INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS



1996 ANNUAL REPORT

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Chairman's Report

The period October 1996 to August 1997 has been an exciting and successful period for the International Association of Insurance Supervisors (IAIS). Compared with previous years, it was an outstanding year. Even so, there is much work to be accomplished before the IAIS can command the status accorded to the Basle Committee in respect of banking supervision and IOSCO in respect of supervision of securities.

The 1996 Annual Meeting in Paris marked a watershed in the progress of the IAIS: it was the end of the beginning. Prior to the decision to amend the by-laws to permit the development of standards, the achievements of the IAIS committees were modest. The amended by-laws led at once to a large increase in the number of members willing to devote a portion of their time, enthusiasm and energy to the work of the IAIS: and to good effect.

The new committees (the Technical and Emerging Markets Issues Committees) have functioned well and, supported by sub-committees, have produced a number of papers for discussion at the Annual Meeting in Sydney. The two papers on standards, if acceptable to members, are significant advances towards better supervision of insurance around the world. The first paper, 'Insurance Supervisory Principles', defines in general terms for all jurisdictions the main areas to be covered by standards - a more detailed set of standards is to be developed later. The second paper, an Insurance Concordat, outlines arrangements for the co-ordinated supervision of international insurance activity.

A third paper, 'Guidance on Insurance Regulation and Supervision for Emerging Market Economies', is designed to assist supervisors of emerging markets to move from their present degree of regulation towards compliance with the proposed 'Insurance Supervisory Principles'.

A fourth paper, 'A draft Memorandum of Understanding' is designed to facilitate the exchange of information between supervisors.

There is a good deal of other important work in progress and details of that are to be found in Chapter 2.

Committees of the IAIS have strengthened their links with IOSCO and with the Basle Committee. In addition, communication and co-operative links have been established with the G-10, the G-7, the World Bank and the OECD.

All this output is a substantial achievement.

Members of the IAIS have demonstrated the technical ability, the enthusiasm and the willingness to work together in the interests of improving insurance supervision and thereby helping to strengthen the international financial system.

I am indebted to John Thompson, Vice Chair of the Executive Committee for his very substantial input into the affairs of the IAIS. I thank all members of the IAIS who have contributed to our activities during the year. My special thanks to Knut Hohlfeld and Ignacio Gil Antón, chairs of the 'Technical' and 'Emerging Markets Issues Committees' and to each of the chairs of the other committees Peter Braümuller, Steve Butterworth, Michael Hale, Jean-Louis Bellando, Peter Pfund, Henrik Bjerre-Nielsen, Jonathan Spencer, Jarl Symreng and Ed Forshaw. I am most grateful for the continuing support from Kevin Cronin in respect of pertinent advice and excellent secretarial services.

The Annual Meeting in Sydney on 2-3 September 1997 promises to be of great interest to insurance supervisors. I hope to see you all here.

George Pooley
Chairman, Executive Committee
29 July 1997

1996 IAIS Executive Committee

George Pooley (Chair)
Commissioner
Insurance & Superannuation Commission
243-251 Northbourne Avenue
Level 2
Lyneham ACT 2602
AUSTRALIA

John R. Thompson (Vice-Chair)
Deputy Superintendent
Insurance & Pensions Sector
Financial Institutions Canada
255 Albert Street
Ottawa, Ontario K1A 0H2
CANADA

Mrs Mónica Cáceres Ubilla
Intendente de Seguros
Superintendencia de Valores y Seguros
Teatinos 120, Piso 6
Santiago
CHILE

Mrs Danuta Walcerz
President
State Insurance Supervisory Office
pl. Dabrowskiego 1
00-057 Warsaw
POLAND

Mr Eigil Mølgaard
Ministry of Economic Affairs
Ved Stranden 8 1061
Copenhagen K
DENMARK

Mrs Lim Shu Chiau
Insurance Commissioner
Monetary Authority of Singapore
10 Shenton Way M.A.S. Building
079117
SINGAPORE

Madame Stéphane Pallez
Directeur des Assurances
Ministère de l'Economie
Direction du Trésor 139, rue de Bercy
75012 Paris
FRANCE

Mr Andre Swanepoel
Chief Executive Officer
Financial Services Board
P.O. Box 35655 Menlo Park
Pretoria 0102
SOUTH AFRICA

Mr Steve Butterworth
Superintendent of Insurance
Guernsey Financial Services Commission
Valley House St Peter Port
GUERNSEY, GY1 2NP
Channel Islands
United Kingdom

Mr Brian K. Atchinson
Superintendent
Maine Bureau of Insurance
Dept. of Professional & Financial
Regulation State Office
Building, Station 34
Augusta, Maine 04333
UNITED STATES

Lic Juan Ignacio Gil Antón
President
Comisión Nacional de Seguros y Fianzas
Insurgentes Sur 1971 Torre 2 Norte, 2 do.
Piso Guadulupe Inn
Mexico D.F. 01020
MEXICO

FOREWARD

THE INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS - IAIS

The International Association of Insurance Supervisors (IAIS) was formed in 1992 and is comprised of international regulatory officials representing over 70 countries.

The IAIS was formed to promote cooperation between those countries that supervise insurance, in an effort to maintain just and efficient insurance markets for the benefit and protection of policyholders. The exchange of information is also encouraged to promote the development of domestic insurance markets. In October 1996, the objectives of the Association were broadened to permit the development of insurance standards; cooperation and coordination between IAIS and other regulatory bodies like the Basle Committee and IOSCO; and the establishment of a full-time Secretariat located at the Bank for International Settlements in Basle, Switzerland.

The Association is led by an Executive Committee comprised of a minimum of seven and a maximum of thirteen members who, as far as possible, represent different geographical regions. The Association is supported by a General Secretariat (currently, the National Association of Insurance Commissioners in the United States) which is appointed by the Executive Committee

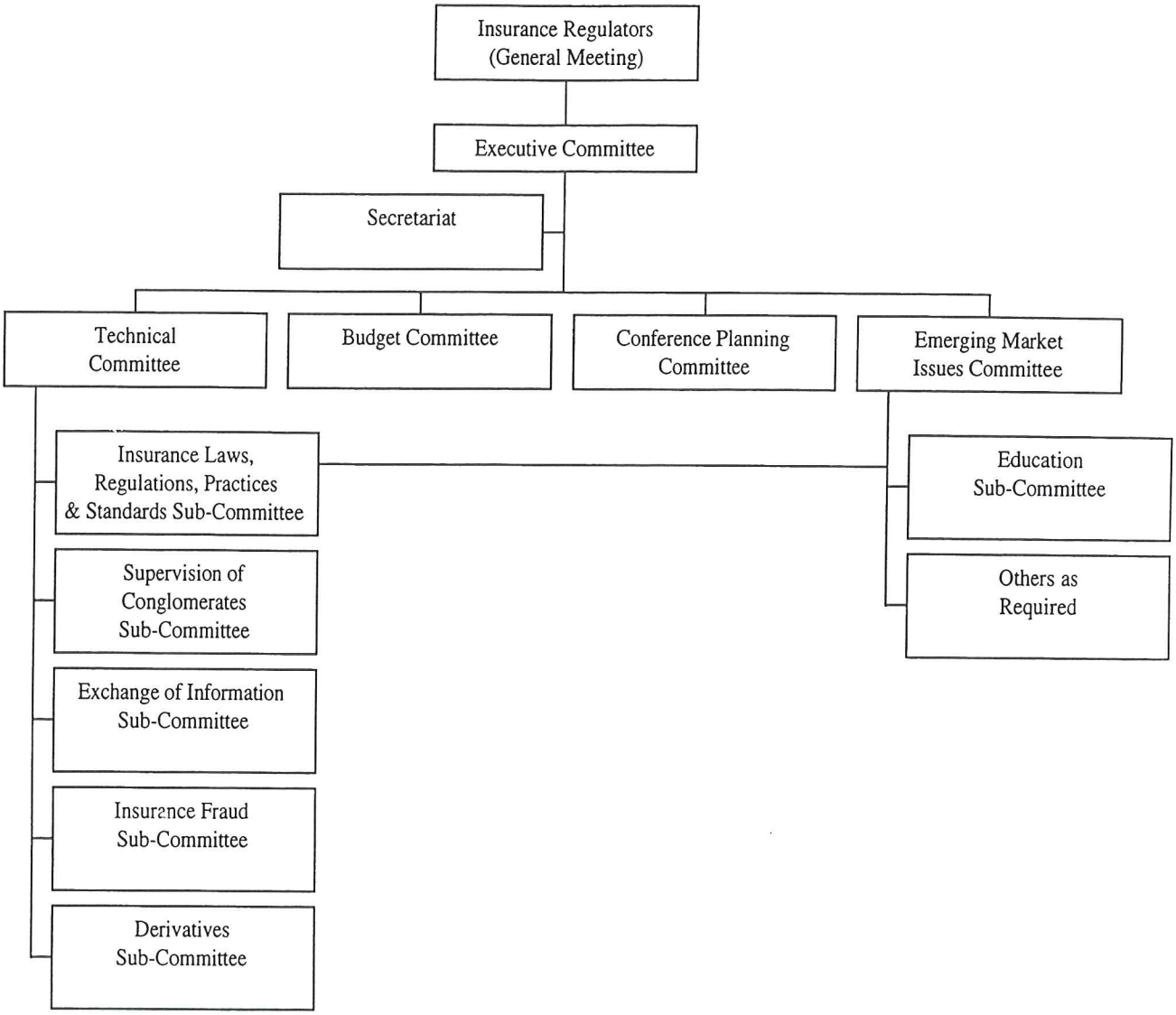
The IAIS is comprised of several committees: Executive, Technical, Emerging Markets Issues, Budget, Conference Planning and six sub-committees that report to the Technical Committee and/or the Emerging Markets Issues Committee - that is, Insurance Laws, Regulations, Practices and Standards; Supervision of Conglomerates; Exchange of Information; Insurance Fraud; Derivatives; and Education.

Each year the IAIS hosts an annual conference to encourage bilateral and multilateral discussions on topics of interest.

Each year IAIS members come together during their Annual Conference to hold committee meetings and participate in discussions on topical issues affecting the regulation of insurance. The 1996 conference was held in Paris, France. The 1997 conference will be held in Sydney.

The IAIS is working towards offering its current and future members valuable tools to assist them in their task of the supervision of insurance.

IAIS ORGANISATIONAL CHART



CHAPTER 1

THE FOUR PILLARS SUPPORTING INSURANCE SECTOR SAFETY AND STABILITY

The principles outlined below are largely drawn from an International Monetary Fund (IMF) publication 'Bank Soundness and Macroeconomic Policy' (1996), by Carl-Johan Lindgren, Gillian Garcia and Matthew I. Saal. While the IMF authors had banking in mind, the IAIS considers that these principles have a wider application and have adapted them to an insurance setting (with apologies to the IMF for any injustice done to their work in the process).

Each country is concerned to have (among other things) a safe and stable insurance sector, to protect policyholder interests in particular and to avert financial instability more generally. At the same time, governments are keen to ensure that arrangements put in place to provide safety and stability in the financial sector also promote competition, efficiency and innovation.

An effective framework for a sound and efficient insurance sector has four pillars: internal governance, market discipline, prudential regulation and international coordination. These four pillars should be regarded as complements rather than substitutes, as mutually reinforcing rather than mutually inconsistent.

Internal governance

An insurance company practises good internal governance when its conduct is prudent, open, honest and fair. Companies should have internal structures and processes in place to demonstrate that the commitment to corporate governance, and the certification of compliance, are occurring at prudent levels.

Internal governance is essential to public confidence in the insurance sector, because the soundness of an insurance company is first and foremost the responsibility of its owners, directors and senior managers. Insurance companies should have in place a system of internal standards and controls to manage risk and encourage prudence in the conduct of the business. There should be mechanisms for checking and certifying compliance with the standards and controls.

There are many causes of failure of an insurance company. The most difficult to deal with and the cause which is most preventable is poor internal governance under lax management.

Insurance is a long-term business, and an insurance company's owners, directors and senior managers are responsible for capitalising the business with sufficient resources to meet commitments, absorb shocks and remain viable. Each company needs to ensure that its directors and senior managers are competent and ethical, are motivated to run the business efficiently and prudently, and are encouraged to keep the company in a profitable, liquid and solvent condition.

Directors and senior managers should be made aware that failure to practise good corporate governance will expose them to the risk of losing control of the business through bankruptcy, takeover or other regulatory sanctions.

Lax management in an insurance company can take the form of incompetence, negligence. Internal pitfalls are less likely if companies have effective policies and procedures for monitoring and controlling risks, and checking and certifying compliance. Internal controls would include measures such as: 'fit and proper' tests for directors and senior managers; techniques for measuring and limiting exposures; and arrangements for internal and external auditing.

Insurance fraud could involve fraud by policyholders in making improper claims against a company, fraud by employees taking advantage of their position in the company to their own financial advantage, or fraud by owners or managers of companies against the public and their unsuspecting policyholders. The first two forms of fraud can be policed and controlled by sound internal governance within companies. The third form requires the oversight of an independent third party and that task inevitably falls to the insurance supervisor.

Good internal governance is more likely to occur when companies are also subject to strong market discipline.

Market discipline

Market discipline can provide an incentive for directors and senior managers to not merely pay lip service to good corporate governance, but to actively practise and promote it.

In a competitive insurance market, consumers, creditors, analysts and brokers can reinforce the incentives companies have to operate safely and soundly by monitoring performance, exerting discipline and, as a final step, forcing poorly managed or unsound insurers out of the market.

However, market discipline cannot work as an effective means of keeping companies prudent in their business conduct if insufficient information is available to market participants, or if there is a widespread perception that the Government will always bail out an insurer which runs into serious trouble.

Disclosure of timely, comprehensive and clear information about an insurance company's products, prices, profits and financial soundness is essential if market discipline is to be effective. While individual consumers may not be well equipped to monitor companies on the basis of published financial statements, creditors, analysts, sales representatives and competitors will be able and keen to use the information to rate companies, and these assessments will in turn feed into the company's reputation and standing in the marketplace.

Market discipline can also fail if investor compensation schemes are excessively generous, since companies are less risk averse, and policyholders and creditors are less vigilant, where there is a perception that troubled companies will be rescued by the authorities or losses will be recouped from the government or from policyholder guarantee funds in many countries. Failing companies should be allowed to exit in an orderly manner without any guarantee that policyholder losses will be fully compensated; otherwise there is a perverse incentive for poor internal governance. In the event of failure, shareholder capital should provide the first line of defence to protect policyholders from financial loss.

While good internal governance and strong market discipline go a long way towards encouraging efficiency and soundness, most countries consider that official regulatory and supervisory oversight of the insurance sector is also necessary to protect policyholders and maintain public confidence.

Prudential regulation

Prudential regulation of insurance by the official supervisor is not a panacea; but it can be an effective means of limiting the risk exposures of companies, and encouraging proper and prudent management of those risks. However, prudential regulation should be designed so as to avoid being anti-competitive or commercially intrusive.

For example, entry barriers created in the insurance sector for prudential purposes should not be so high as to unduly limit competition and protect large companies. Restricting competition in this way rarely improves soundness, since lax and lazy managements thrive in protected environments.

Prudential regulation can provide assurance that directors and senior managers are competent and ethical, that adequate risk management systems are in place, and that compliance with the standards is monitored and certified at the highest levels. Further to this, prudential regulation results in the preparation and publication of additional information which can be used by policyholders, and the market (as well as the regulator) to discipline under-performing companies.

The role of prudential regulation in supporting internal governance is to require and check that companies institute adequate internal control policies and procedures, and that senior managers are familiar with and responsible for the risk assessment and management process. While the fine detail of internal control can be left to insurers' own discretion, it is essential that accounting and auditing standards are adequate in enabling senior managers to detect and remedy weaknesses, and that regulators conduct on-site inspections to satisfy themselves about the quality of the company's management and systems.

Finally, globalization and technology have in recent years created new dangers for financial consumers and new threats to financial stability. Responding to this requires an unprecedented degree of international cooperation and coordination among financial regulators, including insurance regulators.

International Coordination

Insurance groups are increasingly operating in multiple jurisdictions. This raises the spectre of regulatory arbitrage by companies seeking bottom level standards, and of the potentially rapid transmission of shocks in crisis situations.

There are no international laws governing insurance, and country based regulation inevitably results in inter-country differences in accounting standards, in exit procedures, and in supervisory rules generally. Therefore, harmonisation of standards is desirable if international financial stability is to be protected from the threats posed by weak jurisdictions with lax supervision.

Reinforcement of market discipline at the international level has come chiefly in the area of information disclosure. Improved disclosure standards and additional information on the condition of individual insurance companies would better permit market participants to assess their financial soundness, paving the way for improved market discipline.

It is notable that there are no international agreements on closure standards for failing financial institutions. As a result, the resolution of a failed insurance group operating in several jurisdictions could be a fragmented and contentious process. Thus, exit policy as an adjunct to

market discipline functions only at the national level, with international co-operation essentially occurring only on an ad hoc basis.

While international standards are generally desirable, there are some practical limitations to full regulatory harmonisation. In particular, countries with high economic volatility and permissive accounting conventions may be better served by stricter regulatory standards than are prescribed by international minimums. Also, arrangements for policyholder compensation (the official safety net) will vary from country to country.

International coordination is not yet sufficiently developed to offset these differences in economic conditions and regulatory environments across jurisdictions. Nonetheless, there is much value to be gained in the identification and dissemination of best practices in insurance regulation, and even more so in the practical application of such international standards to create a sound insurance sector in each of the various jurisdictions.

The International Association of Insurance Supervisors (IAIS) is in the process of developing prudential standards for insurance supervision. The standards would take the form of principles or guidelines of best practice that insurance supervisors and regulators could choose to adopt and apply as they see fit in their different jurisdictions. The standards would not be black letter law: they would not be compulsory, but there would be market pressures for their application around the world. The existence of IAIS standards would encourage regulators that have regulations falling short of the IAIS standards to improve the quality of their regulations and supervision. Improved prudential regulation internationally would help strengthen the global financial system.

CHAPTER 2 : REPORTS OF COMMITTEES

THE EXECUTIVE COMMITTEE

(Chair: George Pooley, Australia)

The composition of the Committee appears at the front of the Report.

The Executive Committee met in Berlin in November 1996, in February 1997 in Mexico City and in Basle in May 1997. There were also telephone conference calls in respect of the appointment of a Secretary-General and other matters.

Sub-Committees of the Executive Committee considered and made recommendations to the Executive Committee in respect of:

- selection of a candidate for the position of Secretary-General;
- amendments to the by-laws to overcome the absence of a definition of 'country' in the by-laws and other matters; and
- the regional composition of the Executive Committee.

Secretary-General

The NAIC continued to provide the Secretariat on a part-time basis during 1996 and 1997 while the process for appointing a Secretary-General ran its course. The Executive committee is grateful to the NAIC for its willingness to continue to provide secretarial services.

The process for appointment of a Secretary-General was as follows:

- an advertisement for the position was placed in the 'The Economist' magazine in December 1996 and copies of it were sent to all members of IAIS;

- a selection committee, comprising Madame Stéphane Pallez, France; John Thompson, Canada; Juan Ignacio Gil Antón, Mexico; and George Pooley, Australia considered almost 60 applications and decided on a short-list of four persons.

- The four candidates were interviewed in Washington on 25 March 1997.

- Following the interviews the selection committee deliberated at length on the results and considered each candidate in terms of their qualifications, skills, experience, knowledge of insurance issues, presentation and communication skills, leadership ability and language skills. A preferred candidate was recommended to the Executive Committee and it was noted that three of the four candidates were suitable for the position;

- In April, the Executive Committee decided to offer the position to the preferred candidate. At that time detailed discussions took place with the Bank for International Settlements to firm up the arrangements between the IAIS and the BIS so the salary of the Secretary-General could be paid free of Swiss tax;

- In late May we offered the preferred candidate the position including a written statement of compensation, staff support, schooling, etc. After extensive consideration, the offer was declined in June;

- After a further report from the selection committee, the Executive Committee offered the position to another person. At the time of writing this report, the Executive Committee was awaiting a response.

The Executive Committee has made a very strong effort to recruit a Secretary-General of high calibre who will make a major contribution to the development of the IAIS. The process has been open, thorough and careful: partly as a result, it has taken longer to recruit a suitable person than we expected.

Coordination

The Executive Committee, often in conjunction with the Technical Committee, held meetings with the Basle Committee and IOSCO to strengthen cooperation and coordination between the three associations that impact on the regulation of the global financial system. Further details are reported elsewhere in this Report.

Amendments to the By-laws

A number of alternative ways to overcome the problem of the meaning of the term 'country' in the by-laws were considered and it is hoped that a possible solution to the problem will be circulated in advance of the Annual Meeting in Sydney for discussion at that forum.

Consideration was also given to the composition of the Executive Committee to seek to ensure that the chairs of the two key committees (the Technical Committee and the Emerging Markets Issues Committee) are members of the Executive Committee and that reasonable regional balance is maintained. Depending on progress, this matter may also be well enough advanced for discussion at the Sydney Annual meeting.

George Pooley

THE TECHNICAL COMMITTEE

(Chair: Knut Hohlfeld, Germany)

The IAIS Technical Committee was set up at the Annual Meeting in Paris in October 1996 and consists of 25 members. At its first meeting on November 21, 1996 in Berlin, Knut Hohlfeld (President of the German Federal Insurance Supervisory Office, Berlin) was elected chairman, and the mandate was adopted. The mandate is as follows:

The Technical Committee's objective is to assure that the aims of the IAIS as laid down in the preamble of the IAIS by-laws,

- to ensure improved supervision of the insurance industry in order to maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders,
- to develop practical standards for supervision of insurance that members may choose to apply, and
- to cooperate with other relevant international entities

will be fulfilled.

For this purpose, the Technical Committee has to

- review major issues related to insurance supervision and regulation with an international dimension, and, where appropriate, coordinate practical responses;
- establish subcommittees or working parties to investigate particular issues and, where appropriate, draw up recommendations on effective techniques of insurance supervision or proposals for standards;
- develop proposals for resolutions and recommendations to be approved by the Association in General Meeting, consulting the Executive Committee as appropriate;
- review periodically the extent to which IAIS members have adopted the standards;
- liaise with other international bodies on matters of mutual concern in the effective regulation and supervision of financial services; and
- propose and contribute to panels, workshops and seminars on various issues for IAIS annual meetings.

In exercising its activities, the Technical Committee is supported by a number of subcommittees which in the meantime have all taken up their work. These are the 'Insurance Laws, Regulations, Practices and Standards Subcommittee', the 'Insurance Fraud Subcommittee' and the 'Derivatives Subcommittee'.

In order to fulfil its mandate, the Technical Committee has started to prepare two papers so as to be able to offer at an international level standards specifically related to insurance. Two further meetings took place on February 26, 1997 in Mexico City and on May 27 and 28, 1997 in Basle to speed up work and increase efficiency.

The First document, the general 'Insurance Supervisory Principles', includes 'Level One Standards' containing areas of insurance supervision that are most important in all jurisdictions. These are licensing and changes in control, corporate governance and internal controls, prudential rules, monitoring and on-site inspection, sanctions, and coordination. Other important areas, such as dealing with insolvency, insurance intermediaries and market conduct, are not covered by this paper. These issues, as well as the 'Level Two Standards' covering particular aspects of insurance supervision in more detail, will be dealt with as soon as possible.

The second document, the 'Cross-border Standards', outlines the principles applicable to the supervision of international insurers and insurance groups and their cross-border establishments. The paper refers to both subsidiaries and branches, but not pure reinsurers. The following principles are discussed in particular, no foreign insurance establishments should escape supervision; the creation of a cross-border insurance establishment should be subject to consultation between the home and the host country; information needs of the home and the host supervisor; confidentiality constraints on the flow of information; and external audits.

Both papers have been distributed to the members and should be adopted at the Annual Meeting in Sydney.

Also in fulfilling its mandate, the Technical Committee met with the Technical Committee of IOSCO in Mexico City, and the Basle Committee in Basle. Experience with and information on the work of the various organisations were exchanged at the occasion of these meetings, and it was expressed that intense cooperation was required and should be aimed for.

With regard to the objective declared by the G7 heads of state and government in '1996 Lyon Summit Communique', ie strengthening the stability of financial markets, the Technical Committee prepared a report to the G7 for the Denver summit. This paper illustrates the developments up to now, the objectives and the future work of the IAIS, aiming, inter alia, at ensuring and improving stability of the insurance market.

The work program for the 12 months ahead will include the following: The supervisory areas not covered by the Committee's paper on 'Level One Standards' are to be considered to possibly complement the paper (e.g., dealing with insolvency, insurance intermediaries, market conduct, independence of the insurance supervisor, authority to close a company).

In addition, 'Level Two Standards' have to be developed covering in more detail specific issues or problems relating to insurance supervision (e.g., fit and proper, licensing).

Moreover, a report is to be prepared about the IAIS for the G7 summit given that at the Denver summit the G7 confirmed their interest in the stability of financial markets, and asked for a further report prior to next year's summit in implementing their initiatives.

Knut Hohlfeld

THE EMERGING MARKETS ISSUES COMMITTEE

(Chair: Juan Ignacio Gil Antón, Mexico)

Introduction

At the Paris meeting in October 1996, it was established that members with emerging insurance markets would be particularly assisted by the Emerging Markets Issues Committee (EMIC) in establishing effective supervisory systems and in this way would gain international recognition of their markets.

It was also established that in addition to the existing committee structure, the Executive Committee could establish two specialist committees among which the new Emerging Markets Issues Committee appears. Its objectives would be to promote the development and efficiency of emerging insurance markets by establishing principles, preparing training programs for the personnel of members and facilitating transfers of technology, expertise and information. The expanded education committee could be a sub-committee of the EMIC.

Activities of the EMIC

By the middle of January 1997, a questionnaire on Emerging Markets was distributed to eighteen countries. The aim of this questionnaire was to get acquainted about the general insurance situation in different countries: which entities are responsible for the regulation and supervision of insurance companies, how are those entities ("insurance superintendencies") organised in an administrative way, the regulation itself, the way in which the insurance industry operates, the financial, solvency and risk coverage rules and practices, information that the "insurance superintendency" gets from insurance companies, and also to know if society has broad information about the benefits of insurance policies, if there is any compulsory insurance, etc.

With the answers to the questionnaire we can get an idea of what the general needs are in emerging market countries, in order to develop our work program to support them. Even though we only received 50% of the answers (nine countries), we found some common matters of interest, which will be presented in our Fourth Annual Meeting of the IAIS.

Afterwards, the Emerging Markets Issues Committee met at the end of February in Mexico City and it was established there that some guidelines for use of emerging countries would be developed as to how they might move from their current regulatory regimes, to ones which would meet the IAIS principles and standards.

On April 29, the Emerging Markets Issues Committee of the IAIS was present through Mr. Yoshihiro Kawai in the meeting of the G-10 Working Party to discuss the promotion of robust financial systems in emerging markets. Central bankers and representatives from international organisations at the World Bank in Washington D.C. participated. Its document is a useful reference not only to understand the general principles of financial stability in emerging market economies but also to confirm current international norms and standards in the area of financial regulation and supervision.

One month later, according to the conclusions of the meetings in Mexico, the guidelines for emerging market countries were drafted and discussed during the meetings in Basle in May. Modifications were suggested and included in the document. Afterwards, these guidelines were sent out for comments to the Education Committee under the Chairmanship of Mr Bellando, to UNCTAD, OECD, and finally, will be sent out to the members of the Committee for a final review prior to its presentation in the Annual Meeting in Sydney.

There was also work developed altogether with the Education Committee in order to select insurance training programs that are needed by emerging markets. Through an informal meeting of the Education Committee and Emerging Markets Issues Committee on June 25 in Paris, it was established that a questionnaire on training and assistance would be sent out to all members and non-members of the IAIS (in all the world), and the selection of training materials and the elaboration of training manuals, were tasks to develop too.

Activities for the Future of the Emerging Market Issues Committee

Since the Committee should assist countries to move from their current position to compliance with the principles, and then from compliance with the principles to compliance with the standards, the basic needs of emerging countries have to be disclosed, and work plans to fight those troubles have to be established.

Thus the Emerging Markets Issues Committee of the IAIS, as established in the guidance for emerging markets, will develop a practical and concrete text for insurance legislation and supervision in order to help those economies to implement the principles and best practice established (or going to be established) by the Technical Committee. Such an exercise will provide other aspects on insurance supervision and would eventually contribute to the activities of the Technical Committee.

As the Guidance on Insurance Regulation and Supervision for Emerging Market Economies settles, the above mentioned exercise will take the following steps:

- collect relevant materials from member countries and international organisations such as the Basle Committee on Banking Supervision, IOSCO, OECD and UNCTAD on the practical measures for implementing sound insurance supervision. Close co-operation with the Laws and Regulations Sub-Committee will be useful.

- determine priorities on supervisory issues for emerging market economies.

- draft concrete analysis on the issues which require priority.

- guidance will be drafted by a small task force made up of members of the Emerging Markets Issues Committee and Educational Committee and the prepared draft will be discussed in both Committees.

And, as suggested by Mr Mølgaard (Denmark), the Committee should also consider organising missions to emerging market economies in order to:

- carry out the terms of reference of the Emerging Market Issues Committee and contribute to raising the level of both the insurance industry and the insurance market.

- recruit more IAIS members.
- create a prototype for insurance industry supervision.
- develop know-how on technical assistance on the same lines as the extensive technical and financial support for the banking system.
- establish a base for channelling technical assistance and financing from the industrial countries to the emerging market economies.
- and work in conjunction with the Education Committee to help the emerging countries in the development through training programs and technical assistance.

Juan Ignacio Gil Antón

THE EDUCATION SUBCOMMITTEE

(Chair: Jean-Louis Bellando, France)

In emerging or in-transition markets, insurance may play an essential economic and social part, provided it has a correct legal framework and provided it is adequately supervised.

Now, confronted with new problems linked to the opening of their markets, and to increased competition due to liberalisation and to internationalisation, the supervisory authorities of emerging countries have specific assistance and training needs, which the IAIS should try to meet in a gradual and flexible way.

In close connection with the Emerging Markets Issues Committee, the Education Sub-Committee aims at organising courses and seminars for the supervisory authorities of emerging countries, and at fostering the organisation of trainee placements and of meetings between supervisors. For this purpose, it means to redefine the outline of the training manual which was distributed in Paris in October 1996, so that its very rich contents may be exploited in a more didactic way.

To succeed in this enterprise, time, willingness and money are needed.

In order to complete the experience already collected thanks to Steve Butterworth's studies on training needs and supplies all over the world, a new questionnaire was written. It concerns not only the IAIS members but also the supervisory authorities of non-member countries and several international organisations regularly involved in training activities. These organisations have worldwide vocation (OECD, UNCTAD, World Bank) or a regional vocation (European Union, NAIC, African Insurance Organisation ...).

This questionnaire, which was circulated in July 1997, deals first with the past in entering on a large inventory of the trainings which were received or given, indicating their duration, the number of instructors and of trained people, their costs and the way the latter were met. Everyone is then asked to present one's needs and one's capacities to provide training programmes.

A first synthesis of the results will be presented in Sydney.

The aim consists in preparing the seminars which should be organised within the next two years, in a way as economical and as profitable as possible. The most rational solution is an organisation in geographical and linguistic zones.

For each given zone, a member of the IAIS will be responsible for organising seminars and courses.

The topics will be fixed after analysing the replies to the questionnaire. The ideal would be to develop the same themes at the same time all over the world. Licensing of insurance companies, reinsurance, assets, on-site supervision, accounting system ... seem likely to prove relevant topics, of general interest.

The drafting of didactic documents out of the supervisory manual might establish a material support which, when translated in several languages, will be used as a common denominator and a link between operations situated very far from one another.

Establishing informal contacts aiming at co-operation with organisations already experienced in this matter, such as the UNCTAD, the World Bank or the International Insurance Council, might help to solve the financing problems.

Yet an efficient collaboration with the general secretariat of the IAIS is required to make these projects successful.

Jean-Louis Bellando

INSURANCE LAWS, REGULATIONS, PRACTICES AND STANDARDS SUBCOMMITTEE

(Chair: Peter Braumüller, Austria)

In October 1996, the IAIS General Meeting adopted a new committee structure, reflecting the membership's decision that the Association should develop standards on insurance supervision. Under this revised organisational structure of the Association, the Insurance Laws, Regulations, Practices and Standards Subcommittee is one of the newly established committees. The Laws Committee plays a very special role since it reports to both the Technical Committee and the Emerging Markets Issues Committee.

A large number of IAIS members showed their interest in the Laws Committee's work and volunteered to participate right from the beginning. At present, the Committee comprises 17 members, namely Argentina, Austria, European Commission, Germany, Hungary, Maine (USA), Malta, NAIC, Netherlands, Netherlands Antilles, Norway, OECD, Poland, Russia, Sweden, Switzerland and United Kingdom.

The Laws Committee started its work with a first meeting on 25 February 1997 in Mexico City. Peter Braumuller, deputy head of the Austrian Insurance Supervisory Authority, was elected Committee chair. The Committee held an initial discussion on the draft terms of reference prepared by the chair. Furthermore, a general exchange of views took place on how to arrange the Committee's work in practice, how to use already existing information and how to co-operate with other international institutions which pursue similar activities.

On 3 and 4 July 1997, the Laws Committee held its 2nd meeting in Vienna (Austria). It discussed in detail its terms of reference, based on a revised draft, and agreed that a final draft should be prepared which would include additional comments by the Committee members. This should be approved by written procedure before the Sydney meeting.

The main task of the Committee will be to maintain information on insurance laws, regulations and practices in the individual IAIS member countries as well as on directives, regulations, recommendations, model laws and other relevant supernational legislation. The committee will take account of already existing collections of such information and liaise with international institutions carrying out similar tasks. In exercising its tasks the committee will take account of the work done by the OECD which is presently updating the so-called Paratte report on insurance supervisory systems in OECD countries.

Some large international auditing firms and reinsurance companies active worldwide have indicated their interest in the Committee's work and expressed their willingness to co-operate with the Laws Committee, at least in part of its activities. For the time being, no conclusions have been reached with regard to a possible future co-operation with the mentioned institutions.

One major topic of the discussions during the second meeting was how the collection of relevant information could be arranged in practice. A first draft questionnaire was discussed as were the NAIC solvency questionnaire and the OECD Paratte tables. The Committee felt that the collection of information might take place in two ways. On the one hand, general information on the different insurance supervisory systems shall be collected to provide the necessary background for

an accurate analysis of the respective legislation and practices. On the other hand, specific areas should be covered in more depth, following a step by step approach. In that respect priority will be given to those areas which are subject to the development of IAIS standards or guidelines in the near future or in any other way under study by the Technical Committee or the Emerging Markets Issues Committee.

The Committee also raised the question whether the collection of the relevant information should be expanded to countries which are not members of the IAIS. It could be very useful for IAIS members to have such information available if insurance companies or groups with head offices in an IAIS jurisdiction are active in such countries. Further thought will be given to this issue.

The Committee considered it an important task to analyse the information received, to update regularly the relevant information and to share developments of the supervisory systems in individual IAIS member countries with other members. It agreed that it would be useful for representatives from the different regions to be involved in the Committee's work to ensure that the questionnaire takes account of the differences of insurance supervisory systems in the IAIS member countries and that the analysis of the individual legislation and practice appropriately reflects the real situation in the respective member countries.

The Committee will establish a detailed work plan and discuss the draft of a general questionnaire at its meetings in Sydney. Furthermore, the final terms of reference will be presented at the Sydney conference.

Peter Braumüller

INSURANCE FRAUD SUBCOMMITTEE (IFC)

(Chair: Steve Butterworth, Guernsey)

The members of the Insurance Fraud Subcommittee are: Guernsey (Chair), Argentina, British Virgin Islands, Germany, Hungary, Singapore, South Africa, United Kingdom.

Terms of Reference

- To define the types of fraud affecting or affected by insurers and insurance intermediaries.*[1]
- To liaise with other bodies concerned with insurance fraud with a view to effective co-operation.
- To investigate and report upon the problems of fraud affecting or affected by insurers, and insurance intermediaries.
- To suggest solutions to the problems of fraud affecting or affected by insurers and insurance intermediaries to the Executive Committee or to the members as appropriate.
- If possible, to put into practice the solutions to the problems of fraud affecting or affected by insurers and insurance intermediaries after receiving any relevant approval from the Executive Committee or from the members as appropriate.

Two meetings of the IFC have been held since the Committee was first formed in Paris in October 1996. The first meeting was in Mexico City in February 1997 and the last in Basle in May 1997. The IFC reports to the Technical Committee of IAIS. The following problems have been identified in perpetrating insurance fraud.

- Insurers/Intermediaries/Reinsurers who are not supervised. Compounded by gaps in legislation, including the inability to act quickly against fraudsters.
- Education of insurance consumers (including the insurance industry).
- Poor resources, poor enforcement, lack of fit and proper controls.
- The inability to identify fraudsters (both by the industry and by insurance supervisors).
- The lack of co-operation between supervisors.

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[1] Note: The word insurance includes reinsurance and retrocession business.

*

- Fraud by the insurance company on the policyholder. This has been identified as the issue which IFC should principally address and particularly the question of how supervisors can co-operate together to reduce its incidence.
- Fraud on the insurer by the consumer.
- Money laundering.

The Committee has brought out a draft paper suggesting possible solutions to the above problems and this paper is currently being discussed and amended where necessary. It is hoped to submit these recommendations to the Technical Committee either in Sydney or very soon afterwards.

The first year of operation of the Insurance Fraud Committee has been very much one of fact finding and the Committee has used the time to contact various like-minded associations and organisations. The Committee has also compiled a list of journals which are specifically or partly concerned with insurance fraud.

The Committee is investigating, by way of a questionnaire what databases are used when investigating individuals and companies and are looking at the availability of those databases to IAIS members.

The future - Chair's personal comments:

- It is hoped that the Technical Committee and Executive Committee will adopt the paper suggesting solutions to the problems currently faced, and every member jurisdiction will institute themselves the relevant changes needed.

- It is hoped that IAIS will develop to be a major coordinating body for international insurance supervisors and consequently become the focus for enquiries regarding international insurance fraud. This would include, subject to legal caveats, having an internet web site of suspected individuals and companies in order to make others aware of suspicious operations.

- As soon as the Committee has substantially finished their work on fraud by the insurer they will concentrate on fraud on the insurer and money laundering.

- It is hoped that the Committee will meet with all the other organisations looking at the problems of insurance fraud to explore whether there are areas where co-operation will mean increased success in the fight against fraud.

Steve Butterworth

THE FINANCIAL CONGLOMERATES SUBCOMMITTEE

(Chair: Jarl Symreng, Sweden)

A number of members of the Subcommittee on Financial Conglomerates are also IAIS representatives on the Joint Forum on Financial Conglomerates. The IAIS representatives on the Joint Forum were drawn from Australia, Canada, France, Germany, Japan, the Netherlands, Sweden, the UK and New York.

In June 1997 Jarl Symreng of Sweden took over as Chair of the Committee from Jonathan Spencer of the UK.

The Subcommittee on Financial Conglomerates did not formally meet prior to July 1997 although, of course, the IAIS insurance members of the Joint Forum discussed Joint Forum matters amongst themselves at the various meeting of the Forum. During most of the year the Joint Forum made progress in a number of areas and that progress has been reported separately.

Towards the middle of 1997 the Joint Forum made an interim report to the three parent bodies - the IAIS, IOSCO and the Basle Committee - and sought from the parent bodies a response. During July the Financial Conglomerates Subcommittee began to consider the interim report and is expected to pass on its findings to the Technical Committee at meetings immediately prior to the Annual Meeting on 2/3 September 1997. It is expected that a report will be made to the Annual Meeting on the progress of the Joint Forum.

The Joint Forum consists of 27 members, 9 from each of the IAIS, IOSCO and the Basle Committee. The Forum focused in its interim report on:

- the measurement of capital adequacy for financial conglomerates;
- the fit and proper principle;
- intra-group transactions and exposures;
- the role of a coordinator in the supervision of a conglomerate;
- the development of a questionnaire for 'mapping' a conglomerate, ie charting its legal and administrative structures.

Jarl Symreng

EXCHANGE OF INFORMATION SUBCOMMITTEE

(Chair: Henrik Bjerre-Nielsen, Denmark)

The Committee has representatives from Denmark, British Virgin Islands, Chile, Israel, Mexico, Poland, Russia, UK and Maine.

The Committee has made considerable progress towards the establishment of a Memorandum of Understanding, which has been given first priority in our agenda.

Other tasks has been:

- Elaboration of the second Exchange of Information Questionnaire.
- Preparing a standard form for requests for information and quick responses hereto.
- Establishing a list of circumstances under which an insurance supervisor should submit information to other supervisors.
- Elaboration of a Data-base Questionnaire.

The Committee intends to continue its work on the Memorandum of Understanding and the other listed items in the next 12 months.

Henrik Bjerre-Nielsen

DERIVATIVES SUBCOMMITTEE

(Chair: Michael Hale, Canada)

This report summarises the activities of the Derivatives Subcommittee since its inception in October 1996. Current members are Mrs Lone Morup of Denmark, Mr Johan Løvengreen of the European Community, Mr Bertrand Labilloy of France, Ms Petra Graw of Germany, Mr André Swanepoel of South Africa and Dr Eleanor Linton of the United Kingdom. Mr Michael Hale of Canada chairs the committee.

The committee's mandate is:

1. to study supervisory practices with respect to derivatives use by insurers;

2. to develop and recommend IAIS standards (2nd level) governing the use of derivatives by insurers taking into account work done by other international standard setting organisations; and

3. to co-operate with other relevant international entities.

With respect to the first objective, the committee has studied the current rules relating to the use of derivatives; accounting, disclosure and reporting rules; and risk management practices required by supervisors. In addition, the committee considered the usefulness of Basle Committee and IOSCO recommendations on derivatives. The conclusions follow. Detailed findings are available in the "Report and Compendium of the IAIS Derivatives Sub-Committee, July 1997".

Conclusion

The areas of commonality between the rules and guidance that have been issued by IAIS members clearly indicate what supervisory authorities believe should constitute the key elements of sound risk management practices for derivatives. The elements are similar to those identified in the Basle Committee and IOSCO Technical Committee guidelines, and should form the core of the proposed IAIS standard. The standard should address the full spectrum of derivative practices; however, given that most insurers are end users of derivatives, the guidance should focus appropriately on end user needs. Common elements include:

- **Responsibilities of the Board of Directors:** the responsibility for defining an insurance company's investment strategy on derivatives which is consistent with that of the business, and for ensuring that **written** internal guidelines on their use are in place and available to all relevant staff, should lie firmly with the board of directors;

- **Separation of Functions:** the trading and day-to-day derivative operating functions should be distinct from the control functions. Similarly, the audit inspection function should be independent from those functions which it inspects;

- **Experience and Knowledge** all individuals conducting and monitoring derivatives business (at all levels) should be appropriately qualified and have sufficient levels of knowledge and experience. This should include ensuring that board of directors have

sufficient expertise to understand the important issues related to derivatives.

- **Internal Controls:** adequate systems of internal control must be present to control the risks associated with the use of derivatives, including systems to:

  - regularly monitor and report on the use of derivatives;
  - ensure that authority limits are not exceeded and all breaches can be identified;
  - ensure both internal and external rules and guidance are complied with; and
  - provide for independent audit review.

- **Risk Management:** appropriate risk management procedures should be in place to provide for:

  - the analysis and active monitoring of risks such that a clear picture of the volumes of transactions and exposures can be gained at any given time;
  - the establishment of risk limits and systems to measure positions against these limits; and
  - the need to have similar controls in place over external asset managers.

Workplan

The committee expects to have a draft standard covering risk management and the use of derivatives in October 1997. Members will send out lines of recommended elements for the areas outlined above to the Chairman by June 30. The Chairman will put together a draft standard and circulate to the members for comment by July 30. The committee will meet October 6 and 7 to finalise the draft standard.

Michael Hale

BUDGET COMMITTEE

(Chair: Peter Pfund, Switzerland)

The Committee (Switzerland, Australia, Bolivia, Germany, Luxembourg and USA) met in Mexico City in February 1997 and Basle on 28 May 1997 in order to discuss and prepare the IAIS 1998 budget. As the candidate for the position of the Secretary-General still needed to clarify certain details, it was unfortunately not possible at that time, to establish a reliable budget, due to the missing figures. (The remuneration of the Secretary-General and the Deputy will constitute a major portion of IAIS Budget expenditures). In the meantime, the candidate has turned down the offer and therefore the costs for salary, allowances, annuation-fund and insurances are still open. It also has not been decided yet, whether and when a deputy of the Secretary-General should be nominated, which leaves another main position of the budget unknown. The other expenses do not show significant changes compared to the previous budgets. The Committee hopes, that these outstanding questions will be settled at the general meeting in Sydney, so that a precise budget for 1998 can be submitted to the members.

The Committee has approved the 1996 balance sheet and submits it to the members with the recommendation of approval.

The income of member fees 1997 has so far met the expectations.

Finally, Peter Pfund, Switzerland, has been elected Chairman of the Budget Committee.

Furthermore, in 1998 the Budget Committee, together with the Executive Committee, will have to work closely with the Secretary-General and its Deputy in respect of financial matters.

Peter Pfund

CHAPTER 3

Financial Statements for the year Ended December 31, 1996 and Independent Auditors' Report

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Financial Statements for the
Years Ended December 31, 1996 and 1995
and Independent Auditors' Report

Deloitte & Touche LLP

Suite 400
1010 Grand Avenue
Kansas City, Missouri 64106-2232

Telephone: (816) 474-6180

INDEPENDENT AUDITORS' REPORT

The Honorable Members of the
International Association of Insurance Supervisors

We have audited the accompanying balance sheets of the International Association of Insurance Supervisors (the "IAIS") as of December 31, 1996 and 1995, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the IAIS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the IAIS as of December 31, 1996 and 1995, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

February 14, 1997

Deloitte Touche
Tohmatsu
International

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

BALANCE SHEETS
DECEMBER 31, 1996 AND 1995

ASSETS	1996	1995
CASH AND CASH EQUIVALENTS	$328,553	$177,135
ACCOUNTS RECEIVABLE	22,950	15,600
TOTAL	$351,503	$192,735
LIABILITIES AND UNRESTRICTED NET ASSETS		
LIABILITIES:		
Accounts payable	$ 29,271	$ 43,571
Deferred revenue	75,729	
Total liabilities	105,000	43,571
UNRESTRICTED NET ASSETS	246,503	149,164
TOTAL	$351,503	$192,735

See notes to financial statements.

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 1996 AND 1995

	1996	1995
UNRESTRICTED REVENUES:		
Membership fees	$114,700	$ 89,000
Meeting registration fees	91,000	56,000
Interest income	9,823	6,749
Newsletter subscriptions	1,125	225
Miscellaneous income	50	
Total revenue	216,698	151,974
EXPENSES:		
Translation services	18,208	19,183
Meeting services	18,802	13,043
Supporting services:		
Administrative	56,259	26,261
Telephone	3,719	6,150
Travel and transportation	9,513	5,162
Postage and office supplies	6,107	3,243
Professional services	1,916	2,055
Printing	4,835	651
Total expenses	119,359	75,748
INCREASE IN UNRESTRICTED NET ASSETS	97,339	76,226
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	149,164	72,938
UNRESTRICTED NET ASSETS, END OF YEAR	$246,503	$149,164

See notes to financial statements.

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

STATEMENTS OF CASH FLOW
YEARS ENDED DECEMBER 31, 1996 AND 1995

	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in unrestricted net assets	$ 97,339	$ 76,226
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Increase in accounts receivable	(7,350)	(4,400)
Increase (decrease) in accounts payable	(14,300)	33,110
Net cash provided by operating activities	75,689	104,936
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions received from the Swiss Government	75,729	
INCREASE IN CASH AND CASH EQUIVALENTS	151,418	104,936
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	177,135	72,199
CASH AND CASH EQUIVALENTS, END OF YEAR	$328,553	$177,135

See notes to financial statements.

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1996 AND 1995

1. ORGANIZATION

The International Association of Insurance Supervisors (the "IAIS") is an organization of and for the international insurance supervisory officials. The IAIS provides an independent forum for these officials to promote cooperation among the members in carrying out their responsibilities and to enhance their ability to protect insurance policyholders and promote secure and efficient insurance markets.

2. NEW ACCOUNTING STANDARDS

The IAIS adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Contributions Made* and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations.* The effect on the financial statements was not significant.

3. BASIS OF ACCOUNTING

Membership fees are unrestricted and are recorded as revenues in the applicable membership year. Unrestricted revenues and expenses for meetings are recorded when earned or incurred.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes deposits in a checking account and an interest bearing money market account.

5. INCOME TAXES

The IAIS applied under section 501(c)(6) of the Internal Revenue Code for Federal Income tax exempt designation and received a favorable determination dated May 18, 1995.

6. DEFERRED REVENUE

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

1997	$113,550
1998	136,260
1999	136,260
	$386,070

The IAIS received US $75,729 from the Swiss government for relocation costs in 1996. The funds have been classified as deferred revenue in the accompanying financial statements.

7. RELATED PARTY

The National Association of Insurance Commissioners (the "NAIC") is a member of the IAIS. Under a Services Agreement between the NAIC and the IAIS, the NAIC provides certain administrative and consulting services to the IAIS. For the years ended December 31, 1996 and 1995, the total amount charged by the NAIC for administrative time was $50,609 and $26,261, respectively. As of December 31, 1996 and 1995, the IAIS had amounts payable of $25,776 and $28,563, respectively, to the NAIC for services rendered or expenses paid by the NAIC on behalf of the IAIS.

* * * * * *

Appendix 1

List of Members and Observers

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS MEMBERSHIP LIST

8/22/97

Mr Richard Carpenter
Director of Financial Services
Government of Anguilla
The Valley P.O. Box 60
ANGUILLA
Telephone: +1 264 975881
Fax: +1 264 4975872

Mrs Teresa Del N.J. Valle de Sosa
Superintendencia de Seguros Nación Argentina
Julio A. Roca 721, Piso 7
Buenos Aires,
ARGENTINA
Telephone:5413310177
Fax: 5413310344

Mr Marion Agunbero
Inspector Institutional Investors
Centrale Bank van Aruba
Havenstraat #2
Oranjestad
ARUBA Dutch Caribbean
Telephone: 297822509
Fax: 297832251

Honorable George Pooley
Commissioner
Insurance & Superannuation Commission
243-251 Northbourne Avenue Level 2
Lyneham ACT 2602
AUSTRALIA
Telephone: 6162676888
Fax:6162571676

Mr Peter Braumüller
Deputy Head of Division
Ministry of Finance
A-1015 Vienna Johannesgasse 14
AUSTRIA
Telephone: 4315124678
Fax: 4315121785

Mrs Telzena G. Coakley
Registrar
Insurance Section, Ministry of Finance
P.O. Box N-3017 10 Parliament Street
Nassau
BAHAMAS
Telephone: 12423281070
Fax: 12423281070

Mr Ian Carrington
Supervisor of Insurance
Ministry of Finance and Economic Affairs
1st Floor Nicholas House
Broad Street
BARBADOS
Telephone: 12464263815
Fax: 12464362699

Mr David Deacon
European Commission
(DG XV/C-2) rue de la Loi 200
B-1049 Bruxelles/Wetstraa
Brussels
BELGIUM
Telephone:3222955905
Fax: 3222950750

Mr Willy P. Lenaerts
President
Insurance Supervisory Office
Avenue de Cortenbergh 61
1000 Brussels
BELGIUM
Telephone: 3227370751
Fax: 3227335129

Mrs Alma Gomez
Asst. Supervisor of Insurance
Ministry of Finance
New Administration Bldg.
Belmopan
BELIZE
Telephone: 501822152
Fax: 501822886

Mr Kymn Astwood
Registrar of Companies
Bermuda Government
Government Administration Building 30 Parliament Street
Hamilton HM12
BERMUDA
Telephone: 4412977578
Fax: 4412926640

Mr Richard Boivin
Surintendant des Assurances
Inspecteur Général des Institutions Financières
800, Place D'Youville 8e - Etage
Quebec, GIR 4Y5
CANADA
Telephone: 14186945011
Fax: 14185280835

Mr Fernando Jaime Moscoso-Salmón
Superintendente
Superintendencia Nacional de Seguros
Edificio Maria Cristina Plaza España No.
612 Piso 2
La Paz
BOLIVIA
Telephone: 5912410108
Fax: 5912411819

Honorable John R. Thompson
Deputy Superintendent
Insurance & Pensions Sector
Financial Institutions, Canada 255 Albert Street
Ottawa, Ontario K1A 0H2
CANADA
Telephone: 16139907500
Fax: 16139906901

Mr Oscar E. Chirambo
Insurance and Pensions Advisor
Ministry of Finance
Private Bag 008
Gaborone
BOTSWANA
Telephone: 26731350337
Fax: 26731371861

Mr Steve Butterworth
Superintendent of Insurance
Guernsey Financial Services Commission
Valley House St Peter Port
GUERNSEY, GY1 2NP
Channel Islands
UK
Telephone: 441481712801
Fax: 441481712010

Márcio Serôa De Araújo Coriolano
Superintendent
SUSEP
Rua Buenos Aires, 256
Rio De Janeiro 20061-000
BRAZIL
Telephone: 55212974415
Fax: 55212216664

Mrs Mónica Cáceres Ubilla
Intendente de Seguros
Superintendencia de Valores y Seguros
Teatinos 120, Piso 6
Santiago
CHILE
Telephone: 5626992814
Fax: 5626987425

Mr Peter Bates
Supervisor of Insurance
c/o Financial Services Department
Government of the BVI Road Town
Tortola
BRITISH VIRGIN ISLANDS
Telephone: 8094944190
Fax: 8094945016

Mr Henrik Bjerre-Nielsen
Director General
Danish Financial Supervisory Authority
GL. Kongevej 74 A 1850
Frederiksberg C
DENMARK
Telephone: 4533558282
Fax: 4533558200

Mr Eigil Mølgaard
Ministry of Economic Affairs
Ved Stranden 8 1061
Copenhagen K
DENMARK
Telephone: 4533924182
Fax: 4533924730

Sr Alberto Chiriboga Acosta
Director General de Seguros
Superintendencia de Bancos
12 de Octubre y Madrid Casilla 424, 4o Piso
Quito
ECUADOR
Telephone: 5932451326
Fax: 32563652

Mr Abdul Hamid El Sarrag
Chairman
Egyptian Insurance Supervisor Authority
P.O. Box 2545 28 Talaat Harb Street
Cairo
EGYPT
Telephone:202758807
Fax: 2025758645

Lic Rafael Rodríguez Loucel
Superintendente del Sistema Financiero
Edificio de Professionales
Colonia Flor Blanca, 4a. Calle Poniente No. 2223
San Salvador
EL SALVADOR
Telephone: 5032980133
Fax:5032791819

Mr Manoa Seruvakula
Commissioner of Insurance
Reserve Bank of Fiji
Pratt Street Private Mail Bag
Suva
FIJI
Telephone: 679313611
Fax: 679307210

Mr Tarmo Pukkila
Director General
Ministry of Social Affairs & Health
P.O. Box 267
00171 Helsinki
FINLAND
Telephone: 35891603864
Fax: 35891603735

Mr André Laboul
Principal Administrator
Organization for Economic Cooperation &
Development (OECD) 37 Bis Boulevard Suchet
75016 Paris
Cedex 16
FRANCE
Telephone: 33145249127
Fax: 33145247852

Mr Jean-Louis Bellando
Commissaire Contrôleur Général
Commission de Contrôle des Assurances
54 Rue de Châteaudun
75436 Paris Cedex 09
FRANCE
Telephone:33140822088
Fax: 33140822196

Madame Stéphane Pallez
Directeur des Assurances
Ministère de l'Economie
Direction du Trésor 139, rue de Bercy
75012 Paris
FRANCE
Telephone: 33144877490
Fax:33140042865

Mr Joachim Henke
Ministerialdirektor
Bundesministerium der Finanzen
Graurheindorfer Straße 108
53003 Bonn
GERMANY
Telephone: 492286821698
Fax:492286824529

Dr Knut Hohlfeld
President
Bundesaufsichtsamt für das Versicherungswesen
Ludwigkirchplatz 3-4
10719 Berlin
GERMANY
Telephone: 49308893300
Fax:49308893494

Mr Samuel Appiah-Ampofo
Commissioner
National Insurance Commission
P.O. Box M40 Marble House
Accra
GHANA
Telephone: 23321227915
Fax: 23321669545

Mr John E. Millner
Commissioner of Insurance
Financial Services Commission
93 Europort P.O. Box 940
GIBRALTAR
Telephone: 35040283
Fax: 35040282

Mr John Mantz
Financial Services Supervision Dept.
Cayman Islands Government
Cayman Islands Government 1st Floor, Harbour Centre
George Town
GRAND CAYMAN ISLAND
British West Indies
Telephone: 1 345 9497089
Fax: 1 345 9492532

Mr Thomas Botzios
Director
Ministry of Commerce
Insurance Division Kaning Square
10181 Athens
GREECE
Telephone: 3013836352
Fax: 3013827734

Mr Julio Nery Alvarado Mérida
Intendente de Seguros
Superintendencia de Bancos
9a. Avenida 22-00 Zona 1
Guatemala City 01001
GUATEMALA
Telephone: 5022320001
Fax:5022512675

Mr Alan Wong
Commissioner of Insurance
Office of the Commissioner of Insurance
21st Floor, Queensway Government Offices 66
Queensway
HONG KONG
CHINA
Telephone: 85228672546
Fax: 85225010798

Mr Sándor Dögei
State Supervising Authority of Insurance
Pf. Box 481
1369 Budapest
HUNGARY
Telephone: 3612690985
Fax: 3612690986

Mr Erlendur Larusson
Director
Insurance Supervisory Authority
Vátryggingaeftirlitið, Sudurlandsbraut 6
108 Reykjavik
ICELAND
Telephone:3545685188
Fax: 3545685253

Mr Nambi Rangachary
Chairman
Insurance Regulatory Authority
Ground Floor, Tower 1 Jeevan Bharati Building
124 Connaught Circus
New Delhi 110001
INDIA
Telephone: 91113357326
Fax:91113357320

Ms Anne Coleman-Dunne
Higher Executive Officer
Department Enterprise & Employment
Frederick Building South Frederick Street
Dublin 2
IRELAND
Telephone: 35316614444
Fax: 35316795710

Dr William J. Hastings
Chief Executive
Isle of Man Government Insurance & Pensions Auth.
12/14 Ridgeway Street
Douglas IM1 1EN,
ISLE OF MAN
Telephone: 441624685695
Fax: 441624663346

Mr Doron Shorrer
Commissioner of Insurance
Ministry of Finance
1 Kaplan Street
Jerusalem 91131
ISRAEL
Telephone: 9722317248
Fax: 97226521857

Mr Giovanni Manghetti
Supervisor/Head of Insurance Supervision
ISVAP
Via Vittoria Colonna 39
00193 Rome
ITALY
Telephone: 39636192202
Fax:39636192206

Mr Takaaki Hattori
Deputy Director
Insurance Department, Ministry of Finance
3-1-1 Kasumigasemi, Chiyodaku
Tokyo 100
JAPAN
Telephone: 81335814474
Fax:81352512132

Mr Richard C.A. Syvret
Director
Financial Services Department
States of Jersey
Cyril Le Marquand House
P.O. Box 267, The Parade
St. Helier
JERSEY JE4 8TP
Telephone: 441534603600
Fax: 441534603610

Mr Jung-Bo Lee
Governor
Insurance Supervisory Board
35-53, Tongeui-Dong, Chongno-Gu
Seoul 110-040,
KOREA
Telephone: 8223998305
8227255725

Mr Victor Rod
Directeur
Commissariat aux Assurances
7, Boulevard Royal
Luxembourg 244,
LUXEMBOURG
Telephone:3522269111
352226910

Mr António José Félix Pontes
Executive Director
Autoridade Monetária e Cambial de Macau
Rua Pedro Nolasco da Silva, No. 45 P.O. Box 3017
MACAU
Telephone: 853325521
Fax: 853325432

Mr Yit Seong Tan
Manager
Bank Negara Malaysia
Julan Data Onn
Kuala Lumpar 50480,
MALAYSIA
Telephone: 6032986705
Fax: 6032945986

Mr John P. Bonett
Director - Insurance
Malta Financial Services Centre
Attard
MALTA
Telephone: 356441155
Fax: 356441188

D. Gukhool
Controller of Insurance
Sew Hee House
7 Leoville L'Homme Street
Port Louis
MAURITIUS
Telephone:23021253572
Fax: 23021257671

Lic Juan Ignacio Gil Antón
President
Comisión Nacional de Seguros y Fianzas
Insurgentes Sur 1971 Torre 2 Norte, 2 do.
Piso Guadulupe Inn
Mexico D.F. 01020
MEXICO
Telephone: 5257247496
Fax: 5256615301

Mr Lava Prasad Sharma
Chairman
Beema Samiti (Insurance Board)
Blood Bank Complex, Exhibition Road P.O. Box 2172
Katmandu
NEPAL
Telephone: 9771213815
Fax: 9771229978

Mr Caryl Monte
Executive Director
Bank van de Nederlandse Antillen
Breedestraat 1 Willemstad
Curaçao
NETHERLANDS ANTILLES
Telephone: 5999613600
Fax: 5999617425

Mr Neville Harris
Executive Director
Commercial Affairs Division
Ministry of Commerce P.O. Box 10843
Wellington
NEW ZEALAND
Telephone:6444711559
Fax:6444711534

Mr Bjørn Skogstad Aamo
Director General
Kredittilsynet
P.O. Box 100 Bryn
0611 Oslo
NORWAY
Telephone: 4722939929
Fax:4722630226

Mrs Elisa de Carrizo
Superintendent
Superintendencia de Panama
Ministerio de Comercio e Industrias Ave. Cuba y Calle 32
Panama City
PANAMA
Telephone: 5072274754
Fax: 5072256915

Mr Ludwig Repo
Acting Assistant Commissioner
Department of Finance
Level 4, Pacific Place P.O. Box 122
Port Moresby
PAPUA NEW GUINEA
Telephone: 6753288000
Fax: 6753288141

Licenciado Gustavo Alexi Osorio
Superintendent of Insurance
Superintendencia de Seguros
Central Bank of Paraguay Pablo VI y Sgto. Marecos 3 er. Piso
Asunción
PARAGUAY
Telephone: 59521608145
Fax: 59521608149

Mr Manuel Vasquez Perales
Superintendente
Superintendencia de Banca y Seguros
Lima 27
PERU
Telephone: 5112218990
Fax: 5114417760

Mr Eduardo T. Malinis
Insurance Commissioner
1071 United Nations Ave
Manila
PHILIPPINES
Telephone:632599291
Fax:6325221434

Mrs Danuta Walcerz
President
State Insurance Supervisory Office
pl. Dabrowskiego 1
00-057 Warsaw
POLAND
Telephone: 48228265308
Fax:48228265302

Mr Lúis Sanches
Director General
Instituto de Seguros de Portugal
Av. de Berna, 19
1050 Lisboa
PORTUGAL
Telephone:35117938542
Fax:35117954190

Mr Mark Serebrennikov
Chief of Division
Ministry of Finance
20, Tverskaya Street
103009 Moscow
RUSSIAN FEDERATION
Telephone: 70952095728
Fax: 70952095649

Mr Moustapha Ndiaye
Director of Insurance
Direction des Assurances
15, Allées Robert Delmas
Dakar 3874
SENEGAL
Telephone: 221220374
Fax:221224195

Honorable Lim Shu Chiau
Insurance Commissioner
Monetary Authority of Singapore
10 Shenton Way M.A.S. Building 079117
SINGAPORE
Telephone: 652299420
Fax:652299694

Mr Kervis B. Harry
Acting Controller of Insurance
Ministry of Finance
P.O. Box G34 Honiara
SOLOMON ISLANDS
Telephone: 67725671
Fax:67720392

Mr André Swanepoel
Chief Executive Officer
Financial Services Board
P.O. Box 35655 Menlo Park
Pretoria 0102
SOUTH AFRICA
Telephone: 27124288080
Fax:27123470219

Ms Ana Mariá Aznar
Direccíon General de Seguros
Paseo de la Castellana, 44
28046 Madrid
SPAIN
Telephone:3413397130
Fax:3413397133

Mrs Wijitha Ratnayake
Controller of Insurance
Ministry of Finance, Insurance Division
Lady Lochore Bldg., 100, Sir Chittampalam Gardiner MW
Colombo 2
SRI LANKA
Telephone:941342595
Fax:941449823

Mr Piphat Intarasupht
Director General
Department of Insurance
408/46 Phahon Yothin Road
Phayathai,
Bangkok 10400
THAILAND
Telephone: 6626190375
Fax:6626190379

Mr Jarl Symreng
Head of Department
Finansinspektionen
P.O. Box 7831
S103 98 Stockholm
SWEDEN
Telephone: 4687878078
Fax:468241335

Mr Arend J. Vermaat
President
Verzekeringskamer
P.O. Box 929 7301 Bd
Apeldoorn
THE NETHERLANDS
Telephone: 31553550888
Fax:31553550135

Mrs Gunilla Löfvendahl Briatte
Legal Counsellor, International Relations
Finansinspektionen
Box 7831
103 98 Stockholm
SWEDEN
Telephone: 4687878078
Fax:468241335

Mr Mohsen Thabet
Director General
Ministry of Finance
Director Général des Assurances Place du Gouvernement
Tunis
TUNISIA
Telephone:2161795308
Fax:2161797483

Mr Peter Pfund
Director
Federal Office of Private Insurance
Gutenbergstrasse 50
3003 Berne
SWITZERLAND
Telephone: 41313227906
Fax:41313814967

Mr Bülent Somuncu
President
Insurance Supervisory Board
Hazine Binasi, Emek
Ankara 06510
TURKEY
Telephone: 903122128616
Fax:903122120265

Mr Chi-Shih Cheng
Director General
Ministry of Finance
Department of Insurance 4F 2, Ai-Kuo West Rd.
Taipei
TAIWAN
Telephone: 88623228236
Fax:88623935097

Mr Colin C. Holder
Superintendent of Insurance
Financial Services Commission
P.O. Box 173, Building, Duke Street
Grand Turk
TURKS & CAICOS ISLANDS
Telephone: +1 8099462791
Fax: +18099462821

Mr G.S. Dart
Director, Insurance
Department of Trade & Industry
1 Victoria Street
London SW1H OET
UNITED KINGDOM
Telephone: 441712150120
Fax:441712150239

Honorable Marianne K. Burke
Director
Alaska Division of Insurance
333 Willoughby Avenue 9th Floor
Juneau, Alaska 99801
UNITED STATES
Telephone: 19074652515
Fax: 19074653422

Honorable Charles Quackenbush
Commissioner
California Department of Insurance
300 Capitol Mall Suite 1500
Sacramento, Ca. 95814
UNITED STATES
Telephone: 19164455544
Fax: 19164455280

Honorable John Oxendine
Commissioner
Georgia Department of Insurance
2 Martin L. King, Jr. Dr. Floyd Memorial Building
704 West Tower
Atlanta, Georgia 30334
UNITED STATES
Telephone: 14046562056
Fax: 14046577493

Honorable James H. Brown
Commissioner
Louisiana Department of Insurance
950 North 5th Street
Baton Rouge, Louisiana 70802
UNITED STATES
Telephone: 15043425423
Fax: 15043428622

Honorable Neil D. Levin
Superintendent
New York Department of Insurance
Agency Building One Empire State Plaza
Albany, New York 12257
UNITED STATES
Telephone: 15184746600
Fax: 15184736814

Honorable Brian K. Atchinson
Superintendent
Maine Bureau of Insurance
Dept. of Professional & Financial Regulation State Office Building, Station 34
Augusta, Maine 04333
UNITED STATES
Telephone: 12076248475
Fax: 12076248599

Honorable Dominique A. D'Annunzio
Acting Commissioner
Michigan Insurance Bureau
611 West Ottawa Street 2nd Floor North
Lansing, Michigan 48933
UNITED STATES
Telephone: 15173739273
Fax: 15173354978

National Association of Insurance Commissioners
444 N. Capitol St., N.W. Suite 701
Washington, DC 20001
UNITED STATES
Telephone: 12026247790
Fax: 12026248579

Sra. Ana Mariá Acosta y Lara
Superintendente de Seguros y Reaseguros
Superintendencia de Seguros y Reaseguros
Banco Central de Uruguay Paysandu, Esq. Florida
8 piso, oficina 801
C.P. 11 100 Montevideo
URUGUAY
Telephone: 5982930651
Fax:5982928713

Appendix 2

1996 Membership of Committees

1996-97 IAIS Committee Membership

COMMITTEE	COMMITTEE MEMBERS
EXECUTIVE COMMITTEE	**George Pooley, Australia, Chair** John Thompson, Canada, Vice Chair Mónica Cáceres Ubilla, Chile Eigil Mølgaard, Denmark Stéphane Pallez, France Steve Butterworth, Guernsey Danuta Walcerz, Poland Juan Ignacio Gil Antón, Mexico Lim Shu Chiau, Singapore André Swanepoel, South Africa Brian K. Atchinson, United States/Maine
TECHNICAL COMMITTEE	**Knut Hohlfeld, Germany, Chair** Takaaki Hattori, Japan, Co-Vice Chair Brian K. Atchinson, United States/Maine, Co-Vice Chair Cora Patricia Smolianski/ Teresa del N.J. Valle de Sosa, Argentina George Pooley, Australia Peter Braumüller, Austria John Thompson, Canada Mónica Cáceres Ubilla, Chile Johan Løvengreen, European Commission Stéphane Pallez, France Jean-Louis Bellando, France Steve Butterworth, Guernsey John Bonett, Malta Juan Ignacio Gil Antón, Mexico Arend J. Vermaat, Netherlands Per Simonsen, Norway André Laboul, OECD Yoshihiro Kawai, Poland Lim Shu Chiau, Singapore Jarl Symreng, Sweden Peter Pfund, Switzerland Jonathan Spencer, United Kingdom Vincent Laurenzano, United States/NY
EMERGING MARKETS ISSUES COMMITTEE	**Juan Ignacio Gil Antón, Mexico, Chair** George Pooley, Australia Peter Braumüller, Austria Stéphane Pallez, France Jean-Louis Bellando, France Samuel Appiah-Ampofo, Ghana Julio Nery Alvarado Merida, Guatemala Steve Butterworth, Guernsey Nambia Rangachary, India Yoshihiro Kawai, Poland

1996-97 IAIS Committee Membership

COMMITTEE	COMMITTEE MEMBERS
	Lúis Vilhene de Cunha/Lúis Sanches, Portugal André Swanepoel, South Africa Yavuz Aytekin/Vldan Kocaman, Turkey D. Joseph Olson, United States/Michigan
BUDGET COMMITTEE	**Peter Pfund, Switzerland, Chair** George Pooley, Australia Fernando Moscoso Salmón, Bolivia Knut Hohlfeld, Germany Victor Rod, Luxembourg
CONFERENCE PLANNING COMMITTEE	**George Pooley, Australia, Chair**
EDUCATION SUB-COMMITTEE	**Jean-Louis Bellando, France, Chair** Peter Braumüller, Austria Frank Janotta-Simons, Germany Samuel Appiah-Ampofo, Ghana Julio Nery Alvarado Mérida, Guatemala Steve Butterworth, Guernsey Sándor Dögei, Hungary Lúis Sanches, Portugal Valery Sukhov, Russian Federation Karun Kittisataporn, Thailand
INSURANCE LAWS, REGULATIONS, PRACTICES AND STANDARDS SUB-COMMITTEE	**Peter Braumüller, Austria, Chair** Cora Patricia Smolianski/ Teresa del N.J. Valle de Sosa, Argentina Sándor Dögei, Hungary Caryl Monte, Netherlands Antilles Valery Sukhov, Russia Edward Forshaw, United Kingdom Brian K. Atchinson, United States/Maine Kevin T. Cronin, United States/NAIC
INSURANCE FRAUD SUB-COMMITTEE	**Steve Butterworth, Guernsey, Chair** Cora Patricia Smolianski/ Teresa del N.J. Valle de Sosa , Argentina Peter Bates, British Virgin Islands László Asztalos, Hungary Lim Shu Chiau, Singapore André Swanepoel, South Africa Edward Forshaw, United Kingdom
FINANCIAL CONGLOMERATES SUB-COMMITTEE	**Jarl Symreng, Sweden** Mónica Cáceres Ubilla, Chile Johan Løvengreen, European Commission Stéphane Pallez, France Jean-Louis Bellando, France Joachim Henke, Germany Per Simonsen, Norway Yoshihiro Kawai, Poland

1996-97 IAIS Committee Membership

COMMITTEE	COMMITTEE MEMBERS
	André Swanepoel, South Africa Jarl Symreng, Sweden Peter Pfund, Switzerland
EXCHANGE OF INFORMATION SUB-COMMITTEE	**Henrik Bjerre-Nielsen, Denmark, Chair** Peter Bates, British Virgin Islands Mónica Cáceres Ubilla, Chile Doron Shorrer, Israel Juan Ignacio Gil Antón, Mexico Yoshihiro Kawai, Poland Valery Sukhov, Russia Edward Forshaw, United Kingdom Brian K. Atchinson, United States/Maine
DERIVATIVES SUB-COMMITTEE	**Michael Hale, Canada, Chair** Henrik Bjerre-Nielsen, Denmark Knut Hohlfeld, Germany André Swanepoel, South Africa Edward Forshaw, United Kingdom Stéphane Pallez, France Johan Løvengreen, European Commission

Appendix 3

Third Annual Conference "Official Communique"

International Association of Insurance Supervisors (IAIS)
Third Annual Conference
14-15 October, 1996
Paris, France

Official Communiqué

Mr George Pooley, Insurance and Superannuation Commissioner for Australia, as Chair of the IAIS, welcomed 90 State and national insurance supervisors to the Third Annual Conference of the Association in Paris, France. Some 195 members, observers and guests attended meetings over the two days.

The Conference was officially opened on behalf of the Minister of Economy and Finance, Mr Jean Arthuis, by Mr Christian Noyer, Chief Advisor to the Minister.

Mr Noyer in his broad address to the Conference said that cooperation among financial supervisors has become crucial to the effectiveness of prudential supervision and stability of the financial system, as was stated recently by the G7 Heads of State and Government during their last Summit in Lyons. He encouraged the IAIS in its efforts to develop meaningful cooperation among insurance supervisors themselves and with other financial supervisors. Touching on proposals which, if agreed, would give the IAIS the go-ahead to make recommendations in prudential matters, he supported these developments and encouraged the IAIS to draw on accumulated experience and on exchange of information in the elaboration of its recommendations. He welcomed the IAIS's decision to steer clear of being an organisation or club only for rich nations and he said the IAIS would be reneging on one of its major tasks if it did not play a decisive role in enforcing the supervision of insurance companies all over the world.

Mr Pooley in his Chairman's report to the Conference referred to the work done by the Executive Committee and other committees. In particular, he referred to the report of the Committee of the Future which had been sent to members calling for their consideration of recommendations which, if adopted, would involve a significant expansion on the activities of the Association to improve the exchange of information between members; to strengthen the Education Committee; to establish new committees, to centralise information on insurance laws, regulations and practices; and from that information develop non-mandatory standards for supervision of insurance companies.

He acknowledged the work of the committees and reports of the Exchange of Information and Education Committees. He said that the sub-committees on Derivatives was moving forward to propose a draft report before July 1997.

The Executive Committee, Mr. Pooley said, had met with the Basle banking committee to discuss matters of mutual interest and possible areas of cooperation. It had discussed areas in which it would be possible for the Basle Committee, the International Organisation of Securities Commissioners (IOSCO) and the IAIS to cooperate.

In concluding his Chairman's Report, Mr Pooley acknowledged the tremendous contribution of his predecessor, Piet Badenhorst formerly supervisor for South Africa, to the Association. Mr. Badenhorst, he said, had always made his time available to nurture and foster the activities of the

Association; he had believed strongly that the IAIS should become more active and develop standards for supervision. Mr Pooley wished him well in his further career.

In a broad ranging and thought provoking address, Dr Tommaso Padoa-Schioppa, Deputy Director General of the Bank of Italy and Chairman of the Basle Committee on Banking Supervision addressed the Conference on Inter-agency Cooperation in Financial Supervision.

Joining insurance regulators for the first time Dr Padoa-Schioppa referred to the mandate that supervisors have to meet the challenges of globalisation. Financial stability, he said, can be a threat in many countries. There was no quick fix available, but rather a need for long term professional competence. he pointed out that this inter-agency cooperation has become increasingly needed as the globalisation of finance and the blurring of boundaries among products developed.

This cooperation, which partly depends on the willingness of governments to lift the legal obstacles, has only recently become a topic of interest of G-7. Yet the Basle Committee and IOSCO have worked together since the late eighties and the Joint Forum has been established among supervisors of the three sectors. The IAIS's broad mandate constitutes a promising opportunity to address a wide range of issues, although the complexity of its task must not be underestimated. Dr Padoa Schioppa underlined that only an IAIS with the power to make prudential recommendations will be able to collaborate with other agencies and organisations on an equal footing.

The IAIS can play a key role, he said, and the Basle banking supervisors were ready to offer their support.

Conference workshops and panels covered a range of relevant issues and provided a forum for exchange of views and experience on matters such as:

- health insurance and social security
- fitness and properness of insurance executives;
- insurance fraud
- techniques and practices in handling the media;
- reinsurance; and
- rating and solvency ratios.

In plenary session the IAIS welcomed six new member countries further extending the international scope of its membership and confirming the wide support for IAIS activities. The IAIS sees a growing role for itself as coordinator and a leading organisation in the development of prudential supervision globally.

Members expressed strong support for the work completed in the past year by its Executive Committee and Committee for the Future.

In accordance with the terms of reference agreed at the 1995 Annual Meeting at St Louis, USA the Committee for the Future reported on:

- its review of the future role and activities of the IAIS;
- proposed amendments to its by-laws to facilitate proposed changes;

- consequential organisation structure changes.

Members were invited to nominate for committees in 1997 subject to their being proposed to contribute in terms of travel, costs and their time.

The Executive Committee received strong support from members for its recommendation to establish a permanent secretariat to further the work and development of the Association.

Following considerable discussion of issues members in plenary session voted by a strong majority to accept an offer from the Bank for International Settlements (BIS) to establish a permanent secretariat in Basle, Switzerland.

Under the proposal the BIS would provide the IAIS free of charge the following:

- office space for three people, including equipment, furniture, telephone, fax, computer facilities and their maintenance;
- meeting rooms, library, research department; and
- one secretary

IAIS would need to fund:

- cost of salaries;
- telephone, postal and fax user fees; and
- travel expenses.

Members strongly endorsed the requirement that the IAIS be independent of the Basle Committee and the BIS.

In accepting the BIS/Switzerland offer the meeting noted the very generous offer made by the Kingdom of Denmark for assistance in establishing a permanent IAIS secretariat in Copenhagen. Denmark acknowledged the decision of members to accept the BIS/Switzerland proposal and wished the IAIS well for the future.

Key resolutions agreed by members were that the IAIS should expand its activities:

- to improve the exchange of information between members in particular through the development of a guideline Memorandum of Understanding;
- to strengthen the activities of the Education Committee;
- to centralise information on insurance laws, regulation and practices;
- to develop exchanges on methods of supervision; and
- to improve cooperation with Insurance Fraud agencies.

The Conference also agreed that standards of supervision could be developed in the form of broad principles, guidelines and recommendations based on "good practice". It would be for each member to decide whether or not to adopt standards in whole or in part through detailed arrangements and timing best suited to their own supervisory systems and local conditions. This would not prevent a group of countries agreeing upon a set of standards and, having done so, all adopting them in full. As many members as possible should be encouraged to adopt the standards.

It was agreed that the by-laws of the IAIS be amended to facilitate liaison and/or cooperation with the Basle Committee of Bank Supervisors, the International Organisation of Securities Controllers (IOSCO) and similar relevant entities and to permit the development of standards.

It was agreed to accept the invitation of the Government of Australia to hold the 1997 Annual Meeting of the IAIS in September.

Appendix 4

List of Papers Presented at Third Annual Conference

Documents Presented at the
Third Annual IAIS conference
October 14-15, 1996
Paris, France

OFFICIAL OPENING

Christian Noyer
Chief Advisor of the Minister of Economy and Finance
(English, French, Spanish)

CHAIRMAN'S ANNUAL REPORT

Chair: *George Pooley, Australia*
Commissioner
Insurance & Superannuation Commission
All Executive Committee Members
(English only)

THE COOPERATION BETWEEN FINANCIAL SUPERVISORS

Guest Speaker: *Dr. Tommaso Padoa-Schioppa, Chairman*
Basle Committee on Banking Supervision
(English only)

PANEL: HEALTH INSURANCE & SOCIAL SECURITY

Chair: *Brian K. Atchinson, United States*
President
National Association of Insurance Commissioners
Maine Superintendent of Insurance
(Oral and written statements in English only)

Mónica Cáceres Ubilla, Chile
Intendente de Seguros
Superintendencia de Valores y Seguros
(English and Spanish)

Christine Meyer-Meuret, France
Consultant
Sanesco
(French only)

Capitolina Turbina, Russia
Deputy Head, Russian Federal Insurance Supervisory Service
(English only)

WORKSHOPS

FITNESS AND PROPERNESS OF INSURANCE EXECUTIVES

Chair: *Peter Pfund, Switzerland*
Director
Federal Office of Private Insurance
(English only)

Yuri Bugaev, Russia
Head
Russian Federal Insurance Supervisory Service
(Russian only)

Juan Ignacio Gil Antón, Mexico
Presidente
Comisión Nacional de Seguros y Fianzas
(English only)

Dr. Jonathan Spencer, United Kingdom
Director of Insurance
Department of Trade and Industry
(English only)

Lim Shu Chiau, Republic of Singapore
Insurance Commissioner
Monetary Authority of Singapore
(English only)

PANEL: TECHNIQUES & PRACTICES IN HANDLING THE MEDIA

M. Eigil Mølgaard, Denmark
Former Deputy Permanent Secretary
Ministry of Business & Industry
(English only)

Brian K. Atchinson, United States
Superintendent of Insurance
Maine
(English only)

PLENARY SESSION: FUTURE OF THE IAIS

Chair: *George Pooley, Australia*
Commissioner
Insurance & Superannuation Commission
(English only)

PANEL: REINSURANCE

Chair: *Rob. C.L. Bakker, Netherlands*
Director
Research and Advisory Department
(English only)

Dr. Helmut Müller, Germany
Vice President
Bundesaufsichtsamt für das Versicherungswesen
(French only)

Jean-Louis Bellando, France
General Secretary
Commission de Contrôle des Assurances
(French and English)

PANEL: RATINGS AND SOLVENCY RATIOS -WHICH INSTRUMENTS FOR WHAT USE?

Chair: *Jean-Louis Bellando, France*
General Secretary
Commission de Contrôle des Assurances
(French only)

Jarl Symreng, Sweden
Head - Insurance Department
The Financial Supervisory Authority
(English only)