditure incurred by host (Note 9)	579,672	
Other 2008 conference expenditure paid	8,788	
Other 2007 conference expenditure incurred by host		764,100
Other 2007 conference expenditure paid		23,949
2006 conference expenditure Recovered		(38,289)
2005 conference expenditure Recovered		(11,335)
	<u>588,460</u>	<u>738,425</u>

Conference fee and sponsorship income were received, and the majority of conference expenditure incurred, by the conference host on behalf of the IAIS. Such transactions were recorded in a designated account maintained by the host, independent from the host's books and records. The net balance due to the IAIS was settled after the year end. See also Note 15.

13. INVESTMENT INCOME

	2008	2007
Interest on:		
Bank accounts	38,945	57,283
Money market deposits	<u>5,067</u>	<u>5,378</u>
	44,012	62,661
Interest on bonds	23,461	48,870
Less: withholding taxes:		
On maturity of bond	(29,750)	
Write-off of prior year accrual	<u>(53,431)</u>	
	<u>(15,708)</u>	<u>111,531</u>

Due to a change in accounting policy the withholding tax recoverable amount as at 31 December 2007 of CHF 53,431 was expensed against 2008 investment income. As a result, the amounts reported for 2008 are not directly comparable to 2007. See also Note 2.

14. PROVISION FOR STANDARD IMPLEMENTATION ACTIVITIES

In 2008, CHF 430,000 was budgeted for standard implementation activities and actual expenses incurred were CHF 137,561. The remaining amount totalling CHF 292,439 was set up as a provision for standard implementation activities in the 2008 financial statements. See also Note 2.

15. INVESTMENT POLICY AND RISK MANAGEMENT

The Budget Committee meets on a tri-annual basis and assesses the risks that could have an impact on the Association. The Secretariat monitors the day-to-day activities of the Association and provides regular reports to the Budget Committee.

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

Consistent with the investment policy, as at 31 December 2008 the IAIS's investment in financial assets other than cash comprised of an investment in a Swiss government bond held to maturity (see Note 7), minimising exposure to credit risk and market risk.

Liquidity risk

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

Foreign currency risk

The revenue and expenditure of the Association are predominantly received and paid in Swiss francs. To minimise the exposure of investments to foreign currency risk, investment were held in Swiss franc-denominated financial assets as at 31 December 2008. The Association also holds cash balances in Swiss francs (CHF), US dollars (USD) and Euros (EUR). The year end exchange rate used to convert monetary assets and liabilities was 1 USD : 1.06585 CHF (2007: 1.12735 CHF), and 1 EUR : 1.48926 CHF (2007: 1.65506 CHF).

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

The 2008 annual conference was held in Budapest, Hungary. Conference income was receivable in Euros and the majority of conference expenditure incurred in Hungarian Forints. The year end exchange rates were used to convert receivables and payables arising from the conference. See also Note 12.

Credit Risk

The major source of funding for the Association is Member and Observers fees. Members represent insurance regulators and supervisors of some 190 jurisdictions in nearly 140 countries and Observers represent more than 120 insurance professionals, insurers, reinsurers and trade associations. Due to the nature of the Association's activities, credit risk is low.

Report from the IAIS Secretary General



*Yoshihiro Kawai
Secretary General*

The Secretariat appreciates very much the input that the Association receives from Members and Observers. Such contributions are vital in the development of IAIS activities, particularly during critical periods like the one we are in now.

The Secretariat continues to serve IAIS Members and Observers as effectively as possible, managing IAIS operation, providing options and advice on strategic issues, and supporting areas of standard setting, standard implementation, external relations and communication. The challenge for the Association and the Secretariat is to establish a stronger foundation to cope with the new environment created by the global financial crisis.

To address the realities of insurance and financial markets that are increasingly globalised and interlinked, the Association is currently reviewing its strategic direction and considering a variety of new initiatives. The Secretariat looks forward to working with stakeholders on this strategic direction for the Association.

In representing the IAIS, the Secretariat helps to enhance cooperation with various organisations and to achieve the IAIS's

organisational goals of contributing to sound insurance markets and financial stability. This valuable interaction takes place with a variety of organisations including the Coordination Group with the Basel Committee on Banking Supervision and the International Organization of Securities Commissions, the Financial Stability Board (formerly the FSF), the International Actuarial Association, the International Monetary Fund, the International Organisation of Pension Supervisors, the Islamic Financial Standards Board, the Joint Forum, the Organisation for Economic Co-operation and Development and the World Bank.

During the past year the Secretariat organised over 70 meetings around the globe of IAIS Committees and working parties (see Appendix II for the IAIS organisational structure). In addition, the Secretariat organised or assisted with the 15 regional seminars and workshops listed in Appendix III and attended or spoke at others, which helps to increase insurance supervisors' knowledge of the IAIS and of its supervisory papers.

As indicated in the Committee reports, the past year has been very busy for the IAIS. The Secretariat looks forward to working with Members and Observers on the challenges that may arise over the coming years and to support the progress of the Association.

A handwritten signature in black ink, appearing to read 'Y. Kawai', written in a cursive style.

*Yoshihiro Kawai
IAIS Secretary General*

Key to serving our Members and Observers are the staff of the IAIS Secretariat who supports all areas of activity, especially the areas of standard setting, standard implementation and communication. Members of staff of the Secretariat from October 2008 to September 2009 were:

Secretary General	Deputy Secretary General
Yoshihiro Kawai	Catherine Lezon
Members of the Secretariat	Administrative Officers
Simone Amiet, <i>from May 2009</i>	Sylvie Ellet
Arup Chatterjee	Anne-Marie Kelly
Kuni Kawasaki *(FSA, Japan), <i>from July 2009</i>	Ann Neale
John Maroney, <i>from September 2009</i>	Technical Administrator
Takao Miyamoto *(FSA, Japan), <i>from July 2009</i>	Carine Notter *(BIS)
Lone Mørup	Former Members of the Secretariat
Jason Park *(FSS, Republic of Korea), <i>from February 2009</i>	Peter Cooke, <i>to February 2009</i>
Nancy Sinclair	Karen Doran, <i>to August 2009</i>
Sebastian Von Dahlen *(BaFin, Germany)	Hoik Eun *(FSS, Republic of Korea), <i>to January 2009</i>
Peter Windsor, <i>from March 2009</i>	Shinichi Kishi *(FSA, Japan), <i>to July 2009</i>
Ryan Workman *(NAIC, USA)	Justin Zhao *(CIRC, China), <i>to August 2009</i>
Jeffery Yong *(Bank Negara Malaysia until June 2009)	* Financed by the IAIS unless otherwise indicated



*Back row: Jeffrey Yong, Simone Amiet, Kuni Kawasaki, Nancy Sinclair, Takao Miyamoto, Sebastian Von Dahlen, Jason Park, Carine Notter, Peter Windsor, Ryan Workman
Front row: Lone Mørup, Sylvie Ellet, Catherine Lezon, Yoshihiro Kawai, Justin Zhao, Arup Chatterjee
Not pictured: Anne-Marie Kelly, John Maroney, Ann Neale*

Executive Committee Members



Peter Braumüller
Chair
Austria

Financial Market Authority



Tatsuo Yamasaki
Vice-chair
Japan

Financial Services Agency



John Trowbridge
Australia

Australian Prudential
Regulation Authority



Michel Flamée
Belgium

Commission bancaire,
financière et des
assurances



David Oakden
Canada

Office of the
Superintendent of Financial
Institutions



Guillermo Larrain Ríos
Chile

Superintendencia de
Valores y Seguros



Dingfu Wu
China

China Insurance
Regulatory Commission



Antoine Mantel
France

Autorité de Contrôle des
Assurances et Mutuelles



Josephine Amoah
Ghana

National Insurance
Commission Ghana



Nik van Leuven
Guernsey

Guernsey Financial
Services Commission



László Asztalos
Hungary

Hungarian Financial
Supervisory Authority



J. Hari Narayan
Chair of Implementation
Committee
India

Insurance Regulatory and
Development Authority



Bassel Hindawi
Jordan

Insurance Commission



Victor Rod**
Chair of Budget Committee
Luxembourg

Commissariat aux
Assurances



Manuel Aguilera-Verduzco
México

Comisión Nacional de
Seguros y Fianzas



Joan Chang
Republic of Korea

Financial Supervisory
Service



Kwok Mun Low
Singapore

Monetary Authority of
Singapore



Monica Mächler
Switzerland

Swiss Financial Market
Supervisory Authority



Sarah Wilson
United Kingdom

Financial Services
Authority



Kevin McCarty
Florida/USA

Florida Office of Insurance
Regulation



Jane Cline
West Virginia/USA

West Virginia Department
of Insurance



Sandy Praeger
Kansas/USA

Kansas Department of
Insurance

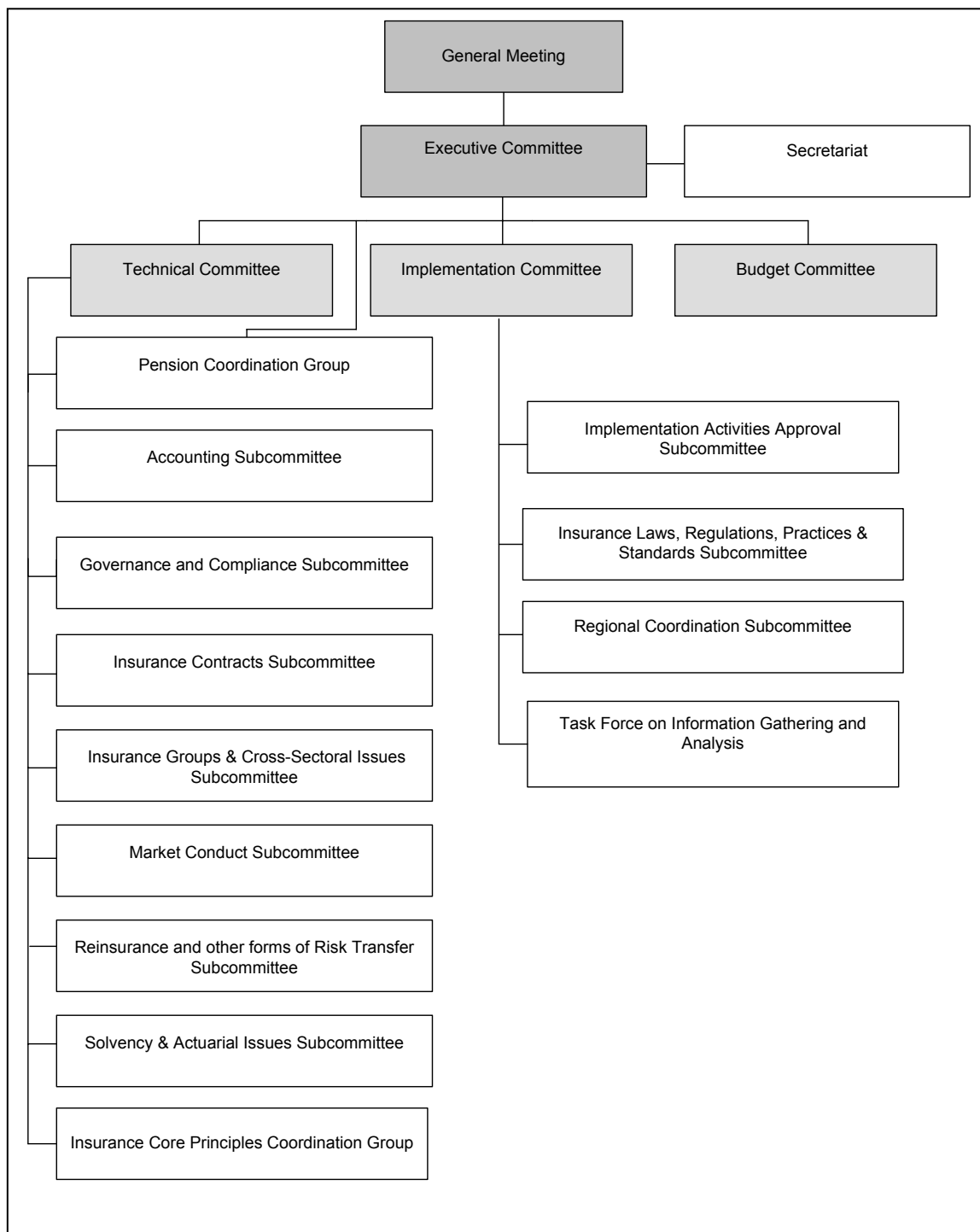


Alfred Gross**
Chair of Technical
Committee
Virginia/USA

Virginia State Corporation
Commission, Bureau of
Insurance

****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.**

Organisational Structure



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

2008-09 Training Seminars

The IAIS assisted with or sponsored and organised the following training seminars for insurance supervisors during the year October 2008 to September 2009:

	Location	Organiser(s)	Main topics
October	Bucharest, Romania	Romanian Insurance Supervisory Commission, IAIS	Risk-based supervision, Capital adequacy & solvency, Off-site monitoring, Group-wide supervision, Risk assessment, Asset-liability management, and Preliminary results of QIS4
November	Accra, Ghana	National Insurance Commission of Ghana, IAIS, Financial Stability Institute (FSI)	Off-site monitoring & on-site inspection, Capital adequacy & solvency, Technical provisions & investments, and Corporate governance & internal control
	San Salvador, El Salvador	Financial System Superintendence – El Salvador, Asociación de Supervisores de Seguros de América Latina (ASSAL), FIDES, IAIS, FSI	Valuation of technical provisions & assets, Risk management & the use of internal models for solvency purposes, and IASB's insurance contracts project
	Dead Sea, Jordan	Insurance Commission – Jordan, AFIRC, IAIS, FSI	Licensing & suitability of persons, Changes in control & portfolio transfer, and Group-wide supervision
January	Douala, Cameroun	National Insurance Division of Cameroun, Conférence Inter-africaine des Marchés d'Assurance(CIMA), French Insurance Supervisory Authority (ACAM), IAIS	Consolidated accounting, Group supervision, Reinsurance supervision, Corporate governance, and Disclosure
March	Manama, Bahrain	Central Bank of Bahrain, IAIS, FSI	Capital adequacy & solvency, Asset-liability management, International accounting standards, Corporate governance, and On-site inspection
April	Vienna, Austria	Joint Vienna Institute (JVI), FSI	Supervisory process, Licensing, Capital adequacy & solvency, Anti-money laundering & fraud, and Preventive & corrective measures and sanctions
	Ixtapa, Mexico	Insurance and Surety National Commission of Mexico (CNSF), ASSAL, OECD, IAIS	Corporate governance, Annuities & pensions, Financial education, Capital requirement & internal models, Investment & solvency regime, Valuation of technical provisions, and Asset-liability management

	Location	Organiser(s)	Main topics
	Kuala Lumpur, Malaysia	Bank Negara Malaysia, ASEAN Insurance Training & Research Institute (AITRI), OSFI, IAIS	On-site inspection and Off-site monitoring
May	Dar es Salaam, Tanzania	Insurance Supervisory Department of Tanzania, African Insurance Organisation (AIO), IAIS	Insurance Core Principles, Solvency, Group-wide supervision, Corporate governance, Market conduct, and Microinsurance
June	Taipei, Chinese Taipei	Financial Supervisory Commission – Chinese Taipei, IAIS	International accounting standards, Capital resources & investment management, Group-wide supervision & cross-sectoral issues, Corporate governance, and Regulation & supervision of captive insurers
July	Beatenberg, Switzerland	FSI	Licensing, Risk assessment & management, Risk-based solvency & supervisory processes, Financial stability & macro-prudential perspective, Group-wide supervision, and How to identify & deal with troubled insurance companies
September	Moscow, Russia	Federal Service for Insurance Supervision of Russia, OSFI, IAIS	Risk-based supervision, Supervision of brokers & agents, Licensing, Accounting exercises, Capital adequacy & solvency, International Financial Reporting Standards on insurance, Asset-liability management, and Use of actuaries
	Santiago de Chile, Chile	Superintendencia de Valores y Seguros (SVS) – Chile, ASSAL, IAIS, FSI	Risk-based frameworks for solvency & supervision, Use of internal models for solvency purposes, Valuation of technical provisions, Asset-liability management, and Corporate governance & internal controls
	Bridgetown, Barbados	Barbados Office of the Supervisor of Insurance, Offshore Group of Insurance Supervisors (OGIS), IAIS	Assessment of fitness & propriety, Procedures for enforcement action, Regulatory tools & sanctions, and Winding up or exit from the market