



International Association
of Insurance Supervisors

ANNUAL REPORT 2009-2010

Activities from October 2009 to September 2010
including 2009 Financial Statements

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1. 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 120 organisations and individuals representing professional associations, insurance and reinsurance companies, international financial institutions, consultants and other professionals are Observers¹. 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
- Contribute to global financial stability

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

The IAIS's activities are carried out under the guidance of its Executive Committee whose membership comes from different regions of the globe (see Appendix I). The Executive Committee is supported by four committees as established under the IAIS By-Laws - the Technical Committee, the Implementation Committee, the Budget Committee and the Audit Committee. Under the first two of these committees there are working parties established to accomplish their objectives.

In addition to the committees mentioned above, there are three working parties that report directly to the Executive Committee: the Financial Stability Committee, the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) Task Force, and the Internal Review Task Force. The activities of the IAIS are supported by its Secretariat, located at the Bank for International Settlements in Basel, Switzerland.

The IAIS develops supervisory material (principles, standards and guidance) for effective insurance supervision. The IAIS also prepares supporting papers (such as issues papers) that provide background on specific areas of interest to insurance supervisors. The role that the IAIS plays in promoting financial stability is an important one and one that is constantly evolving in response to developments in the economy and financial markets. 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 collaboration with the International Monetary Fund and the World Bank. The methodology for doing this is currently being revised.

Through these activities, the IAIS promotes effective and globally consistent regulation and supervision of the insurance sector in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

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

The IAIS coordinates its work 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, the Basel Committee on Banking Supervision (BCBS) and the International Organisation of Securities Commissions (IOSCO). It is also represented on the Financial Stability Board (FSB).

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. A successful conference was held in Rio de Janeiro in October 2009. The 2010 conference will be held in Dubai in October.

2. REPORT FROM THE CHAIR OF THE EXECUTIVE COMMITTEE

Peter Braumüller
Chair, Executive Committee



As a result of the recent financial crisis, expectations of standard setting bodies, such as ourselves, have continued to grow. The IAIS has readily risen to this challenge. As well as continuing its important standard setting and implementation activities the Association has taken on additional tasks.

During the past year most of the Association's resources were devoted to putting into action lessons learned from the crisis. In particular, through the newly created Financial Stability Committee (FSC) the IAIS has been vocal in emphasising the unique nature of the insurance industry and its role in the financial sector. The IAIS has been keen to stress that measures required for banks may not be appropriate for insurers, and there is certainly no "one size fits all" solution to financial sector issues.

The crisis also highlighted the need for the Association to further strengthen its capabilities, and to address this the Executive Committee carried out a strategic review of the IAIS. A summary of the review, along with key outcomes is included below.

Given the significant changes in the financial landscape in recent years, the IAIS felt it needed to refocus its agenda towards matters relevant to financial stability including lessons learned from the financial crisis. Also it needed to highlight the role it plays as an international financial standard setter with a strong interest in promoting stability of the financial system. Since some significant recent initiatives undertaken by the IAIS in response to the financial crisis were not anticipated in the *Workplans and Financial Outlook 2008-2012*, the Executive Committee decided that this document needed to be updated as soon as possible, and the IAIS's strategic priorities and internal organisation adapted accordingly.

The Executive Committee began working intensively on the new strategic plan at the start of 2010. To assist it the committee established an Internal Review Task Force to:

- Identify anticipated IAIS activities from 2011 to 2015
- Review the IAIS's operational effectiveness, efficiency and structure in carrying out its activities, and recommend how they could be enhanced
- Assess the current IAIS's human and financial resources and identify what was necessary to fulfil its activity schedule for 2011 to 2015
- Propose measures to ensure adequate resources are available from 2011 to 2015

A survey of Members and Observers was also conducted and the results provided input into the review. In April 2010 the Executive Committee approved a mission statement, high-level goals, strategies and action plans to the end of 2015. These provided the framework for identifying what resources were needed. The *Strategic Plan and Financial Outlook 2011-2015* was issued for consultation to Members and Observers in July 2010 and is expected to be adopted at the October 2010 General Meeting.

The Chairs of the Financial Stability, Technical, Implementation and Budget Committees, as well as the Secretary General, discuss elements of the strategic plan that are relevant to their work throughout this report. Briefly I would summarise the main areas of emphasis as:

- Reinforcing the IAIS's work on standard setting and ensuring sufficient support for the development of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame)

- Establishing an economist function at the Secretariat that can contribute to IAIS's work on macroprudential supervision and financial stability
- Refocusing efforts on standard implementation
- Enhancing operating effectiveness and efficiency

The strategic plan includes a financial forecast for 2011-2015. The need to strengthen IAIS activities brings with it additional costs, primarily in terms of the Secretariat staff support needed. The funding of these costs relies on the fees paid by Members and Observers, as well as other contributions from stakeholders.

On behalf of the Executive Committee, I would like to thank Members and Observers for their commitment in contributing not just the fees necessary to support the future activities, but also for their active participation in the work of the Association. Finalising the *Strategic Plan and Financial Outlook 2011-2015* at this year's General Meeting will be an important step in securing and enhancing the IAIS's role as an international standard setter acting in the interests of its Members and the wider financial community.

The IAIS has always recognized the need for accountability, efficiency and transparency in the way that it operates. This was formalised by the establishment of an internal Audit Committee in 2010.

I am very pleased with what the Association has achieved this year. But we are facing a moving target, and we will have to continue to work hard to meet the challenges that lie ahead.



3. REPORT FROM THE IAIS SECRETARY GENERAL

Yoshihiro Kawai
IAIS Secretary General



It has been an extremely busy, but rewarding year for the Association as well as the Secretariat. Whilst the financial crisis has presented many challenges, the Secretariat has also viewed the crisis as a remarkable opportunity for the IAIS to strengthen cooperation between supervisors. Furthermore it enables the IAIS to promote more effective and globally consistent regulation and supervision that truly serves our globalised and inter-dependent insurance and financial industries.

During the year the Secretariat has assisted in identifying key strategic areas on which to concentrate the IAIS's efforts. This has helped to initiate changes that will improve our response capacity, help the Association make informed decisions in a timely manner and, once the decisions are made, implement them effectively.

As a result, over the past year the Secretariat, in cooperation with Members, has promoted the following initiatives:

- Development of new supervisory approaches to internationally active insurance groups, leading to the agreement to develop the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame)
- Enhancement of the IAIS's financial stability activities and IAIS's involvement in the Financial Stability Board, crystallised by the strengthening of the IAIS's position and presence at the FSB and the development of the IAIS's views on systemic risk and insurance, as well as the agreement to introduce macroprudential surveillance at the IAIS

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- Performance of strategic reviews in the five key areas of activities - standard setting, standard implementation, financial stability, external interaction, and enhancement of operational efficiency and effectiveness. Results were approved by the Executive Committee in June 2010 with endorsement to be sought at the General Meeting in October 2010
 - Comprehensive review and strengthening of the Insurance Core Principles (ICPs) taking into account lessons learned from the financial crisis and recent developments in insurance markets. The project has made steady progress and is expected to be completed by October 2011
 - Consideration of the IAIS's role in assessing observance of standards with a view to at least developing relevant and reliable self-assessment mechanisms

In addition to these initiatives the Secretariat is pleased to continue providing high-quality support and advice to the Association. In this context, the key tasks have been:

- Ensuring sound management of the Association's operations
- Organising and providing support for IAIS meetings (e. g. working parties meetings, triannuals meetings, and the Annual Conference)
- Producing timely and high-quality documents to support Members' discussions and decisions

The Secretariat's workload has continued to grow during 2009-10. The number of meetings that the Secretariat supports has also increased significantly. For example, the number of meetings held in Basel in 2009 was 70 percent

higher than that in 2008. The Secretariat is proud of having carried out these responsibilities within the confines of its limited resources.

The Association's strategic goals, along with required resources for the coming years have been clearly defined in the *Strategic Plan and Financial Outlook 2011-2015*. The Secretariat appreciates the decision of the Executive Committee to support the plan. The Secretariat in close coordination with the Executive Committee, Members and Observers is committed to enhancing the Association's effectiveness and efficiency in order to make it even more solid, stable and effective.

In the coming years we at the Secretariat look forward to maintaining the strong momentum that has been created and promoting the key strategic areas that the Association has identified. I appreciate your continuous support and commitment to IAIS activities.



4. REPORT FROM THE CHAIR OF THE FINANCIAL STABILITY COMMITTEE

Peter Braumüller

Chair, Financial Stability Committee

In October 2009 the IAIS formally established the Financial Stability Committee (FSC), with the mandate to:

- Develop the IAIS's strategy for contributing to global financial stability
- Co-ordinate IAIS activities with the Financial Stability Board (FSB) and the Group of Twenty (G-20) Finance Ministers and Central Bank Governors
- In cooperation with the Technical Committee and its subcommittees, develop IAIS supervisory material and analysis on issues related to financial stability, systemic risk and macroprudential supervision (including macroprudential tools) as they relate to insurance

The FSC held several meetings during which presentations were received from the FSB, the Basel Committee on Banking Supervision (BCBS), the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), the National Association of Insurance Commissioners (NAIC), the International Actuarial Association (IAA) and the Geneva Association. A briefing session was held for Observers in Basel in February 2010 and Observers were invited to attend part of the meeting in Washington in May 2010.

After research and analysis by the FSC, the IAIS published two position statements with the purpose of contributing to the overall debate on systemic risk and related financial stability

issues, and to ensure that there is a clear understanding of the nature of the insurance sector within that context. The statements set out how the IAIS is responding to issues that arose during the financial crisis. The key message is that the insurance sector is susceptible to systemic risks generated in other parts of the financial sector. However, for most classes of insurance there is little evidence of insurance either generating or amplifying systemic risk within the financial system itself or in the real economy.

The position statements also noted that non-regulated entities of financial conglomerates and some specific insurance activities, for example financial guarantee insurance, can generate or amplify systemic risk and may be instrumental to contagion risk spreading within conglomerates or between sectors.

The FSC is currently preparing further input for the FSB in relation to a report for the G-20 Leaders' Summit in Seoul on systemically important financial institutions. The IAIS's input will document the wide range of supervisory developments that are planned or underway to improve the soundness of all insurers, including large and complex insurers which are most relevant within the context of financial stability.

Another role of the FSC is to closely monitor the activities of the FSB, especially those related to reducing the likelihood and impact of failure of financial institutions and the handling of

issues pertaining to cross-border financial institutions. This includes direct participation at FSB plenary meetings and on the FSB's Steering Committee, Standing Committee on Supervisory and Regulatory Cooperation and Standing Committee for Standards Implementation.

The FSC also monitors the relevant activities of the BCBS and the Joint Forum and requests input from the IAIS Technical Committee and its subcommittees as required on specific issues, such as on the proposed changes to banking capital and liquidity requirements and proposals to reduce the reliance on credit ratings by supervisors and market participants. Minimising the potential for regulatory arbitrage is a key issue in promoting improved future financial stability and hence close co-ordination on a cross-sectoral basis is essential.

The *Global Reinsurance Market Report – 2010* mid-year edition published the results of a survey of Members on current and planned macroprudential surveillance. This disclosed that there was a high level of support for the IAIS to take a coordinating or even leadership role in insurance specific macroprudential surveillance. The proposed activities ranked most important were: contributions to the development of relevant knowledge and activities, liaison with the IMF, FSB, BCBS and IOSCO, and collection, aggregation, analysis and publication of data from Members and from large and complex insurers. These were key factors for the IAIS when it decided to enhance its macroprudential surveillance of the insurance sector.

The IAIS is currently putting in place the appropriate economic expertise to conduct macroprudential surveillance, including developing a network of experts. The IAIS will contribute to the development of a global framework in this regard by building on and expanding beyond the *Global Reinsurance Market Report*. It plans to leverage on information from other sources, such as individual supervisors, regional supervisory groups and the IMF. The IAIS will assess risks and vulnerabilities both arising within the global insurance sector and originating from other sectors where relevant to insurance.

In addition, the FSC is contributing to the IAIS's review of the Insurance Core Principles (ICPs). In particular, this year the FSC considered the responses from Members and Observers to the formal consultation on the proposed ICP on macroprudential supervision and market analysis.



5. REPORT FROM THE ACTING CHAIR OF THE TECHNICAL COMMITTEE

Monica Mächler

Acting Chair and Vice-Chair, Technical Committee



Under the strategic guidance of the Executive Committee, the Technical Committee and its subcommittees, are tasked with developing the IAIS's standard setting work.

The priorities identified in the two-year *Roadmap for Standard Setting within the Framework for Insurance Supervision* (approved November 2009), governed the work of the Technical Committee during 2010. The priorities highlighted were:

- A review of the Insurance Core Principles (ICPs) and corresponding standards and guidance material
- The provision of the IAIS's standard setting response to issues related to the financial crisis

With regard to the first priority the aim is to have a complete set of revised Insurance Core Principles (ICPs) with corresponding standards and, where practicable, guidance material ready for adoption at the October 2011 General Meeting. As part of this revision, all supervisory material is being reviewed and restructured. The ICPs will prescribe the features of a supervisory regime that supports and promotes a sound insurance sector. In the hierarchy of supervisory material, standards fall directly under the ICPs and are linked to individual ICPs. Standards set out the key high level requirements that are fundamental to the implementation of the ICPs. In order to demonstrate observance with an ICP, a jurisdiction must meet the requirements set out in the applicable standard. For each ICP or standard further elaboration may be provided in the form of guidance material.

Initially ICPs, standards and guidance are being released for consultation in clusters. The first set of material was released for consultation in February 2010. The final complete package of revised ICPs will be released for consultation following the February 2011 triannual meetings.

In addition the Technical Committee's further priority this year was providing a standard setting response to the financial crisis. Actions were taken to reinforce insurance regulation, particularly in the areas of governance, solvency, group supervision, and accounting with the overarching aim of improving the resilience of the global insurance sector. More detail is included in the individual subcommittee reports and in the table summarising standard setting achievements.

In addition, the IAIS regularly identifies and analyses pressure points and key risks in the global insurance sector based on jurisdictional observations and assessments of emerging issues by external bodies such as the Financial Stability Board (FSB) or our sister organisations – Basel Committee Banking Supervision (BCBS) and International Organisation of Securities Commissions (IOSCO). This helps us evaluate the adequacy of IAIS initiatives taken to address these risks and identify whether additional steps are needed. The IAIS will continue to update its own internal assessments to ensure our supervisory material remains comprehensive and reflects current industry and market developments.

The *Strategic Plan and Financial Outlook 2011-2015*, which will be submitted for approval at the 2010 General Meeting, sets out the Technical Committee's future priorities. At a high level, the goal for standard setting is promoting effective and transparent supervision of insurance markets through the development and issuance of global, sustainable and coherent supervisory material (principles, standards and guidance), while minimising opportunities for regulatory arbitrage. This goal is derived from the IAIS's mission statement, high-level goals, strategies and action plans that were approved by the Executive Committee in April 2010.

The proposed strategies for 2011-2015 that are relevant for the Technical Committee are:

- The completion and updating of a comprehensive set of high level, principles based supervisory material
- The provision of an adequate IAIS standard setting response to developments within industry structures and financial markets, as well as to evolving business practices and policyholder needs

Additional standard setting work on the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) will be pursued through a special task force reporting to the Executive Committee, consulting with the Technical Committee and working with the Technical Committee subcommittees.

Following the resignation of Alfred Gross, Virginia, USA, the undersigned (Vice-Chair), took over as Acting Chair. The IAIS would like to thank Mr Gross for his many years of service to the Association, especially those where he served as Chair of the Technical Committee. The position of Chair is expected to be filled soon.

H. Hechler

STANDARD SETTING ACHIEVEMENTS DURING 2009-10

The following material was developed during the year under review and is expected to be adopted by October 2010:

INSURANCE CORE PRINCIPLES (ICPS)	ICP 4 Licensing ICP 5 Suitability of Persons ICP 13 Reinsurance and Other Forms of Risk Transfer ICP 15 Regulatory Investment Requirements for Solvency Purposes ICP 16 Enterprise Risk Management For Solvency Purposes ICP 17 Capital Adequacy for Regulatory Solvency Purposes, including Internal Models for Regulatory Capital Purposes
STANDARDS AND GUIDANCE MATERIAL <i>LICENSING</i>	This document provides the standards and guidance for licensing a legal entity before it can engage in insurance activities within a jurisdiction.
STANDARDS AND GUIDANCE MATERIAL <i>SUITABILITY OF PERSONS</i>	This document provides the standards and guidance relating to the suitability of the insurers' Board Members, Senior Management, and Key Persons in Control Functions that are required to be and remain suitable to fulfil their respective roles.
STANDARDS AND GUIDANCE MATERIAL <i>REINSURANCE AND OTHER FORMS OF RISK TRANSFER</i>	These materials provide the standards and guidance relating to reinsurance and other forms of risk transfer.
STANDARDS AND GUIDANCE MATERIAL <i>REGULATORY INVESTMENT REQUIREMENTS FOR SOLVENCY PURPOSES</i>	These materials establish requirements and guidance for an insurer's investment activities to be open and transparent and for the objectives of those requirements to be explicit. The investment requirements address, at a minimum, the security, liquidity, and diversification of an insurer's portfolio of investments as a whole.
STANDARDS AND GUIDANCE MATERIAL <i>ENTERPRISE RISK MANAGEMENT (ERM) FOR SOLVENCY PURPOSES</i>	These materials provide requirements and guidance on the insurer's enterprise risk management framework, for the identification and quantification of risk, appropriate to the nature, scale and complexity of the risks the insurer bears and adequate for risk management, capital management and solvency purposes.
STANDARDS AND GUIDANCE MATERIAL <i>CAPITAL ADEQUACY FOR SOLVENCY PURPOSES</i>	These materials address the adequacy of available regulatory capital resources of the insurer (or insurance group) relative to the regulatory capital requirements for both solo and group-wide supervision.

STANDARDS AND GUIDANCE MATERIAL

*THE USE OF INTERNAL MODELS FOR
REGULATORY CAPITAL PURPOSES*

These materials provide a framework for the use, where allowed, of internal models as part of the overall requirements for capital adequacy for solvency purposes.

GUIDANCE MATERIAL

*TREATMENT OF NON-REGULATED ENTITIES IN
GROUP-WIDE SUPERVISION*

This guidance material addresses two forms of non-regulated entities (non-operating holding companies – NOHCs; and non-regulated operating entities – NROEs) and the risks posed from such entities to a group. The guidance considers three possible supervisory approaches – direct, indirect and hybrid – outlining their advantages and disadvantages. The paper concludes with 8 Key Features and a case study on AIG.

STANDARDS PAPER

*CROSS-BORDER COOPERATION ON
CRISIS MANAGEMENT*

The standards paper considers how to prepare for and how to manage cross-border crisis situations at an insurer. Its recommendations seek to protect policyholders and to prevent serious domestic or international financial instability which could have an adverse impact on the real economy.

STANDARDS PAPER

*GROUP-WIDE REGULATORY
REQUIREMENTS*

GUIDANCE MATERIAL

*GROUP-WIDE SUPERVISION
FRAMEWORK (GSF)*

The standards paper and guidance provide an overarching view of the key components of group-wide supervision and a structure/reference point of the relevant IAIS supervisory materials on group-wide supervision. It translates the IAIS Framework for Insurance Supervision into a group-wide supervision context.

ISSUES PAPER

*REGULATION AND SUPERVISION OF MUTUALS,
COOPERATIVES AND OTHER COMMUNITY-
BASED ORGANISATIONS*

This paper, prepared jointly with the Micro Insurance Network (MIN), discusses the role that mutuals, cooperatives and other community-based organisations (MCCOs) perform to improve the effective provision of insurance services in some jurisdictions to groups of the population that would otherwise be underserved. It provides input to insurance supervisors when applying the IAIS ICPs for appropriate and effective regulation and supervision of MCCOs in emerging market jurisdictions.

MARKET REPORT

*GLOBAL REINSURANCE MARKET REPORT
(GRMR) – 2009 YEAR-END EDITION*

The GRMR year-end edition 2009 was released in December 2009. As with previous report, this GRMR is based on data submitted by the world's largest reinsurers and assesses reinsurance market stability and linkages.

MARKET REPORT

*GLOBAL REINSURANCE MARKET REPORT
(GRMR) – 2010 MID-YEAR EDITION*

GRMR mid-year edition 2010 focuses on macroprudential surveillance and the performance of the reinsurance sector during the crisis.

STANDARD SETTING ACTIVITIES OF THE TECHNICAL COMMITTEE SUBCOMMITTEES

The Technical Committee oversees and steers this work.

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

ACCOUNTING SUBCOMMITTEE

The Accounting Subcommittee monitors accounting developments related to insurers and insurance supervision. It responds on behalf of the IAIS where appropriate, including by providing 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 also provides input to the International Federation of Accountants on auditing standards developed by its standard setting board, the International Auditing and Assurance Standards Board (IAASB), and liaises with other organisations dealing with matters of mutual interest. The Accounting Subcommittee is responsible for public disclosure issues. As such its main focus this year has been the development of a revised ICP on public disclosure along with relevant standards and guidance, which will be based on the three existing disclosure standards. Michel Colinet, Belgium became the Acting Chair of the Accounting Subcommittee when Henning Göbel, Germany, stepped down. Mr Göbel contributed significantly to the work of the IAIS during his involvement both before and during his time as Chair of the Accounting Subcommittee and represented the IAIS in a number of public fora. The IAIS sincerely thanks him for his contribution. The position of Chair is expected to be filled soon.

GOVERNANCE AND COMPLIANCE SUBCOMMITTEE

The Governance and Compliance Subcommittee develops supervisory material on corporate governance applicable to the insurance industry and is responsible for revisions to the relevant ICPs. Further to the *Issues Paper on Corporate Governance* released jointly with the OECD in July 2009, the subcommittee finalised the ICP on licensing and is in the process of concluding revisions to other ICPs relating to suitability of persons, corporate governance and internal control functions. The subcommittee has actively discussed the core elements of governance including governance structures, functions of the board, suitability of persons,

remuneration, control functions, disclosures and transparency, relationship with stakeholders and interaction with the supervisor. To obtain the views of the wider membership of the IAIS, the subcommittee conducted a survey on remuneration practices and used the findings in developing the standards and guidance for the ICP on corporate governance. The Subgroup on Micro insurance, which currently assists with capacity building initiatives, reports to this subcommittee. This subgroup recently finalised the draft Issues Paper entitled *Regulation and Supervision of Mutuals, Cooperatives and other Community-based Organisations* with an aim to increasing access to insurance markets. The paper is expected to be published in September 2010. The Governance and Compliance Subcommittee is chaired by Maarten Hage, Netherlands and its Vice-Chair is Ann Nee Kee, Singapore.

INSURANCE CONTRACTS SUBCOMMITTEE

The 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 material on the valuation of assets and liabilities, including technical provisions, for solvency purposes. This work is conducted through the Joint Valuation Working Group, chaired by Stuart Wason, Canada. 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 IAIS is currently revising the ICPs along with corresponding standards and guidance material. The ICPs have been allocated to working parties for review in line with their areas of expertise. The ICP Coordination Group is responsible for coordinating the ICP review to ensure comprehensiveness and consistency of approach, to resolve any issues of overlap between working parties, to identify any gaps between current supervisory papers which would need to be filled to promote a high level of implementation of the ICPs, and ultimately to provide a revised set of ICPs in time for adoption at the Annual General Meeting in October 2011. Once completed, the ICPs will be the highest level in the hierarchy of IAIS supervisory material and form the overall umbrella for all other supervisory material. 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 (IGSC) develops supervisory material on group-wide supervision and is responsible for revisions to the relevant ICPs. The IGSC also plays a central role in coordinating Joint Forum issues within the IAIS. This year the subcommittee completed two important supervisory documents closely linked to the global financial crisis - the *Standards Paper on Cross-border Cooperation on Crisis Management* and the *Guidance Paper on Treatment of Non-Regulated Entities in Group-Wide Supervision*. The standard provided a prompt standard setting response on how insurance supervisors should cooperate with the relevant authorities in order to prevent serious domestic or international instability and to protect policyholders. The standard was based on the *FSB Principles for Cross-border Cooperation on Crisis Management* but translated into an insurance context.

The guidance addresses some of the regulatory gaps observed in the global financial crisis. The guidance was widely accepted as a timely response to recommendations from the G-20, FSB and the Joint Forum to review the scope of financial regulation in the different sectors. The IGSC also finalised the *Standard on Group-Wide Regulatory Requirements* and the corresponding *Guidance on Group-Wide Supervision Framework* which provide an overarching view of the key components of group-wide supervision and will form part of the ICP on group-wide supervision. Axel Oster, Germany will continue as Chair of the IGSC until October 2010. Craig Swan, Bermuda is the Vice-Chair.

MARKET CONDUCT SUBCOMMITTEE

The Market Conduct Subcommittee is charged with developing supervisory material on insurers' and intermediaries' behaviour in the marketplace. The subcommittee is responsible for revisions to the relevant ICPs and developing corresponding standards and guidance. The subcommittee has actively discussed issues relating to the selling and handling of insurance products and services, disclosure of information to customers, and policyholder protection matters. Building on existing work on market conduct and insurance intermediaries, the subcommittee is revising the ICPs relating to conduct of business and insurance intermediaries. This subcommittee oversees the work of the Insurance Fraud Working Group which analyses fraudulent activities committed by or against insurance companies and drafts material on the prevention and detection of insurance fraud and on anti-money laundering and combating the financing of terrorism (AML/CFT). The working group 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

The Pension Coordination Group (PCG) actively implements the working agreement between the IAIS and the International Organisation of Pension Supervisors (IOPS) by reviewing and commenting on the IOPS guidelines, thus monitoring the consistency of the standard setting work and the publications of the two groups. 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 year, the subcommittee had a joint meeting with IOPS and met to discuss a workplan and general priorities for the following two years. The Pension Coordination Group is chaired by Julia Cillikova, Slovakia and its Vice-Chair is Nigel Woodroffe, Jersey.

REINSURANCE AND OTHER FORMS OF RISK TRANSFER SUBCOMMITTEE

The Reinsurance and Other Forms of Risk Transfer Subcommittee developed a new ICP on this topic, along with corresponding standards and guidance, which were released for official consultation in June 2010. Also the subcommittee has continued to explore ways to facilitate recognition of reinsurance supervision amongst supervisors in line with the *Guidance Paper on Mutual Recognition of Reinsurance Supervision* (October 2008).

The subcommittee oversees the work of the Reinsurance Transparency Subgroup (RTG), 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 in the reinsurance sector. Since 2009 the report has been released in two editions: a mid-year report covering qualitative market developments and the year-end report covering more quantitative aspects. The first mid-year edition, focusing on developments in (re)insurance securitisation, was released in August 2009. The year-end edition was released in December 2009. Both GRMR editions attracted significant media attention. In early 2010 the Reinsurance Subcommittee and the RTG were tasked by the Executive Committee to undertake an IAIS-wide survey of macroprudential surveillance. Preliminary results were

considered by various committees, including the Technical and the Financial Stability Committees. The 2010 GRMR mid-year edition displayed results on macroprudential surveillance. In addition it has a section on the performance of the reinsurance sector during the recent financial crisis. Jeremy Cox, Bermuda, serves as the Vice-Chair of the Reinsurance and Other Forms of Risk Transfer Subcommittee and as the Chair of the Reinsurance Transparency Subgroup. The Reinsurance and Other Forms of Risk Transfer Subcommittee is chaired by 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. It develops supervisory material on these topics and this year completed the standards and guidance on *Regulatory Investment Requirements for Solvency Purposes*, *Capital Adequacy for Solvency Purposes*, *Enterprise Risk Management (ERM) for Solvency Purposes* and *The Use of Internal Models for Regulatory Capital Purposes*. The material represents a substantial development of the solvency related suite of supervisory material and, via extension, the application of these papers from insurance legal entities to insurance groups. They also reflect issues that emerged during the financial crisis, including pressure points identified by Technical Committee (such as the need for stronger ERM, liquidity management and asset liability management). The subcommittee supported regional seminars and held a joint meeting with the Solvency Subcommittee of the International Actuarial Association.

Together with the Insurance Contracts Subcommittee, this subcommittee is developing supervisory material on the valuation of assets and liabilities, including technical provisions, for solvency purposes. Ongoing work by the subcommittee includes the development of working material on supervisory review and reporting. The Solvency and Actuarial Issues Subcommittee will be chaired by Rob Curtis, United Kingdom until October 2010. Its Vice-Chairs are Dr. R. Kannan, India, and Ramon Calderon, NAIC, USA.

6. REPORT FROM THE CHAIR OF THE COMMON FRAMEWORK FOR THE SUPERVISION OF INTERNATIONALLY ACTIVE INSURANCE GROUPS TASK FORCE

Monica Mächler

Chair of ComFrame Task Force

The IAIS commenced the development of the Common Framework for the Supervision of Internationally Active Insurance Groups (or ComFrame) on 1 July 2010.

The development of ComFrame comes against a background of the increasingly larger relevance of insurance groups including those that are internationally active. This begs a coherent, meaningful and sustainable policy response from the IAIS regarding internationally active insurance groups (or IAIGs). IAIGs engage in activities in and across several countries and markets and aim at achieving synergies in many regards including by the pooling of risks and by optimising financial efficiency. This may include the transferring of risks from one part of the group to another, often on a cross-border basis.

However, it is still the case that no internationally coherent framework is currently available. In light of this, the IAIS took stock and looked at some of the on-going work on group-wide supervision around the world and also shared various experiences amongst its Members. It was agreed that there is still room for improvement in group supervision. It also became clear that supervisors needed better approaches to understand how IAIGs actually organise themselves and operate. It was also recognised that only a few IAIS Members are primarily home jurisdictions whereas a large number of IAIS Members are host jurisdictions for smaller or larger parts of IAIGs. A better structured approach to increase cooperation and information sharing between home and host supervisors is crucial to get a holistic picture of the group.

As a result, ComFrame will:

- **Develop methods of operating group-wide supervision of Internationally Active Insurance Groups (IAIGs)** in order to make group-wide supervision more effective and more reflective of actual business practices;

- **Establish a comprehensive framework for supervisors to address group-wide activities and risks and also set grounds for better supervisory cooperation** in order to allow for a more integrated and international approach;
- **Foster global convergence** of regulatory and supervisory measures and approaches.

ComFrame will not directly address systemic risk per se. However, it is the belief of the IAIS that when ComFrame is implemented and functional, supervisors will have improved tools and means to address, and where possible, mitigate risk that may affect insurers. Fundamentally, ComFrame is intended to be a comprehensive, well balanced framework that focuses *equally* on both *quantitative* and *qualitative* elements.

ComFrame builds on several key Modules which are further elaborated by corresponding Elements. This structure has been designed to allow ComFrame to compartmentalise the various pieces of work and develop them separately yet in a well coordinated manner. A Concept Paper that provides an in-depth overview of the framework will be completed by mid 2011.

Each Element is assigned a specific Priority - A, B or C - depending on the timing of delivery. Priority A Elements will be ready for consultation by the end of the first year (1 July 2011), Priority B Elements by the end of the second year (1 July 2012), and Priority C Elements by the end of the third year (1 July 2013). The three year development phase will be followed by impact assessments to work out some of the calibrations and parameters necessary for certain requirements.



7. REPORT FROM CHAIR OF THE IMPLEMENTATION COMMITTEE

J. Hari Narayan

Chair, Implementation Committee



The financial landscape has changed significantly as a result of the financial crisis. Taking into account new developments, particularly those resulting from pronouncements by the Group of Twenty (G-20) Finance Ministers and Central Bank Governors and Financial Stability Board (FSB), the IAIS realised that the focus of implementation activities must now shift to areas such as supervisory cooperation and the assessment of observance of standards. As a result, the *Strategic Plan and Financial Outlook 2011-2015* identifies these activities, along with education, as the main areas of work to be covered under standard implementation beginning immediately after the October 2010 General Meeting.

In line with a new strategic direction, the IAIS has been exploring how a programme of self-assessment and peer reviews can be taken forward to strengthen the effectiveness of the observance with the ICPs, standards and guidance in priority areas. In addition where Members identified shortcomings, implementation efforts will need to be refocused and improved. The Implementation Committee established an ad-hoc working group to develop a pilot exercise on peer review. In this regard a detailed questionnaire is being prepared and tested so that it can be tabled for approval at the October triannual meetings. The pilot exercise is expected to be completed by June 2011. The pilot exercise will provide a useful insight for the development of an IT based tool for self-assessment of the revised ICPs that are due to be ready next year.

The Multilateral Memorandum of Understanding (MMOU) regime has been operational since June 2009. 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. As of September 2010, ten signatories have been approved. In order to encourage more Members to become signatories and to expedite the application approval process, a web-based tool for MMOU application and subsequent review has been successfully developed.

During the period from October 2009 to September 2010, the IAIS sponsored and helped organise 11 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 ICPs and the supervisory materials 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 line with the language priorities and allocated budget constraints of the IAIS, the goal of the enhanced translation initiative for 2010-2011 is to complete and review translations into Spanish, French and Arabic of top priority Core Curriculum modules and selected supervisory papers.

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

REPORT ON IMPLEMENTATION ACTIVITIES

The *Strategic Plan and Financial Outlook 2011-2015*, which will be submitted for approval at the 2010 General Meeting, sets out the Implementation Committee's future priorities. At a high level, the goal for standard implementation, derived from the IAIS's mission statement, high-level goals, strategies and action plans that were approved by the Executive Committee in April 2010, is promoting the development of fair, safe and stable insurance markets through the implementation of supervisory principles, standards and guidance, the assessment of their implementation, and cooperation among insurance supervisors.

This is dependent on the practical and effective implementation of 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.

To carry out its strategic activities, 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 regional seminars and monitors progress against plans and milestones. The subcommittee is chaired by J. Hari Narayan, India.

REGIONAL COORDINATION SUBCOMMITTEE

The Regional Coordination Subcommittee is responsible for various implementation activities at the regional level such as: identifying training needs and providers; coordinating translation activities; promoting the IAIS and recruiting new Members and Observers. Regional Coordinators are in place to assist implementation activities within their respective regions and to share their experiences and coordinate with others across regions.

Regional Coordinators represent: Americas; Asia & Oceania; Central, Eastern Europe & Transcaucasia; Middle East & North Africa; Offshore & Caribbean Islands; Sub Sahara Africa; Western Europe; and French-speaking jurisdictions. The subcommittee is chaired by Michael Oliver, Gibraltar and its vice-chair is Walid Genadry, Lebanon.

INSURANCE LAWS, REGULATIONS, PRACTICES AND STANDARDS SUBCOMMITTEE

The Insurance Laws, Regulations, Practices and Standards Subcommittee (ILS) maintains databases on insurance regulations with the support of the Regional Coordination Subcommittee and analyses information through the Insurance Laws Database (ILD). The ILS held information sessions at the Taipei and Rio meetings and conducted analysis on the usage of the ILD in 2009. The subcommittee is chaired by François Tempé, France.

TASK FORCE ON INFORMATION GATHERING AND ANALYSIS

The Task Force on Information Gathering and Analysis (TFIG) is developing an application paper. Its purpose is to improve the understanding of concepts and methodologies for information gathering and data analysis to assist in the implementation of IAIS principles and standards and to promote consistency, comparability, accuracy, transparency and reasonableness in this subject matter.

The final version of the draft *Application Paper on Information Gathering and Analysis* is expected to be completed and submitted to the Implementation Committee and Executive Committee for adoption in 2010. The task force is chaired by Norma Rosas, México.

SIGNATORIES WORKING GROUP

The Signatories Working Group (SWG) is responsible for monitoring the validation of applications received from interested IAIS Members, commenting on validation reports and recommending applicants for becoming signatories to the IAIS MMoU. The formal transition of the Interim SWG into the SWG took place in June 2010 with the admission of the tenth MMoU signatory.

Insurance markets have always been interrelated and it is important that entities operating across borders be effectively regulated. This cannot be achieved without the cooperation envisioned in the IAIS MMoU. The MMoU is a framework for cooperation and exchange of information, setting out minimum standards to which signatories must adhere to bolster cross border supervision of insurance companies. Exchange of supervisory information subject to a high standard of confidentiality protection is an essential regulatory tool to promote sound oversight of the insurance market, including financial integrity and appropriate customer protection. The Signatories Working Group is chaired by Richard Walker, Guernsey.

The MMoU signatories as on 30 September 2010 include:

- Australia: Australian Prudential Regulation Authority
- Austria: Financial Market Authority
- Bermuda: Bermuda Monetary Authority

- Chinese Taipei: Financial Supervisory Commission
- France: Autorité de Contrôle des Assurances et des Mutuelles of France (now integrated into Autorité de Contrôle Prudentiel)
- Germany: Federal Financial Supervisory Authority (BaFin) of Germany
- Mexico: Comisión Nacional de Seguros y Fianzas
- Netherlands: De Nederlandsche Bank
- Romania: Insurance Supervisory Commission
- Singapore: Monetary Authority of Singapore

ACCESS TO INSURANCE INITIATIVE

The Access to Insurance Initiative (the Initiative) (www.access-to-insurance.org) is a global partnership between the IAIS, the German Ministry of Economic Cooperation and Development (BMZ) together with the German Technical Cooperative (GTZ) who acts on its behalf (and who hosts the Secretariat of the Initiative), the Consultative Group to Assist the Poor (CGAP), the International Labour Organisation (ILO) and the South Africa-based FinMark Trust. The Initiative is chaired by Jonathan Dixon, South Africa.

The purpose of the Initiative is to strengthen the capacity of policymakers, regulators, and supervisors seeking to advance insurance market access by promoting sound, effective and proportionate regulation and supervision of insurance markets that will facilitate the growth in availability of insurance products appropriate for low income consumers.

The Initiative assists in the application of insurance supervisory material in specific circumstances and provides support, in particular to emerging markets, in the implementation of ICPs and standards in micro insurance. In conjunction with the G-20 and other initiatives, it helps to develop and

maintain sound insurance markets by coordinating technical assistance and support in terms of country diagnostics, country coaching and capacity building.

OTHER IMPLEMENTATION ACTIVITIES

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

TRANSLATIONS

The IAIS recognises the need for IAIS papers to be translated into a number of different languages so that they can be better understood and implemented 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 translation of top priority Core Curriculum modules and selected supervisory papers into French and Arabic has been progressing satisfactorily with a completion target date of June 2011.

TRAINING SEMINARS

In collaboration with other organisations, the IAIS arranges regional seminars for insurance supervisors. The seminars focus on specific ICPs or other supervisory issues depending on the interest and needs of the audience. A list of seminars held during the year 2009-10 is included in Appendix II. The IAIS also organises an annual global seminar to address its most recent standard setting achievements and emerging issues. This year's global seminar took place in June, back-to-back with the triannual meetings held in Bahrain.

COOPERATION WITH EXTERNAL ORGANISATIONS

The continued cooperation with other international organisations – including the Financial Stability Institute (FSI), Financial Sector Reform and Strengthening (FIRST) Initiative, the Geneva Association, the International Monetary Fund (IMF), the National Association of Insurance Commissioners (NAIC), the Organisation for Economic Cooperation and Development (OECD), the Toronto Centre and the World Bank – has helped enormously in providing emerging markets with 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.

8. REPORT FROM THE CHAIR OF BUDGET COMMITTEE

Victor Rod
Chair, Budget Committee



The 2009 IAIS financial statements were audited by Deloitte AG for the second consecutive year and the auditors raised no management issues. The audited financial statements show a surplus CHF 331,666 compared to the approved budget of CHF 25,000. The higher than budgeted surplus was due mainly to higher recruitment of new Members than expected, lower salary and benefits, relocation, website and editing costs and a surplus from the 2009 Annual Conference held in Rio de Janeiro, Brazil. Offsetting these favourable amounts was a decrease in the number of Observers, higher meeting costs, the costs associated with conducting an independent survey (approved by Executive Committee) for input into the strategic planning exercise and a provision for unpaid 2009 Member and Observer fees. The 2009 surplus further strengthens the reserve and this will provide a solid funding base to support the planned new initiatives set out in the *Strategic Plan and Financial Outlook 2011-2015*.

The financial statements were prepared according to Swiss law and, where possible, International Financial Reporting Standards have been considered. Budgeted amounts for implementation activities that are not incurred in a particular year remain earmarked for these activities. As a result, the financial statements include an accumulated provision for standard implementation activities totalling CHF 728,690 representing the difference between budgeted amounts and the expenses actually incurred in 2008 and 2009.

The IAIS continues to maintain its conservative investment policy and has invested an amount representing its target reserve in a Swiss Government bond in view of prevailing market conditions to provide a high degree of capital security.

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 2009 by the Bank for International Settlements, the China Insurance Regulatory Commission, the Financial Supervisory Commission (Chinese Taipei), 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 2010 Annual Conference results, the 2010 financial year will end with a surplus slightly greater than the CHF 14,316 that had been budgeted. The higher surplus is mainly due to lower than projected salary and benefits and relocation costs and marginally higher revenue from Member and Observer fees.

IAIS Member fees are structured according to categories determined by a combination of Gross Domestic Product (GDP) and insurance market size. The *Workplans and Financial Outlook 2008-2012* set out fees for five years and categorised jurisdictions using 2002 GDP and insurance market data. An analysis of Member fees using more up-to-date GDP and insurance market data revealed that about one third of jurisdictions should be allocated to a higher fee category. The Budget Committee fully supports updating the GDP and insurance market data to ensure jurisdictions are allocated to fee categories using the most recently available data.

The Budget Committee has contributed to the *Strategic Plan and Financial Outlook 2011-2015* by reviewing financial projections and fee scenarios to ensure the Association has sufficient funding to maintain a stable platform to support activities over the next five years.

A handwritten signature in black ink, appearing to be 'VR', written in a stylized, cursive manner.

9. AUDITOR'S REPORT



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Independent Auditor's Report

To the Members of the
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS), 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 2009, the Statement of Activities, Statement of Cash Flows and the Notes for the year then ended.

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 2009 comply with relevant Swiss law and the by-laws of the IAIS.

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

Deloitte AG

Tobias Pfeiffer
Partner

Christophe Aebi
Manager

Basel, 17 June 2010
TPF/CAE/ywi

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

10. FINANCIAL STATEMENTS

International Association of Insurance Supervisors

Statement of Financial Position

As at 31 December 2009

(in Swiss francs)

	Note	2009	2008
ASSETS			
Cash and cash equivalents	6	4,475,311	3,183,141
Investments held to maturity	7	3,093,212	3,059,836
Accounts receivable	8	1,730,318	749,752
Prepayments		12,265	-
Total assets		9,311,106	6,992,729
LIABILITIES			
Accounts payable	9	2,541,660	1,126,329
Deferred revenue	10	811,731	676,532
Advances received	4	2,202	2,272
Provision for standard implementation activities	14	728,690	292,439
Total liabilities		4,084,283	2,097,572
UNRESTRICTED NET ASSETS			
Balance brought forward from previous year		4,895,157	4,326,061
Net result from activities		331,666	569,096
Total unrestricted net assets		5,226,823	4,895,157
Total liabilities and unrestricted net assets		9,311,106	6,992,729

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 2009
(in Swiss francs)

	Note	2009	2008
OPERATING REVENUE			
Membership fees		2,536,000	2,190,750
Observership fees		1,611,000	1,496,000
Annual conference income	12	1,695,377	727,303
Total operating revenue		5,842,377	4,414,053
OPERATING EXPENSES			
Administration	11	25,433	23,177
Annual conference expenses	12	1,670,918	588,460
Audit		8,067	5,100
Editing		1,313	7,969
Standard implementation activities	14	157,749	137,561
Provision for standard implementation activities	14	436,251	292,439
Meetings		43,430	28,605
Provision for bad debts	8	129,120	2,000
Relocation		73,400	39,318
Salaries		2,494,498	2,303,264
Staff training		3,006	-
Travel		378,945	304,461
Survey		40,000	-
Website		20,423	69,952
Total operating expenses		5,482,553	3,802,306
Net result from activities before investment income and exchange rate movements		359,824	611,747
Investment (loss)/income	13	(20,976)	(15,708)
Net foreign exchange (loss)/income	15	(7,182)	(26,943)
Net result from activities		331,666	569,096

The accompanying notes form part of these financial statements.

International Association of Insurance Supervisors
Statement of Cash Flows
For the year ended 31 December 2009
(in Swiss francs)

	Note	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net results from activities		331,666	569,096
Adjustments for:			
Investment loss/(income)		20,976	15,708
Net foreign exchange loss		7,182	26,943
		359,824	611,747
Decrease/(increase) in accounts receivable		(980,566)	105,873
Decrease/(increase) in prepayments		(12,265)	-
(Decrease)/increase in accounts payable		1,415,331	42,641
(Decrease)/increase in deferred revenue		135,199	56,282
(Decrease) in advances received		(70)	(131)
Increase in provision for standard implementation activities		436,251	292,439
Net cash from operating activities		1,353,704	1,108,851
CASH FLOWS/(USED IN) FROM INVESTING ACTIVITIES			
Proceeds from maturity of bond, including interest		3,063,375	2,055,250
Purchase of bonds		(3,199,269)	(3,037,345)
Interest received, other than on bonds	13	13,292	44,012
Interest received on bonds held		68,250	-
Withholding taxes written off	13	-	(53,431)
Net cash from/(used in) investing activities		(54,352)	(991,514)
Effects of exchange rate changes on cash and cash equivalents		(7,182)	(26,944)
Net increase in cash and cash equivalents		1,292,170	90,393
Cash and cash equivalents at beginning of year	6	3,183,141	3,092,748
Cash and cash equivalents at end of year	6	4,475,311	3,183,141

The accompanying notes form part of these financial statements.

International Association of Insurance Supervisors

Notes to the Financial Statements

Year ended 31 December 2009

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 re-translation 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.

International Association of Insurance Supervisors

Notes to the Financial Statements

Year ended 31 December 2009

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.

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 2009 was USD 2,131 (CHF 2,202).

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 368,398. Funds are held in a separate CHF-denominated bank account with a balance of CHF 326,844 as at 31 December 2009. All transactions are financially independent from the IAIS and the financial records are independently audited.

IAIS Education Fund

The balance held in bank accounts as at 31 December 2009 was equivalent to CHF 138,090. 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

	2009	2008
USD Current accounts	211,944	268,004
CHF Current accounts	4,246,900	2,908,829
EUR Current accounts	16,467	6,308
	4,475,311	3,183,141

International Association of Insurance Supervisors

Notes to the Financial Statements

Year ended 31 December 2009

	2009	2008
7. INVESTMENTS		
Investments held to maturity		
Swiss Government bond:		
At amortised cost	3,093,212	3,059,836

As at 31 December 2009 a 3.50% (SWX) bond with a nominal value of CHF 3,000,000 was held, which matures on 7 August 2010.
The investment was accounted for using the effective interest method, net of withholding tax (using a rate of -1.35%). See also Note 13.

	2009	2008
8. ACCOUNTS RECEIVABLES		
Annual conference (Note 12)	1,695,377	727,303
Membership fees receivable	139,299	23,320
Other	10,942	21,129
	1,845,618	771,752
Less: provision for bad debts	(115,300)	(22,000)
	1,730,318	749,752

	2009	2008
MOVEMENT IN PROVISION FOR BAD DEBTS:		
Opening balance	22,000	-
Provision made during the year	96,120	22,000
Doubtful debts recovered	11,000	(20,000)
Charge to operating expenses	129,120	2,000
Bad debts written off	(13,820)	20,000
Closing balance	115,300	22,000

	2009	2008
9. ACCOUNTS PAYABLE		
Annual conference expenses (Note 12)	1,647,929	579,672
Audit	8,000	7,000
Bank for International Settlements	585,923	308,039
Seminars	75,902	68,969
Website improvements	31,265	48,627
Relocation	8,191	30,000
Survey	40,000	-
Other	144,450	84,021
	2,541,660	1,126,329

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

International Association of Insurance Supervisors

Notes to the Financial Statements

Year ended 31 December 2009

	2009	2008
10. DEFERRED REVENUE		
Membership fees	437,473	364,032
Observership fees	374,258	312,500
	811,731	676,532

As at 31 December 2009 some members and observers had paid fees in advance for the year 2010. These amounts will be reflected as income in the Statement of Activities for 2010.

	2009	2008
11. ADMINISTRATION		
Bank charges	6,954	5,429
Copies & postage	777	2,047
Printing & documentation	6,215	6,350
Telephone & fax	11,487	9,351
	25,433	23,177

	2009	2008
12. ANNUAL CONFERENCE		
Income		
2009 (2008) conference fee and sponsorship income (Note 8)	1,695,377	727,303
Expenditure		
Other 2009 conference expenditure incurred by host (Note 8)	1,647,929	
Other 2009 conference expenditure paid	22,989	
Other 2008 conference expenditure incurred by host		579,672
Other 2008 conference expenditure paid		8,788
	1,670,918	588,460

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.

	2009	2008
13. INVESTMENT INCOME		
Interest on:		
Bank accounts	13,292	38,945
Money market deposits	-	5,067
	13,292	44,012
Interest on bonds	(34,268)	23,461
Less: withholding taxes:		
On maturity of bond	-	(29,750)
Write-off of prior year accrual	-	(53,431)
	(20,976)	(15,708)

International Association of Insurance Supervisors

Notes to the Financial Statements

Year ended 31 December 2009

Following the change in accounting for withholding tax in 2008, the Association now presents interest net of withholding tax. The withholding tax recoverable amount as at 31 December 2007 of CHF 53,431 was expensed against 2008 investment income. See also Note 2.

Interest on bonds is subject to withholding tax of 35%. The purchase price paid for the bond acquired in February 2009 included the difference between the stated interest rate of 3.50% and the effective interest rate of 0.22%. Because withholding tax applies at the stated rate, the effective rate was reduced to -1.35% net of withholding tax. See also Note 7.

14. PROVISION FOR STANDARD IMPLEMENTATION ACTIVITIES

In 2009, CHF 594,000 (2008: 430,000) was budgeted for standard implementation activities and actual expenses incurred were CHF 157,749 (2008: 137,561). The remaining amount totalling CHF 436,251 (2008: 292,439) was set up as a provision for standard implementation activities in the 2009 financial statements. As at 31 December 2009, the accumulated provision for standard implementation activities totalled 728,690. See also Note 2

15. INVESTMENT POLICY AND RISK MANAGEMENT

The Budget Committee meets on a triannual 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 2009 the IAIS's investment in financial assets other than cash comprised of an investment in a Swiss government bond held to maturity (see Note 6 above), minimising exposure to credit risk and market risk.

Liquidity risk

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

Foreign currency risk

The revenue and expenditure of the Association are predominantly received and paid in Swiss francs. To minimise the exposure of investments to foreign currency risk, investment were held in Swiss franc-denominated financial assets as at 31 December 2009. 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 : 1.03320 CHF (2008: 1.06585 CHF), and 1 EUR : 1.48471 CHF (2008: 1.48926 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 2009 annual conference was held in Rio de Janeiro, Brazil. Conference income was receivable in US dollars and the majority of conference expenditure incurred in Brazilian real. An exchange rate of 0.598 was used to convert the receivables and payables from Brazilian Real to Swiss Francs. See also Note 12 above.

Credit Risk

The major source of funding for the Association is Member and Observers fees. Members represents 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.

EXECUTIVE COMMITTEE MEMBERS

AUGUST 2010

Appendix I



Peter Braumüller
Austria
Financial Market Authority
Chair



Tatsuo Yamasaki
Japan
Financial Services Agency
Vice-Chair



Gustavo Marcelo Medone
Argentina
Superintendencia de Seguros de
la Nacion Argentina



Keith Chapman
Australia
Australian Prudential Regulation
Authority
Replaced John Trowbridge,
June 2010



Michel Flamée
Belgium
Commission bancaire, financière
et des assurances



Jeremy Cox
Bermuda
Bermuda Monetary Authority
Replaced Matthew Elderfield,
Jan 2010



David Oakden
Canada, OFSI
Office of the Superintendent of
Financial Institutions



Fernando Coloma
Chile
Superintendencia de Valores
y Seguros
Replaced Guillermo Larrain Rios,
June 2010



Dingfu Wu
China
China Insurance Regulatory
Commission



Adel Mounir
Egypt
Egyptian Financial Supervisory
Authority



Nik van Leuven
Guernsey
Guernsey Financial Services
Commission



Nóra Kiss
Hungary
Hungarian Financial Supervisory
Authority
Replaced Laszlo Asztalos,
Feb 2010

Appendix I

Executive Committee Members



J. Hari Narayan

India

Insurance Regulatory and
Development Authority

**Chair of Implementation
Committee**



Raed Haddadin

Jordan

Insurance Commission

Replaced Bassel Hindawi,
June 2010



In Seok Seong

Korea (Republic of)

Financial Supervisory Service

Replaced Joan Chang,
June 2010



Victor Rod*

Luxembourg

Commissariat aux Assurances

Chair of Budget Committee



Manuel Aguilera-Verduzco

Mexico

Comisión Nacional de Seguros
y Fianzas



Luz Foo

Singapore

Monetary Authority of Singapore

Replaced Kwok Mun Low,
July 2010

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



Jonathan Dixon
South Africa
Financial Services Board



Monica Mächler
Switzerland
Swiss Financial Market
Supervisory Authority
**Acting Chair of Technical
Committee**



Ken Hogg
United Kingdom
Financial Services Authority



Kevin McCarty
USA, Florida
Florida Office of Insurance
Regulation



George Brady
USA, NAIC
National Association of Insurance
Commissioners



Jane Cline
USA, West Virginia
West Virginia Department of
Insurance

2009-10 REGIONAL TRAINING SEMINARS

Appendix II

The IAIS assisted with or sponsored and organised the following training seminars for insurance supervisors during the year October 2009 to September 2010.

DATE	LOCATION	ORGANISER(S)	MAIN TOPICS
OCTOBER 2009	Accra, Ghana	FSI, IAIS	Risk-based supervision, Market conduct & intermediaries, Anti-money laundering & combating financing of terrorism, Micro insurance, IAIS MMOU
NOVEMBER 2009	Bangkok, Thailand	Association of South East Asian Nations (ASEAN) Insurance Training & Research Institute (AITRI), IAIS	Risk-based capital (introduction, models, accounting), Role of actuaries & rating agencies, Stress testing
NOVEMBER 2009	Lima, Peru	IAIS, Federación Interamericana de Empresas de Seguros (FIDES), Asociación de Supervisores de Seguros de América Latina (ASSAL)	Asset liability management; Fit & proper requirements and assessment, Exchange of supervisory information
MARCH 2010	Cotonou, Bénin	Conférence Interafricaine des Marchés d'Assurance (CIMA), IAIS, Direction Nationale des Assurances du Bénin	Anti-money laundering (AML), Recent IAIS developments on solvency, Recent investment products & opportunities for insurers in African financial markets
APRIL 2010	Beirut, Lebanon	FSI, IAIS, Insurance Control Commission of Lebanon	Supervisory assessment of solvency positions, Investment policies, Asset liability management, Off-site analysis, On-site inspection, Corporate governance, Market conduct & intermediaries
APRIL 2010	Jakarta, Indonesia	OSFI, IAIS, Ministry of Finance Indonesia, AITRI	Off-site analysis, On-site inspection, Interventions, Group-wide supervision, IAIS updates, Insurance companies operations, Supervisory cycle, Risk-based supervision, Report writing

APRIL 2010	Santiago, Chile	IAIS, ASSAL, Superintendencia de Valores y Seguros (SVS) Chile	Suitability of persons, Corporate governance, Consumer protection, Group-wide supervision, Market analysis, Solvency II, Risk assessment & management, Capital adequacy & solvency
MAY 2010	Belgrade, Serbia	FSI, IAIS, National Bank of Serbia	Risk-based solvency frameworks, Enterprise risk management, Internal models, Stress & scenario testing, Supervisory review & interventions, Group-wide supervision, Supervisory colleges
SEPTEMBER 2010	Jersey	Offshore Group of Insurance Supervisors (OGIS), IAIS	Supervisory cooperation and information sharing, Operating the IAIS MMOU, Risk management assessment, Risk assessment process, On-site inspections
SEPTEMBER 2010	Mombasa, Kenya	FSI, IAIS and Insurance Regulatory Authority of Kenya	Capital adequacy and solvency assessment, Technical provisions and valuation of assets and liabilities, Enterprise risk management and internal models, Investment policy and asset liability management
SEPTEMBER 2010	Mexico City, Mexico	ASSAL, FSI, IAIS	Reinsurance contracts and impact on the regulatory capital, Evaluating the reinsurance cover, Alternative risk transfers and related supervisory issues, Internal modelling and quantification of catastrophic risk

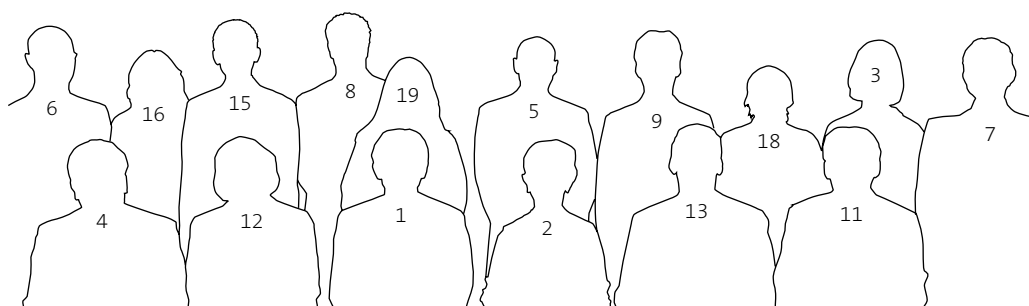
STAFF OF THE IAIS SECRETARIAT AUGUST 2010

Appendix III



The staff of the IAIS Secretariat play a key role in supporting the Association. Members of staff of the Secretariat from October 2009 to September 2010 were:

1. Yoshihiro Kawai Secretary General	8. John Maroney Member of the Secretariat	15. Jeffery Yong Member of the Secretariat
2. Catherine Lezon Deputy Secretary General	9. Takao Miyamoto *(FSA Japan) Member of the Secretariat	16. Sylvie Ellet Administrative Officer
3. Simone Amiet Member of the Secretariat	10. Mala Nag, <i>from February 2010</i> Member of the Secretariat	17. Anne-Marie Kelly Administrative Officer
4. Arup Chatterjee Member of the Secretariat	11. Jason Park *(FSS, Republic of Korea) Member of the Secretariat	18. Ann Neale Administrative Officer
5. Peter Cooke, <i>from January 2010</i> Member of the Secretariat	12. Nancy Sinclair Member of the Secretariat	19. Carine Notter *(BIS) Technical Administrator
6. Kuni Kawasaki *(FSA Japan) Member of the Secretariat	13. Sebastian Von Dahlen *(BaFin, Germany) Member of the Secretariat	Lone Mørup, <i>until October 2009</i> Former Member of the Secretariat
7. Frank Lin *(FSC Chinese Taipei) <i>from December 2009</i> Member of the Secretariat	14. Peter Windsor Member of the Secretariat	Ryan Workman *(NAIC, USA), <i>until March 2010</i> Former Member of the Secretariat



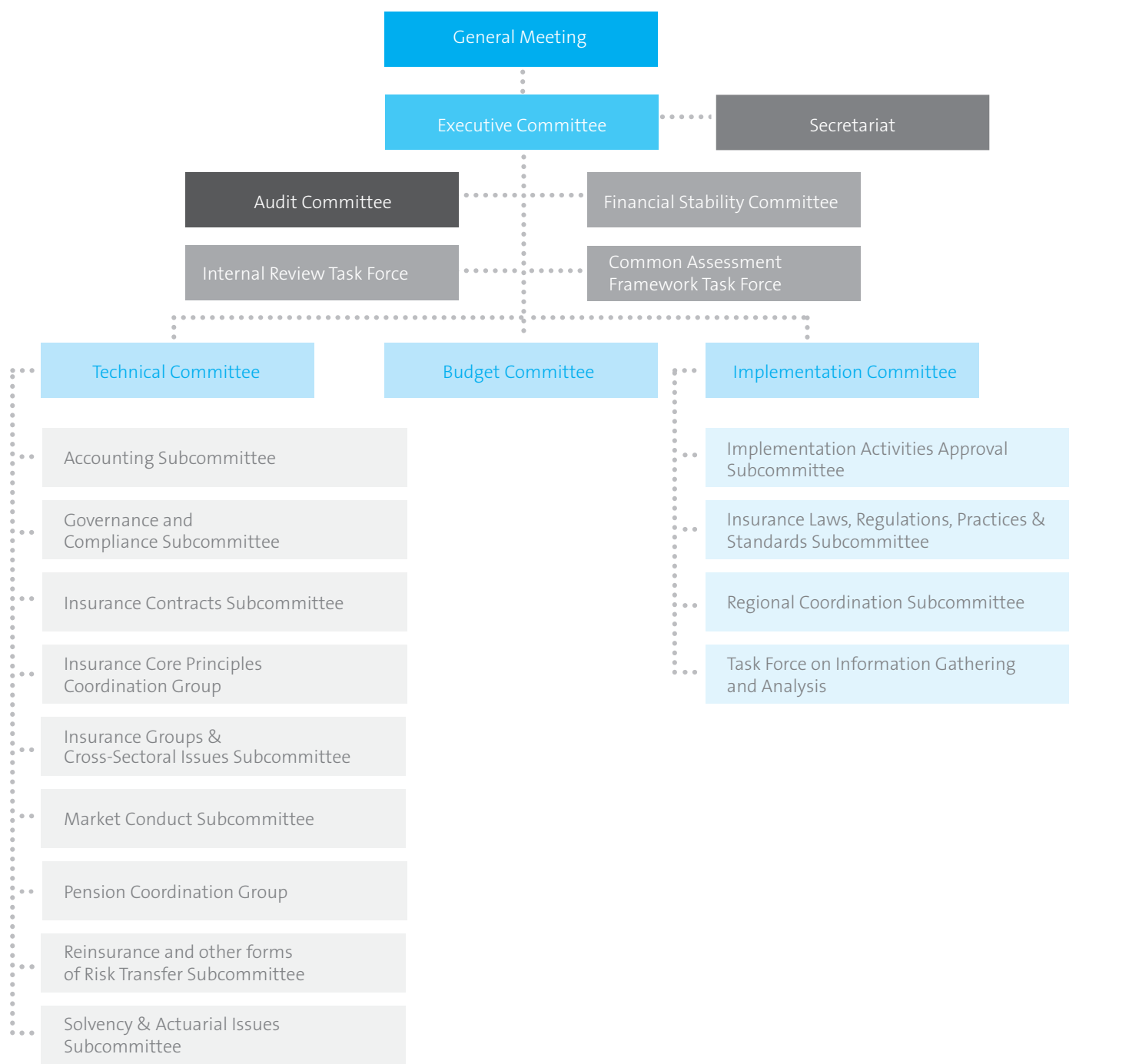
Mala Nag, Peter Windsor and Anne-Marie Kelly are not pictured.

All staff are financed by IAIS unless noted with a * which indicates that the Secretariat Member is financed by the Authority listed in the bracket.

ORGANISATIONAL STRUCTURE

AUGUST 2010

Appendix IV



Note: Subgroups of Subcommittees and working parties are not shown.

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Design by TIKTAK

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