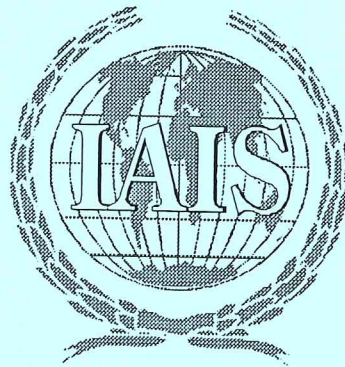


INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS



1997 ANNUAL REPORT

September 1998

This Annual Report covers the period from September 1997 to August 1998.

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INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Contributing to world-wide financial stability

The member insurance supervisors of the IAIS, drawn from
over 80 jurisdictions, resolve:

to co-operate together to ensure improved supervision of the
insurance industry on the domestic as well as on an international
level in order to maintain efficient, fair, safe and stable
insurance markets for the benefit and protection of
policyholders;

to unite their efforts to develop practical standards for
supervision of insurance that members may choose to apply;

to liaise or co-operate with other relevant international entities;

to provide mutual assistance to safeguard the integrity of
markets;

and to exchange information on their respective experiences in
order to promote the development of domestic insurance
markets.

✎ Taken from the Preamble of IAIS By-laws ✎

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Foreword

Established in 1994, the International Association of Insurance Supervisors (IAIS) represents the insurance supervisory authorities of some 80 jurisdictions. It was formed to promote co-operation between insurance regulators and also with regulators of the other financial sectors around the world. It seeks to help establish and maintain fair and efficient insurance markets for the benefit and protection of policyholders. The IAIS is charged with developing international principles and standards on insurance supervision and with implementing training seminars for insurance supervisors from emerging markets.

The Association is led by an Executive Committee, with a membership ranging from 9 to 15 members representing different regions of the globe. The Association is supported by a Secretariat located at the Bank for International Settlements in Basle.

The IAIS supports a number of committees, subcommittees and working groups (see organization chart on page 5). Thanks to their work, the IAIS has achieved remarkable results over last few years. At the Fourth Annual Conference in September 1997, the member supervisors approved two standards (*Insurance Supervisory Principles* and *Principles Applicable to the Supervision of International and Insurance Groups and their Cross-Border Establishments*) and two guidance papers (*Guidance on Insurance Regulation and Supervision for Emerging Market Economies* and *A Model Memorandum of Understanding*).

Three new standards on insurance supervision (*Supervisory Standard on Licensing*, *Standards on On Site Inspections*, and *Supervisory Standard on Derivatives*) will be submitted for approval at the Fifth Annual Conference in Cancún.

Moreover, the IAIS is very active in promoting the implementation of its supervisory standards through training activities. In the past year, the IAIS has been involved with training seminars in several regions for supervisors in emerging markets.

The IAIS also collaborates closely with other international regulatory organizations. In particular, the IAIS has played an important role as a constitutional body in the activities of the Joint Forum on Financial Conglomerates and Joint Year 2000 Council.

Each year the IAIS hosts an annual conference to encourage bilateral and multilateral discussions on topics of interest to insurance supervisors. The Fourth Annual Conference was held in Sydney, and the Fifth Annual Conference will be held in Cancún this fall.

Chairman's Report

The past year has been a busy one for the IAIS, as we continued to grow and develop as an organization. As a result of the many papers we issued and the training opportunities we facilitated, the IAIS has established a reputation as a key player in contributing to the stability in the financial sector.

In November, I was invited to speak to representatives of the G-7 group of major industrial countries in Washington about the accomplishments of the IAIS and its work plans for the coming year. I prefaced my remarks by pointing out that the IAIS is a young organization and lacks a well developed infrastructure. Despite this, we had already produced some useful documents for insurance regulators and had set an ambitious work plan for the future.

Our progress in making that plan a reality has been remarkable. These accomplishments will be discussed in more detail elsewhere in the Annual Report, but let me review the highlights.

The 1997-1998 Work Plan

The IAIS identified a number of priorities for 1997-1998; let me measure our progress against them:

- *provision of two regional training sessions for insurance supervisors*

The IAIS sponsored or co-sponsored five training sessions: in Mexico, the Caribbean, Zimbabwe, Poland and South Africa. In addition, analysis of a questionnaire on training needs will allow better targeting of training sessions in the future.

- *development of a self-assessment programme against the Insurance Supervisory Principles and compilation of the results*

A self-assessment programme was circulated to members in February. While completion is voluntary, its purpose is to give members the opportunity to assess the framework of regulation and supervision in their jurisdiction against the *Insurance Supervisory Principles* and identify areas that need strengthening. The results of the self assessment programme may also be used to direct further work of the IAIS.

- *development of drafting instructions to standardise the presentation of IAIS documents*

Drafting instructions were prepared in October and have been used by the committees and subcommittees throughout the year.

- *clarification of the distinction between a "direct writer" insurance company and a reinsurance company*

The Technical Committee established a working group to deal with this issue. It has held one meeting and has prepared an outline for the project.

- *provision of guidance on the supervision of market conduct*

An issues paper has been prepared on the supervision of market conduct and circulated to members. The membership will decide at Cancún whether to develop the paper into a standard as part of next year's work plan.

- *development of standards on:*
 - *derivatives,*
 - *licensing, including fit and proper tests , and*
 - *on-site inspection*

These standards will be submitted to the membership for adoption at Cancún.

- *commencement of work on solvency standards*

The first draft of a paper on solvency and solvency assessment was distributed to the members of the Technical Committee in January. This paper frames the debate on how to proceed with such a large body of work. A subcommittee has been established and it will develop a work plan with specific deliverables. This subcommittee will work closely with the Investment Subcommittee and the Accounting Subcommittee.

- *release of a bulletin on Year 2000 risk*

In November 1997 I joined with the Chairman of the Technical Committee in issuing a Statement on Year 2000. The statement points out the problems the date change raises for the insurance industry and urges members to ensure that companies in their jurisdiction take the necessary measures to become Year 2000 compliant.

The Road Ahead

With the commitment and involvement of its members, the IAIS will continue to grow and evolve as the international body charged with setting insurance regulatory standards. To do this, however, we need a solid infrastructure and a strong support network. We have already made significant progress. The IAIS is sound financially, and many members have volunteered to work on committees and develop papers. This commitment is essential if we are to complete the standards papers now in progress and to continue offering high quality training programmes.

Let me give one example of the important and challenging work that our members are involved in. Currently, it is difficult to compare the financial condition of insurance companies in different countries due to the lack of internationally accepted accounting or actuarial standards. These standards are key ingredients in the establishment of solvency and capital measures. With this in mind, we have established links with the International Accounting Standards Committee and the International Actuarial Association and we support their work in developing standards for insurance companies.

Closing Remarks

I have enjoyed the challenge of being the Chairman of the Executive Committee over the past year. My predecessor, Australia's George Pooley, worked very hard on behalf of all of us to create the IAIS and it was an honour for me to take over the important work he had started. I have been reassured and grateful for the support and dedication of so many members throughout my term. I now move on to become the first Past Chairman of the IAIS and I look forward to the new challenges that this role will bring.

Special thanks is due to the staff of the NAIC who acted as Secretariat and provided a wide range of support to the IAIS over the past several years. We could not have got this far without their help. I am pleased to say that our own Secretariat is now operational. Knut Hohlfeld assumed responsibilities of Secretary General in January and has put the infrastructure in place to support future work of the committees. He has been ably supported by his assistant Cecilia Müller Chen, and Deputy Secretary General Yoshihiro Kawai who joined the Secretariat in June.

I would also like to express my appreciation to Juan Ignacio Gil Antón for hosting the Fifth Annual Conference in Cancún. I hope to see you there.

John R. Thompson
Chairman of the Executive Committee

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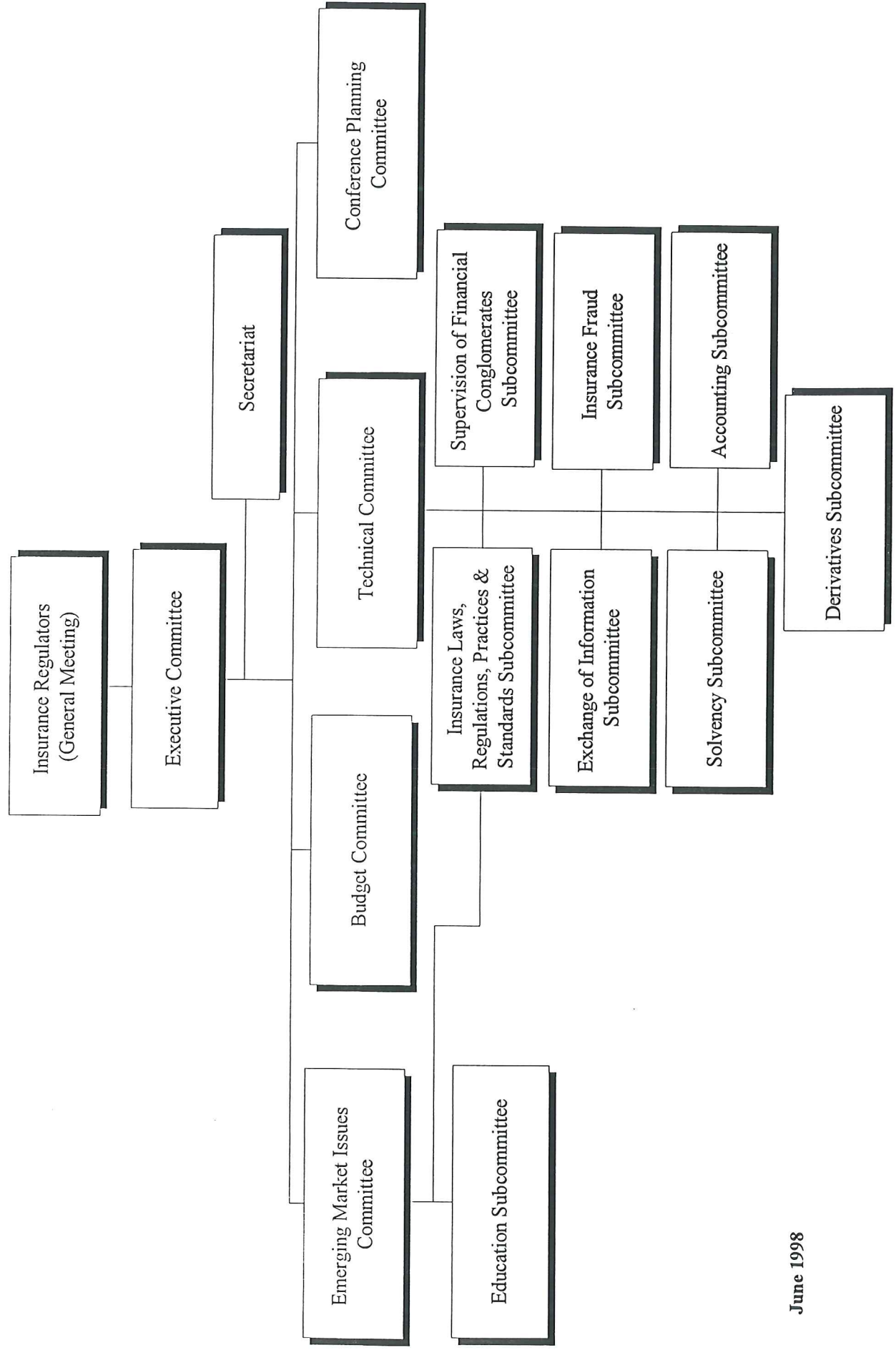
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IAIS ORGANIZATIONAL CHART



June 1998

Reports of Committees

The Executive Committee

(Chair: John Thompson, Canada)

The Executive Committee held formal meetings in Johannesburg (January) and in Basle (May), and teleconferences as needed (in particular, to discuss issues related to the establishment of the Secretariat).

Subcommittees of the Executive Committee made recommendations to the Executive Committee on a number of key issues, including:

- the selection of a candidate for Deputy Secretary General;
- amendments to the by-laws on the use of the term "country";
- the regional composition of the Executive Committee; and
- the translation of papers.

Year 2000

In November 1997 the Chairmen of the Executive Committee and the Technical Committee issued a Statement on Year 2000. The statement alerted IAIS members to potential problems that could arise as a result of the date change and highlighted issues that are unique to the insurance industry.

Because of the seriousness and urgency of this issue, the IAIS also joined with the Basle Committee on Banking Supervision (Basle Committee), the International Organization of Securities Commissions (IOSCO) and the Committee on Payment and Settlement Systems (CPSS) in preparing a press release urging that the financial services industry take immediate action to mitigate the possible effects of computer problems triggered by the Year 2000. Also the IAIS collaborated with these regulatory bodies and the CPSS in arranging the Year 2000 Round Table in Basle (April). The Chairman participated on the opening panel where the respective bodies discussed their initiatives and concerns. Following the Round Table, the IAIS nominated three members to take part in the Joint Year 2000 Council.

International Standard Setting Bodies

A first step in the creation of consistent standards for the supervision of insurance companies is to establish common accounting and actuarial standards. With this objective in mind, the Chairman met with the International Accounting Standards Committee (IASC) and the International Actuarial Association (IAA). The IASC has begun work on establishing insurance accounting policies and a member of the Technical Committee has been identified to support their work. The IAA has indicated that they are interested in working with the IAIS in the future and we are in the early stages of building that relationship.

Co-ordination with Other International Regulatory Bodies

In November, the Chairman of the Executive Committee spoke at IOSCO's Annual Conference in Taipei. He has been invited to address their Annual Conference again this September in

Nairobi. These meetings provide an opportunity to develop closer links with the other international regulatory bodies.

The Chairmen of the IAIS, IOSCO and the Basle Committee met in Taipei (November) and Amsterdam (April) to discuss issues of common concern, including the work program of the Joint Forum on Financial Conglomerates. The IAIS is represented at these meetings by the Secretary General, the Chairman of the Technical Committee and the Chairman of the Executive Committee. It was decided to continue the work of the Joint Forum under a new chairman as there are still many issues to address.

Increasingly, the finance ministers of the G-7 group of major industrial countries are becoming interested in the work of international regulatory bodies. In November the Chairmen of the Basle Committee, IAIS and IOSCO met with G-7 officials in Washington to report on the work of their organizations. In March the Chairman of the IAIS submitted a formal report to the G-7 ministers in preparation for their summit in Birmingham outlining the contribution of the IAIS in promoting financial stability worldwide.

By-laws

The IAIS by-laws have been reviewed and proposed amendments will be presented to the IAIS membership at Cancún. The changes deal with the reference in the current by-laws to the term "country". It has been noted that some of our members represent autonomous insurance regulatory authorities that do not correspond to sovereign countries. The proposal is intended to clarify the intent of the by-laws.

Conference Planning

The Comisión Nacional de Seguros y Fianzas in Mexico has accepted the task of organizing the Fifth Annual Conference of the IAIS in Cancún. Plans and budgets were discussed at each meeting of the Executive Committee. The efforts of the Comisión on this project are greatly appreciated.

A Word of Thanks

At the Annual Meeting in Paris two years ago, the IAIS voted to expand its mandate to include standard-setting. Over the past two years the Executive Committee has worked diligently to ensure that this expanded mandate was effectively implemented. Thanks to these efforts, the IAIS has attained success and gained credibility, not only within the insurance supervisory community, but also among other standard setting-bodies and bodies that promote stability in the financial markets.

The terms for many of the members of the Executive Committee are completed as of the Annual Conference in Cancún. I would like to thank each member of the Executive Committee for his/her hard work and support of the objectives of the IAIS.

John R. Thompson

The Technical Committee

(Chair: Jarl Symreng, Sweden)

The Technical Committee began developing standards and principles after the Third Annual Conference in Paris, when the objectives of the organization were broadened by a change in the By-laws to include, *inter alia*, the developing and setting of standards. Work has so far resulted in two principle papers, *Insurance Supervisory Principles* and *Principles Applicable to the Supervision of International Insurers and Insurance Groups and their Cross-Border Establishments*, which were approved at the Sydney conference. Both documents are referred to as level-one papers, which means that they define in general terms the matters to be covered by national standards. The focus is more on the *need* for regulation in particular areas, than on the *nature* of that regulation.

At the Sydney conference, Jarl Symreng, Head of the Insurance Department at the Finansinspektionen in Sweden, was elected the new chairman of the Technical Committee. The committee decided to make a flying start, launching several new projects and establishing some new subcommittees and working groups. Under the new chairman, the committee has convened in Johannesburg (January) and in Basle (May).

The objective of the committee is to establish regulatory standards on two levels. This will allow many jurisdictions to achieve standards early in the process. The level-one papers adopted in Sydney provide the framework for the immediate development of more detailed and prescriptive international standards. Some of the projects therefore concern level-two papers, as described below.

Supervisory Standard on Licensing

It is generally recognised that licensing plays a significant role in ensuring the efficiency and stability of the insurance market. Strict conditions governing the formal approval of insurance companies are necessary to protect policyholders and to foster fair competition in the marketplace. The development of a standard on this issue is thus of great importance. The working group is chaired by Dr. Helmut Müller, President of the Bundesaufsichtsamt für das Versicherungswesen, in Germany.

Standard on On-Site Inspections

On-site inspection is also a vital part of the supervisory process. It captures the data and information needed to assess a company's current and prospective solvency, and to analyze its evolution. It is also a means of obtaining information and detecting problems that are not readily at hand in the on-going inspection process. The working group has been chaired by Mme. Stéphane Pallez, Sous-directeur des Assurances at the Ministère de l'Economie et des Finances in France.

Supervisory Standard on Derivatives

The subcommittee, chaired by Mr. Michael Hale, Director General at the Office of the Superintendent of Financial Institutions in Canada, has produced a paper which provides guidance to supervisors on how to monitor the risk management controls of insurance companies dealing in derivatives. The standard sets out controls to be expected, and a reporting framework applicable across the full range of potential activities.

After a consultation process amongst the IAIS members the above mentioned draft standards are tabled for adoption at Cancún.

Other projects do not immediately concern second-level standards but will result in what could be referred to as issues papers. The aim here is to identify problem areas and potential solutions. Some of the papers may lead to the development of second-level standards.

Solvency and Solvency Assessment

The implementation of solvency requirements as well as methods for prudent assessment of solvency are important instruments or measures in maintaining a satisfactory supervisory framework. A first version of solvency standards covering both technical provisions and solvency margin (capital adequacy) as well as a classification of the various risks to which an insurance company is exposed was presented to the Technical Committee in Johannesburg. The subcommittee, chaired by Mr. Per Simonsen, Assistant Director General at the Kredittilsynet in Norway, will also maintain close contact with the International Actuarial Association (IAA).

Insurance/Reinsurance

The working group, which is chaired by Dr. Arend Vermaat, Insurance Supervisor at the Verzekeringkamer in the Netherlands, has presented a first discussion note on the essential differences between insurance and reinsurance. The aim of this group is to determine if different supervisory approaches are needed.

Exchange of Information

The subcommittee, chaired by Mr. Henrik Bjerre Nielsen of the Finanstilsynet in Denmark, has drafted a Model Memorandum of Understanding. It has been approved by the Technical Committee as a model that all jurisdictions may use. The subcommittee is continuing its work on ways to improve the exchange of information among supervisors.

Insurance Fraud

The subcommittee, chaired by Mr. Steve Butterworth, Superintendent of Insurance, Guernsey Financial Services Commission, deals with the important issue of fraud in the international insurance business.

Market Conduct

A working group has been set up to address market conduct issues in the insurance sector. It is chaired by Mr. Peter Pfund, Director at the Federal Office of Private Insurance in Switzerland.

The adherence to standards and principles will be monitored either through general surveys and mapping exercises or separate self assessment papers. The task of mapping the legal environment of the members has been taken up the Insurance Laws, Regulations, Practices and Standards Subcommittee, chaired by Mr. Peter Braumüller, Deputy Head of Division at the Bundesministerium für Finanzen in Austria. This subcommittee has sent out a first draft of the questionnaire to the membership. A separate draft assessment paper has also been prepared so members can assess their compliance with the *Insurance Supervisory Principles*. The *Self Assessment Program on Insurance Supervisory Principles* paper has also been distributed.

Investments

With the work of the Derivatives Subcommittee essentially complete, it has been renamed as the Investments committee and given a new mandate to continue looking at risk management, for all types of investments, and not only derivatives. Chaired by Dr. Eleanor Linton of the Treasury Insurance Directorate in the United Kingdom, the committee will look at risk management issues, including investment restrictions such as diversification requirements.

Electronic Commerce (Internet)

A working group has been set up to address the issues surrounding the electronic commerce and identify any supervisory problems. One important item from an insurance perspective is the issue of contract law across jurisdictions. The group is chaired by Mr. Tarmo Pukkila, Director General at the Ministry of Social Affairs and Health in Finland.

Accounting

A subcommittee is working with the International Accounting Standards Committee (IASC) to develop principles for international insurance accounting, and to develop standards that will allow insurance supervisors to assess accounting rules and the work of external auditors. Until last May, the subcommittee was chaired by Mme. Pallez. Since then, it has been headed by Mme Florence Lustman, Commissaire Contrôleur at the Commission de Contrôle des Assurances in France.

The Technical Committee is also mandated to liaise with other international bodies on matters of mutual concern. The contacts established with the IAA and the IASC have already been described. Initiatives have also been taken to establish links with the OECD. As well, an important link with the Basle Committee and the IOSCO has been forged through the Coordination Group, which met in Taipei (November) and Amsterdam (April). The Coordination Group, which consists of the Chairmen of the IAIS, the IOSCO and the Basle Committee together with their respective Secretary Generals, will meet regularly to discuss matters of common interest, such as the work of the Joint Forum.

Jarl Symreng

The Emerging Market Issues Committee

(Chair: Juan Ignacio Gil Antón, Mexico)

The goals of the Emerging Market Issues Committee have all been realised this year. The committee, aided by its subcommittees, produced good results in defining its work plan and terms of reference.

Terms of Reference and Work Plan

The committee drafted and approved official terms of reference and a work plan, involving close coordination with its subcommittees.

The terms of reference state the committee and its subcommittees shall:

- encourage emerging markets to establish sound insurance regulatory and supervisory systems;
- prepare guidance, manuals and training programmes for insurance supervisors in emerging markets;
- support emerging markets reinforcing market mechanisms;
- encourage information exchange and technical co-operation among supervisors; and
- collect feedback on training programs and other IAIS assistance.

In taking these objectives into account, the committee will develop:

- training courses or seminars for insurance supervisors in emerging markets;
- concrete guidance on insurance supervision and regulation;
- coordinated technical assistance; and
- exchanges of supervisors between emerging and developed economies.

Regional Training Seminars

The IAIS regional training seminars offer a unique opportunity to support sound insurance markets globally. This is the first year the IAIS has conducted training seminars for insurance supervisors in several emerging market regions. They are described in the Education Subcommittee's report.

Co-operation with other International Institutions

The Committee has exchanged training information with the International Insurance Foundation, the Organization for Economic Co-operation and Development (OECD), the United Nations Conference on Trade and Development (UNCTAD) and the World Bank. These groups have been invited to IAIS regional training seminars. As well, the International Insurance Foundation provided financial support for a regional seminars in Warsaw and Pretoria.

Analysis of Training Programmes for Insurance Supervisors

Thanks to the initiative of the Education Subcommittee, the committee has completed a comprehensive analysis of all types of training programmes for insurance supervisors around the world. The analysis will be distributed at the Cancún conference.

Tasks Ahead

Looking ahead, the Committee will reinforce its training activities. Given the importance of financial stability in Asian countries, the Emerging Markets Issues Committee, in collaboration with the Monetary Authority of Singapore, the OECD, and the International Insurance Foundation, will organize a training seminar for Asian insurance supervisors next February in Singapore.

In addition, regional training seminars are to be held in the Eastern Europe (Poland), the offshore region, Latin America (Argentina) and Africa (South Africa) next year. Starting in 1999, it is envisaged that some Technical Committee meetings be held back-to-back with IAIS regional training seminars to increase the level of participation and contribution by insurance supervisors.

The committee will initiate relationships with the BIS Institution for Financial Stability and the Toronto International Centre for Financial Sector Supervision and continue to develop their ties with the International Insurance Foundation, the OECD, the World Bank and UNCTAD in order to create a synergy in training activities. Comprehensive training manuals will also be prepared under the initiative of the Education Subcommittee.

Juan Ignacio Gil Antón

The Budget Committee

(Chair: Peter Pfund, Switzerland)

The Committee met at the Fourth Annual Conference in Sydney to discuss the 1998 budget. For the first time, the Committee obtained enough data to estimate the budget for that year since the salary and the relocation costs of the Secretary General could be predicted. The 1998 budget, which was proposed and approved by the membership at Sydney included an increase in the membership contribution to US\$3,000. It was intended to maintain this contribution unchanged for 1999 but to increase it afterwards to ensure that the costs of the Secretariat were covered after the financial support of the Swiss government ends.

On the occasion of the committee's May meeting in Basle, it reviewed the accounts for 1997. These showed a high income surplus of about US\$525,000, since the posts of Secretary General and Deputy Secretary General had not been filled and since income reflected the contributions of the Swiss government for 1997 and 1998. The Committee also noted that two members had to be delisted because they had not paid their membership contributions for either 1996 or 1997.

On the expenditure side, there continued to be uncertainty, since there was no track record for Secretariat expenditures that would reflect the cost of living in Switzerland. The Committee therefore decided to have the budget revised again by the Secretariat on the basis of actual developments during the first half of 1998. This should provide more accurate estimates for the membership at the Cancún, where approval of the budget will be sought.

A first draft has been prepared for the 1999 budget, along with forecasts for 2000 and 2001. It was decided to propose at Cancún that the membership contribution be raised from \$3,000 to \$3,500 in 1999.

The Committee set out rules on the investment of IAIS assets, and mandated the Secretariat to examine whether the IAIS could shift its head-office to Switzerland without losing its tax exemption. The Secretariat was also asked to identify internationally recognized auditors, operating in Switzerland, that could examine the accounts in the future.

Finally, the Committee also worked out its mission statement.

It is worth noting that the Committee's relationship with the Secretariat has begun very well and that nothing stands in the way of a formal transfer of the bookkeeping from the NAIC to the Secretariat in Basle. This is a good moment to express unreserved thanks to the NAIC for the excellent accounting it has done on behalf of the IAIS. Without the very generous support of the NAIC, it would be difficult even now for the IAIS to have a precise overview of its finances.

Peter Pfund

The Financial Conglomerates Subcommittee

(Chair: Arend Vermaat, Netherlands)

A number of members of the Financial Conglomerates Subcommittee are also IAIS representatives on the Joint Forum on Financial Conglomerates. They are drawn from Australia, Canada, France, Germany, Japan, the Netherlands, Sweden, the U.K. and U.S.A.

The Joint Forum has 27 members, with 9 from each of the IAIS, IOSCO and the Basle Committee. The chair is Australia's Alan Cameron, succeeding Tom de Swaan from the Netherlands.

In 1997, Arend Vermaat of the Netherlands took over as Chair of the subcommittee from Jarl Symreng of Sweden. The subcommittee had formal meetings in Basle (May), Sydney (September), and Johannesburg (January).

In addition, the IAIS insurance members of the Joint Forum currently organize advance meetings before each session of the Joint Forum. This brought us together twice in Basle (October and April) and once in Washington (January).

The Joint Forum agreed on a set of important papers (*Capital Adequacy Principles, Fit and Proper Principles, Framework for Supervisory Information Sharing, Principles for Supervisory Information*, and *Co-ordination*) as well as a Supervisory Questionnaire.

This package has been sent – via the three parent organizations – to large conglomerates, policymakers and supervisors in the three industry sectors worldwide for consultation. The deadline for comments was the end of July. The subcommittee anticipates that the IAIS membership will take a position on these matters at Cancún, so we can have their input for the upcoming Joint Forum meeting this fall. As part of this consultation process, a special working group of the Joint Forum (the Capital Testing Co-ordinating Group) is working on the testing of three suggested capital adequacy methods for financial conglomerates using nine conglomerates as a source of "real-life" data.

Apart from the consultation process, there are the following items to report:

- a co-ordinating committee of the Chairmen and Secretaries General of the parent organizations and the Joint Forum has been formed to meet on a regular basis and keep up to date on the various initiatives of these groups;
- a Study Group on Intra-Group Transactions and Exposures (ITE) and Risk Concentrations is reviewing supervisory objectives and methods and current conglomerate practices for managing these risks; and
- members of the Joint forum have been requested to undertake a self-evaluation based on the principles for Information Exchange developed by the Finance Exports Group for the Birmingham summit.

Arend J. Vermaat

The Insurance Laws, Regulations, Practices and Standards Subcommittee

(Chair: Peter Braumüller, Austria)

The main task of the Committee is to summarize and analyze information on insurance laws, regulations and practices in IAIS member countries as well as on directives, recommendations, model laws and other relevant supranational legislation.

Since the Sydney conference, the Committee has worked to prepare a questionnaire on insurance laws, regulations and practices in IAIS member countries. The first draft (June) was revised and sent to committee members as well as to those IAIS members in the working party preparing standards for Cancún.

The Committee held its fifth meeting in Vienna (November). At this meeting, the revised draft questionnaire was discussed in detail. Several additions and amendments were made following proposals by committee members.

The questionnaire was finalised in January and covers the main areas of legislation dealing with insurance and its supervision. It contains chapters on the organization and tasks of the supervisory authorities, licensing, corporate governance, products and tariffs, auditors, actuaries, shareholders and investors, solvency, accounting, technical provisions, investments, filing requirements, control procedures and examinations, supervisory measures and winding-up procedures. Special attention was paid to those areas under discussion in the Technical Committee and the Emerging Market Issues Committee. The questionnaire was sent to all IAIS members through the Secretariat in February.

At the sixth meeting in Johannesburg (January), the deadline was set to 31 March 1998 for replies to the questionnaire. The chairman also introduced the final version of the questionnaire to the members of the Technical and Emerging Markets Issues Committees.

At the Committee's seventh meeting in Basle (May), the chairman reported that 37 replies to the questionnaire had been received. It was decided to send out a reminder and to set June 9 as the new deadline. The Committee also agreed to produce a draft interim report for Cancún to provide members with a preliminary summary of responses and to encourage laggards to send their replies in time for the final report next year. The Executive Committee agreed that non-members, especially in emerging markets, could participate in the project.

The Committee's eighth meeting is scheduled for Vienna in July. The main issue on the agenda will be the preparation of the draft interim report, based on the 63 replies received. Furthermore, the Committee will have a preliminary discussion on the working plan for 1999, with a focus on the preparation of the final report on insurance laws, regulations and practices.

Peter Braumüller

The Exchange of Information Subcommittee

(Chair: Henrik Bjerre-Nielsen, Denmark)

In 1997, the Exchange of Information Subcommittee met in Sydney prior to the Fourth Annual Conference to finalize a Model Memorandum of Understanding on Mutual Assistance and the Exchange of Information. It includes a standard form for exchange of information and was adopted by the membership at the conference.

Paper and electronic versions of this model MoU is now available from the Secretariat. For its part, the subcommittee would welcome reports on any difficulties members may have in drafting MoUs with other IAIS members or in obtaining supervisory information from other supervisors.

As well, the subcommittee finalised a second questionnaire to establish the extent to which information is being shared, both formally and informally, and to identify ways in which possible improvements could be made. The results of this questionnaire will be available at Cancún.

The subcommittee also studied the databases of IAIS members to identify differences in methodology and if possible, to suggest improvements in the way data on insurers are kept.

The study shows that while a number of supervisors maintain databases of information on regulated insurers, the databases differ in both format and type of information collected. The subcommittee finds that at this stage there is no scope for further initiatives on this issue.

In 1998, the subcommittee gave a high priority to analyzing the potential for conflicts between the professional secrecy to which supervisors are bound and the need to exchange information. A questionnaire produced by the G-7 group of major industrial countries was sent to a select group of IAIS members. The replies show that there is still some way to go before all members comply fully with IAIS principles.

Henrik Bjerre-Nielsen.

The Insurance Fraud Subcommittee

(Chair: Mr. Steve Butterworth, Guernsey)

The Insurance Fraud Subcommittee reports to the Technical Committee of IAIS. Three meetings have been held since it was first formed in Paris in 1996. The terms of reference of the subcommittee are as follows:

1. To define the types of fraud affecting or affected by insurers and insurance intermediaries. Three general areas have been identified:
 - Fraud by the insurance company on the policyholder (This has been identified as the issue which the subcommittee 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; and
 - Money laundering.
2. To liaise with other bodies concerned with insurance fraud with a view to effective co-operation.
3. To investigate and report upon the problems of fraud affecting or affected by insurers, and insurance intermediaries.
4. 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.
5. 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.

Note: The term insurance includes reinsurance and retrocession business.

The first two years of operation have focussed on fact-finding and the subcommittee has used this time to contact various like-minded associations and organizations. The subcommittee has also compiled a list of journals which address insurance fraud.

The following problems have been identified in combatting insurance fraud:

1. Insurers, intermediaries and reinsurers who are not supervised. This problem is compounded by gaps in legislation, including the inability to act quickly against fraudsters.
2. The (lack of) education of insurance consumers and the insurance industry.
3. Poor resources, poor enforcement, and lack of fit and proper controls.
4. The inability to identify fraudsters (both by the industry and by insurance supervisors).
5. The lack of co-operation between supervisors.

The subcommittee submitted a paper to the Technical Committee suggesting possible solutions to the above problems. The subcommittee also investigated, by way of a questionnaire, the databases used to investigating suspected fraudsters and companies. We are looking at the availability of these databases to IAIS members.

The Secretary General assisted the subcommittee by sending, for the first time, an enquiry on a suspect insurer from a member jurisdiction to all IAIS members. Unfortunately, no positive responses have been received to date.

The Secretary General has also circulated a questionnaire on the topic of "Fraud on the Industry by Policyholders and other Parties" and the responses to which will be available at the Cancún conference.

Looking to the future, the Chair has a few personal comments:

1. It is hoped that the Technical Committee will adopt the paper suggesting solutions to the problems currently faced, and that every member jurisdiction will institute the relevant changes needed.
2. It is hoped that IAIS will become a major co-ordinating body for international insurance supervisors and consequently the focus for enquiries regarding international insurance fraud. This would include, subject to legal caveats, a protected Internet web site listing suspected individuals and companies, so that information on suspicious operations can be shared.
3. Now that the Committee has substantially finished their work on fraud by insurers, they will concentrate on fraud on the insurer and money laundering.
4. It is hoped that the Committee will meet with all the other organizations looking at insurance fraud and explore areas where co-operation will succeed in fighting fraud.

I hope that we can organize a conference in 1999 to bring together organizations involved in the prevention and/or detection of insurance fraud.

Steve Butterworth

The Subcommittee on Solvency and Actuarial Issues

(Chairman: Per Simonsen, Norway)

This report summarises the activities of the Subcommittee on Solvency and Actuarial Issues since its inception in January 1998.

At the meeting of the Technical Committee in Johannesburg in January 1998 the Chairman presented the first draft of *Supervisory Standards on Solvency and Solvency Assessment*. Several members have contributed valuable comments on that paper, and a summary of the comments, along with a description of issues for further consideration was presented to the Technical Committee in May.

In March, the Chairman of the Executive Committee, contacted Mr. Walter Rugland, the Chairman of the International Forum of Actuarial Associations (IFAA), to establish closer links between the two organizations.

The IFAA decided at its Committee meeting in Coventry (June) to set up an Insurance Regulation Subcommittee authorizing it to:

- liaise with the IAIS on issues relating to the regulation and supervision of insurance companies;
- assist the IAIS and other international bodies in the development of international guidelines or standards on technical reserves, capital adequacy requirements, valuation of assets and liabilities, financial conditions reporting, the role of the actuary, actuarial opinions and actuarial qualification standards,

Mr. Peter Kuys, of the ING Group in the Netherlands, was appointed as Chairman of the new IFAA Subcommittee. The Chairman of the subcommittee and Mr. Bertrand Labilloy are scheduled to meet with Mr. Kuys in August to discuss co-operation between the two groups.

The first meeting of the subcommittee was held in Oslo in June. The subcommittee will propose the following mandate to the Technical Committee for adoption:

The subcommittee's objectives are to investigate and develop proposals for standards and/or guidelines and present them to the Technical Committee for adoption, in the field of Solvency, Solvency Assessment and other Actuarial Issues.

To fulfil the proposed mandate, the subcommittee would:

- review all issues related to solvency and solvency assessment of insurance companies;
- review other actuarial issues relevant to insurance supervision;
- co-operate with the Investment Subcommittee and the Accounting Subcommittee; and
- liaise with the Insurance Regulation Subcommittee of the International Actuarial Association (IAA).

The subcommittee is aware that solvency assessment of insurance companies is a multi-faceted problem and that there is a lot of work to be done. As a first step, the subcommittee decided to write an issues paper on this topic and has assigned components of the paper to various members. A draft version should be prepared for discussion at the subcommittee's upcoming meeting next February.

Per Simonsen

The Derivatives Subcommittee

(Chair: Michael Hale, Canada)

During 1997-98 the subcommittee focussed on preparing a supervisory standard on derivatives. It met in October in Canada and prepared an initial draft standard. The standard was based on the work done the previous year in studying and summarizing the rules in place on the use of derivatives, including accounting, disclosure and reporting rules and risk management practices required by supervisors in several jurisdictions.

The standard provides guidance to supervisors in assessing how insurers control risks associated with derivatives. The approach chosen by individual supervisors will depend on the extent to which insurers are permitted to engage in derivatives activities, the supervisor's legal authority, use of on-site and off-site supervisory techniques and the role of the external auditors. The supervisory approach will also be influenced by the extent to which individual insurers use derivatives and the purpose of their use.

The initial draft was circulated to Technical Committee members for comment in November and revised, based on the input received, for the committee meeting in Johannesburg (January). Following that meeting, the draft standard was circulated to the general IAIS membership for comment. Further changes were made in response to the comments received and the final draft was approved at the Technical Committee meeting in May.

The subcommittee expects that the standard will be adopted by IAIS members in Cancún. The standard will then be sent to the Basle Committee on Banking Supervision and to the International Organization of Securities Commissions (IOSCO), in keeping with the subcommittee's mandate to co-operate with other relevant international entities.

The subcommittee has been asked to reconstitute itself and broaden its mandate to include asset risk management more generally. To this end, it has been renamed the Investments Subcommittee, and it will start work in the fall under the chairmanship of Dr. Eleanor Linton of the Treasury Insurance Directorate in the United Kingdom.

Michael Hale

The Accounting Subcommittee

(Chair: Florence Lustman, France)

The IAIS set up a subcommittee on accounting issues to liaise with the International Accounting Standards Committee (IASC). Since starting work in April, the subcommittee has reviewed the information sent by the IASC, and the Chair of the subcommittee attended the latest IASC Steering Committee as an observer. The subcommittee is currently reviewing the latest draft paper issued by the Steering Committee, in order to define an IAIS position on these accounting issues, and communicate that position to the IASC.

An accounting panel will be held in Cancún in September, with the participation of a representative of the IASC, along with two practitioners drawn from the insurance and auditing professions.

The next meeting of the Steering Committee will be held in Munich in October. At the end of the year, the Steering Committee intends to publish an issues paper to encourage public debate before it prepares a draft Statement of Principles. A period of three to four months is expected for public comment. Prior to publication, the IASC Board will be asked to comment on the Draft Statement of Principles. After publication, there will be a period for public comment, leading to the preparation and approval of a final Statement of Principles. This statement will not be published but the Steering Committee will then prepare an exposure draft based on the Statement of Principles. After approval by the Board, the exposure draft will be issued for public comment. In the light of comments received, the Steering Committee will develop a final International Accounting Standard for approval by the Board.

Florence Lustman

The Education Subcommittee

(Chair: Jean-Louis Bellando, France)

The Education Subcommittee has achieved remarkable results this year, launching five training seminars in collaboration with members and other organizations. As well, it has completed a comprehensive analysis of training programmes for insurance supervisors. In the coming year, the subcommittee will build on this work and offer a new selection of training events.

The subcommittee prepared an analysis of training programmes and technical assistance for insurance supervisors around the world and forwarded it to the Emerging Market Issues Committee in April. The final report will be distributed at Cancún. It seeks to:

- (1) identify training needs of insurance supervisors;
- (2) create a database of training programmes and technical assistance for insurance supervisors; and
- (3) identify resources available for training programmes.

The report includes a comprehensive analysis of responses to the questionnaire on training programmes and technical assistance (prepared mainly by French, Mexican and Polish authorities). As well, Guernsey's Mr. Steve Butterworth, former Chairman of the Education Subcommittee, prepared tables on training requirements and offered to host future programmes.

Finally, I would like to include a few words on the five regional training seminars held over the past year.

Anguilla

A training seminar on monitoring the financial solvency of insurance enterprises was held in Anguilla in October, organized by the IAIS and the Caribbean Association of Insurance Supervisors (CAIR), with the support of the Government of Anguilla and sponsored by the Government of the Luxembourg. The 26 attendees (17 regulators from 11 countries and 9 speakers) participated in an intensive programme, featuring high quality presentations and lively group discussions. Apart from the basic parameters of solvency assessment, the issue that attracted most interest was the establishing and monitoring reserves.

Harare

A training programme for African insurance supervisors was held in Harare in November. Eighteen African countries participated in the programme, which was the third in a five-year series organized by the United Nations Conference on Trade and Development (UNCTAD) in co-operation with the African Insurance Organization. It was supported by the Insurance Commissioner's Office of Zimbabwe and the IAIS, and sponsored by the Government of Luxembourg. The Conference concentrated on the monitoring of reinsurance operations, reinsurance fundamentals, monitoring of reinsurance sellers, and the importance of regional and international co-operation and exchange of information.

Mexico City

A training course for Latin American insurance supervisors was held in Mexico City in November, covering issues such as preventive surveillance, solvency and financial reinsurance issues. It was organized by the IAIS and the Latin American Insurance Superintendents Association (ASSAL) under the initiative of the Mexican Insurance Supervisory Authority. The 17 participants and 16 speakers were interested in topics such as dynamic solvency margin system, reinsurance regulation and preventive surveillance. This training course was self-funded by a fee of \$450 per participant, and future courses are planned on a twice-a-year basis.

Warsaw

The IAIS training seminar for supervisors from Central and Eastern European Countries was held in March in Warsaw, sponsored by the State Insurance Supervisory Office in Poland and the International Insurance Foundation. This was attended by 70 participants from 18 countries. The seminar was devoted to issues regarding the organization of a supervisory authority, licensing, technical provisions, investment, insurance accounting and financial reporting, data and statistics, European integration in the insurance field, reinsurance, treatment of troubled companies, and professional ethics for regulators.

The participants said they appreciated the seminar for the following reasons:

- the subjects covered corresponded to their needs and interests;
- the speeches were well prepared and of high quality;
- participants were deeply involved in the seminar; and
- there was an effective dialogue between supervisors from the region and those from elsewhere.

A follow-up regional seminar will be organized next spring.

Pretoria

The IAIS training seminar for English-speaking African insurance supervisors was held in July in Pretoria, South Africa under the initiative of the Financial Services Board (FSB) of South Africa. The 40 participants came from 15 countries and three institutions (IAIS, UNCTAD and IIF).

The seminar's lectures and discussions addressed a number of issues: supervision of insurance companies, insurance basis, use of insurance technology, reinsurance, liberalisation, financial soundness practices, financial solvency supervision, liquidation, licensing, financial conglomerates, intermediaries, disclosure, and money laundering. Several speakers mentioned the problems relating to Year 2000. Speakers made much use of the IAIS principles and standards in their presentations. Participants' fees and a contribution from the International Insurance Foundation financed the seminar. A similar training seminar will be held next year.

Jean-Louis Bellando

The Working Group on Reinsurance

(Chair: Rob Bakker, The Netherlands)

At the Fourth Annual Conference in Sydney, the IAIS assessed the importance of reinsurance supervision. Reinsurance is a pre-eminent international part of the insurance industry. The general function of reinsurance is to advance the effect of the (statistical) law of large numbers, being the basis for an optimal pooling and diversification of underwriting risks. The main consequence of this function in an economic sense is that reinsurance enables an insurer to expand its underwriting capacity.

A modest survey of the IAIS-countries carried out by the Netherlands supervisory authority, the Verzekeringkamer, made clear that there are large differences in supervisory regimes for reinsurance companies. The results are to be published this fall.

At its Johannesburg meeting in January, the Technical Committee set up a reinsurance working group, chaired by the Netherlands, with a mandate to draft a paper addressing relevant issues in the field of reinsurance supervision. The paper will be a reference paper for IAIS members, containing, *inter alia*, a synopsis of terms and considerations frequently used in reinsurance agreements. At a later stage, the IAIS will consider whether to draft a paper on reinsurance principles.

The Reinsurance Working Group had its first meeting in Apeldoorn in July. An interim list of issues was discussed. It is the intention of the working group to consult the reinsurance industry.

The group expects to complete a draft reinsurance paper in the autumn of 1999, for discussion by the IAIS membership at the Sixth Annual Conference in 1999.

Rob Bakker

The Working Group on Electronic Commerce/Internet

(Chair: Tarmo Pukkila, Finland)

At its meeting in Johannesburg, the Technical Committee decided to set up a new working group on Electronic Commerce and the Internet. The aim of the group is to produce an issues paper on the challenges of Electronic Commerce and the Internet for insurance supervision. It has been tentatively decided that most of the work of the group should be done by the end of 1998.

The first meeting of the working group was held in Basle in May, with a general discussion of Electronic Commerce and Internet issues.

At the Basle meeting, a new Internet website (<http://www.svision.net>) was unveiled, so members of the working group could communicate with each other, thus furthering the group's role as a forum for information exchange and discussion. The website will include background information on these issues as well as the current discussion contributions. The site's webmaster is Mr. Timo Ahjos, of the Ministry of Social Affairs and Health in Finland, and he will also help the working group in producing the final issues paper. Access to the discussion area of the website requires a password which IAIS members can obtain from Mr. Ahjos (his address is webmaster@svision.net).

An interim report of the group's findings will be presented at the Cancún conference, at which time the working group will also hold its next meeting.

Tarmo Pukkila

Report of the Secretariat

(Chair: K. Hohlfeld, Basle, Switzerland)

The IAIS has its own independent Secretariat, located at the Bank for International Settlements (BIS) in Basle, since January. The Secretary General is supported by Mr. Yoshihiro Kawai as Deputy Secretary General, and Mrs. Cecilia Müller Chen as administrative assistant. Mr. Kawai has been familiar with the work of the IAIS for several years.

In addition to its day-to-day operational tasks (document logging and distribution, answers to requests, preparation of the IAIS budget and cash flow management, etc.), the Secretariat has focussed its resources to:

- support the work of the main IAIS committees and record minutes at their January meetings in Johannesburg;
- organize the May committee meetings in Basle, and provide secretarial support;
- support the Year 2000 Round Table in April at the BIS and the Joint Year 2000 Council; and
- support the consultative process initiated by the Joint Forum on Financial Conglomerates.

In addition, the Secretariat is currently:

- preparing for the fifth Annual Conference in Cancún;
- updating the World Directory for distribution at the Cancún conference;
- developing a strategy for training programs;
- creating an independent IAIS website; and
- converting the IAIS from a not-for-profit corporation of the State of Illinois (USA) to a Swiss organization without losing its tax-exempt status.

The Secretary General has given presentations on behalf of the IAIS and established relationships with other relevant institutions. He has also developed the IAIS presence in the financial sector at a number of conferences:

- the BIPAR World Insurance Agents and Brokers Associations Summit in Brussels (March);
- the IAIS Conference of Insurance Supervisory Authorities from Central and Eastern European Countries in Warsaw (March);
- the Annual General Meeting of the Association of African Insurance Supervisory Authorities in Kampala (May);
- the 25th General Assembly of the International Association for the Study of Insurance Economics (Geneva Association) in Dresden (June); and
- the Toronto International Leadership Centre for Financial Sector Supervision (Toronto Centre) in July.

In July, the Secretary General also paid a first visit to the Secretariat of IOSCO in Montreal to help build a cooperative relationship between the two organizations.

The Deputy Secretary General gave a presentation on behalf of the IAIS at a training seminar on supervision of insurance companies for supervisors in English speaking African countries in Pretoria (July).

The Secretariat would like to thank all members for their support and contributions to IAIS activities. Special acknowledgement in this regard is due to the National Association of Insurance Commissioners (NAIC) and the BIS for their assistance, which greatly facilitated the activities of the IAIS. The secretarial support by the NAIC (and in particular, the years of work by Mr. Kevin Cronin) has build a strong foundation for the new era. As well, the considerable assistance provided by the BIS has allowed the Secretariat to become operational much more quickly and cost-effectively than otherwise possible.

Many requests and inquiries have been received from both members and non-members, something that demonstrates well a high level of interest in the IAIS. In spite of its limited resources, the Secretariat is committed to playing a key role in addressing the challenging tasks the IAIS has before it.

Knut Hohlfeld, Secretary General

Financial Statement & Independent Auditor's Report

**Deloitte &
Touche LLP**



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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, 1997 and 1996, 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, 1997 and 1996, and the results of its activities and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

February 13, 1998

Deloitte Touche
Tohmatsu
International

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

BALANCE SHEETS DECEMBER 31, 1997 AND 1996

ASSETS	1997	1996
CASH AND CASH EQUIVALENTS	\$ 429,359	\$ 328,553
ACCOUNTS RECEIVABLE, net	8,700	22,950
CONTRIBUTIONS RECEIVABLE	352,482	
TOTAL	<u>\$ 790,541</u>	<u>\$ 351,503</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 16,397	\$ 29,271
Deferred revenue	2,795	75,729
Total liabilities	19,192	105,000
NET ASSETS:		
Unrestricted	519,673	246,503
Temporarily restricted	251,676	
Total net assets	<u>771,349</u>	<u>246,503</u>
TOTAL	<u>\$ 790,541</u>	<u>\$ 351,503</u>

See notes to financial statements.

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 1997 AND 1996

	1997			1996
	Unrestricted	Temporarily Restricted	Total	Unrestricted Total
UNRESTRICTED REVENUES:				
Contributions	\$ 176,535	\$ 251,676	\$ 428,211	
Membership fees	172,670		172,670	\$ 114,700
Meeting registration fees	70,800		70,800	91,000
Interest income	20,527		20,527	9,823
Newsletter subscriptions	650		650	1,125
Miscellaneous income				50
Total revenue	441,182	251,676	692,858	216,698
EXPENSES:				
Translation services	15,885		15,885	18,208
Meeting services	20,188		20,188	18,802
Supporting services:				
Administrative	76,633		76,633	56,259
Telephone	16,886		16,886	3,719
Travel and transportation	11,636		11,636	9,513
Postage and office supplies	12,216		12,216	6,107
Professional services	8,411		8,411	1,916
Printing	6,157		6,157	4,835
Total expenses	168,012		168,012	119,359
CHANGE IN NET ASSETS	273,170	251,676	524,846	97,339
NET ASSETS, BEGINNING OF YEAR	246,503		246,503	149,164
NET ASSETS, END OF YEAR	<u>\$ 519,673</u>	<u>\$ 251,676</u>	<u>\$ 771,349</u>	<u>\$ 246,503</u>

See notes to financial statements.

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS**STATEMENTS OF CASH FLOWS****YEARS ENDED DECEMBER 31, 1997 AND 1996**

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 524,846	\$ 97,339
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities -		
Changes in:		
Accounts receivable	14,250	(7,350)
Contributions receivable	(352,482)	
Accounts payable	(12,874)	(14,300)
Deferred revenue	(72,934)	75,729
Contributions restricted for long-term investment	<u>(251,676)</u>	<u> </u>
Net cash provided by (used in) operating activities	(150,870)	151,418
CASH FLOWS FROM FINANCING ACTIVITIES -		
Proceeds from contributions that are time restricted	<u>251,676</u>	<u> </u>
INCREASE IN CASH AND CASH EQUIVALENTS	100,806	151,418
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>328,553</u>	<u>177,135</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 429,359</u>	<u>\$ 328,553</u>

See notes to financial statements.

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 1997 AND 1996

1. NATURE OF 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements have been recorded on the accrual 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.

Use of Estimates - 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.

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

Contributions - Contributions received, including unconditional promises, are recognized as revenues when the donor's commitment is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net assets classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the IAIS reports the support as unrestricted.

New Accounting Standards - In 1996, 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.

Reclassifications - Certain amounts in the 1996 financial statements have been reclassified to conform with the 1997 financial statement presentation.

3. INCOME TAXES

IAIS is exempt from Federal Income Tax pursuant to section 501(c)(6) of the Internal Revenue Code.

4. CONTRIBUTIONS RECEIVABLE

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

1997	\$ 100,806
1998	125,838
1999	<u>125,838</u>
	<u>\$ 352,482</u>

6. RELATED PARTY TRANSACTIONS

The National Association of Insurance Commissioners (the "NAIC") is an affiliated organization who is also a member of IAIS. Under a Services Agreement between the NAIC and IAIS, the NAIC provides certain administrative services to IAIS. For the years ended December 31, 1997 and 1996, the total amount charged by the NAIC for administrative service was \$58,399 and \$50,609, respectively. As of December 31, 1997 and 1996, IAIS had amounts payable of \$12,642 and \$25,776, respectively, to the NAIC for services rendered or expenses paid by the NAIC on behalf of IAIS.

* * * * *

Appendices

Appendix 1: List of Members

Mr. John Lawrence
 Director of Financial Services
 Financial Services, Government of
 Anguilla
 The Valley
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 John R. Thompson, Canada
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EMERGING MARKET ISSUES COMMITTEE

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André Laboul, OECD

Danuta Walcerz, Poland

Mark Serebrennikov, Russian
Federation

Maria Wetterstrand, Sweden

PETER PFUND, SWITZERLAND

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SUBCOMMITTEE

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Darryl Roberts, Australia
Vacant, Canada (To be named)
Mónica Cáceres Ubilla, Chile
Johan Løvengreen, European
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Bruno Bezaud, France
Jean-Louis Bellando, France
Helmut Müller, Germany
Joachim Henke, Germany
Y. Hirai, Japan
Per Simonsen, Norway
André Swanepoel, South Africa
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Alessandro Iuppa, USA

WORKING GROUP ON ELECTRONIC
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David Deacon, European Commission
Timo Ahjos, Finland
Frank Janotta-Simons, Germany
Isabel Pastor, Spain
Edward Forshaw, United Kingdom
Hanley Clark, USA

Appendix 3: List of Papers Presented at the Fourth Annual Conference

2nd - 3rd September 1997

Sydney, Australia

Official opening speech by Senator the Honourable Rod Kemp, Assistant Treasurer, Commonwealth of Australia (English only)

Chairman's annual report, George Pooley, Commissioner, IAIS Executive Committee

Co-operation between regulations IOSCO & IAIS, Anthony Neoh, IOSCO Technical Committee (English only)

The evolution of the concept of the appointed actuary, Chris Daykin, Government Actuary, United Kingdom, (English only)

The German experience of introducing the "responsible actuary", Ms. Ricarda Maier, Legal Advisor, Bundesaufsichtsamt für das Versicherungswesen, Germany (English only)

How the actuarial profession can help insurance supervisors, Walt Rugland, Chairman, International Forum of Actuarial Associations, Germany (English only)

Brief introduction to disclosure standards and market practices for life insurance, Ms. Lim Shu Chiau, Insurance Commissioner, Monetary Authority of Singapore, Singapore

Disclosure standards and related market practices for life insurers in the United States, George Reider Jr., Insurance Commissioner, State of Connecticut, United States (English only)

Disclosure of information in the life insurance industry in Germany, Dr. Knut Hohlfeld, President, Bundesaufsichtsamt für das Versicherungswesen, Germany (English only)

Statement of disclosure philosophy and practice – Hong Kong China, Alan Wong, Commissioner of Insurance, Hong Kong

Product disclosure standards for life insurance, Bob Glading, Deputy Commissioner, Life Insurance, Insurance and Superannuation Commission, Australia (English only)

The UK's regulatory framework for disclosure and market conduct, David Severn, Personal Investment Authority, United Kingdom (English only)

Insurance fraud: Transcript of video on Dai Ichi fraud, Steve Butterworth, Superintendent of Insurance, Guernsey Financial Services Commission, Guernsey (English only)

Outcome of Australian fraud on two life companies, Tom Karp, Insurance & Superannuation Commission, Australia (English only)

Licensing system in France and the EU, Jean-Louis Bellando, President, State Office for

International Supervision, France

Licensing control in the United States, Hanley C. Clark, Commissioner, West Virginia Department of Insurance, United States (English only)

Licensing system in South Africa and comparative analysis of licensing systems between developed markets and emerging markets, André Swanepoel, Deputy Registrar of Insurance, Financial Services Board, South Africa (English only)

The marketing of insurance over the internet, Ms. Josephine Musser, President, National Association of Insurance Commissioners, Commissioner of Insurance, Wisconsin, United States (English only)

The internet: bright light for the insurance industry? Dark cloud for regulators, Richard Seligman, Attorney with Katten Muchin & Zavis, United States (English only)

The IAIS survey on reinsurance supervision, Robert C L Bakker, Dutch Insurance Supervisory Board, The Netherlands (English only)

Alternative risk transfer via finite risk reinsurance: an effective contribution to the stability of the insurance industry, Gerald Fisher, Swiss Re, New York, United States (English only)

Financial reinsurance, Glenn Pomeroy, Vice President, National Association of Insurance Commissioners, Commissioner of Insurance, West Virginia, United States (English only)

Appendix 4: Press Communiqués

Fourth Annual Conference

2-3rd September 1997

Sydney, Australia

The Fourth Annual Conference of the International Association of Insurance Supervisors (IAIS), representing insurance supervisors from 57 countries, met in Sydney 2-3 September 1997.

Established in 1992, the Association aims to promote co-operation between insurance regulators around the world. It also seeks to maintain just and efficient insurance markets for the benefit and protection of policyholders.

The Association is led by an Executive Committee that is supported by a Technical Committee and the Emerging Markets Issues Committee. Subcommittees have been appointed to deal with:

- Insurance Laws, Regulations and Practices
- Supervision of Conglomerates
- Exchange of Information
- Insurance Fraud
- Derivatives
- Education

Officially opening the Conference, Assistant Federal Treasurer Senator Rod Kemp, outlined the significant progress made by the Association in its first full year of operation under its expanded charter. Noting the support given to the Association by the Basle Committee and the International Organization of Securities Commissions (IOSCO), Senator Kemp also paid tribute to the work of the various committees.

Senator Kemp encouraged the continuation of such work which he said would be recognised by other regulatory bodies and the insurance industry.

The Assistant Federal Treasurer also noted the need for co-ordination of supervision between the different parts of the finance sector if the risks of contagion were to be avoided.

The Senator acknowledged the contribution made to international supervision by Australia, particularly by its retiring Chairman of the Executive Committee, George Pooley.

Senator Kemp said he hoped such work and contribution by Australia would continue.

The Sydney Conference was hosted by the Chairman of the Executive Committee, George Pooley of Australia. Mr Pooley described the International Association of Insurance Supervisors this way "The IAIS is a lively dynamic organization which has begun to produce standards that should improve insurance supervision around the world. Its committees are imbued with a sense of urgency, have the necessary enthusiasm, supervisory skills, and the willingness to work for the Association, to ensure that IAIS will fulfil its work program

contributing to the future stability of the financial system.”

The Sydney Conference focused primarily on the growing internationalisation of insurance supervision and the need for co-operation and co-ordination between insurance, banking and securities supervisors.

Major reforms approved by the Conference included:

- significant progress towards developing broad principles or standards for insurance supervision; improving co-operation with the Basle Committee of Banking Supervision and the International Organization of Securities Commissioners (IOSCO); and
- agreeing to establish a permanent Secretariat in Switzerland.

New Standards For Insurance Supervision

Two key papers approved by the Conference reflected the international focus and progress made by the IAIS toward developing meaningful international standards.

The first paper, *‘Insurance Supervisory Principles’* lists matters that should be addressed in legislation or regulation in each jurisdiction.

The IAIS agreed:

- companies writing insurance should be licensed and monitored. The supervisor should assess the suitability of owners, directors and senior management; a business plan and financial statements, a capital plan and solvency margins should all be taken into account.
- responsible corporate governance, prudential rules limiting or managing risk exposures, on-site inspections, sanctions and appropriate co-ordination between insurance supervisors should all form part of the process.

These broad principles or standards also provide a framework for the immediate development of more detailed international standards.

A second paper, the *‘Principles Applicable to the Supervision of International Insurers and Insurance Groups and their Cross-Border Establishments’*, recommends:

- no foreign insurance establishments should escape supervision;
- all insurance establishments of international insurance groups and international insurers should be subject to effective supervision; and
- the creation of a cross-border insurance establishment should be subject to consultation between the host and home supervisors.

A third paper, *‘Guidance on Insurance Regulation and Supervision for Emerging Market Economies’*, seeks to encourage supervisors in emerging markets to move from their present degree of regulation towards the broad principles, or level one standards, specified in the first paper.

It also describes general characteristics of insurance markets in emerging economies, addresses measures to solve the problems and how to develop such measures.

It is intended that the Emerging Market Issues Committee and the Education Subcommittee of the IAIS will play a key role promoting and fostering the principles and measures dealt with in the paper.

In addition, a Memorandum of Understanding (MoU) was approved to facilitate the exchange of information between supervisors. It is intended to provide a model which can be used and adopted when supervisors negotiate bilateral exchange of information agreements.

According to IAIS by-laws the three papers are not mandatory for IAIS members. It is for the supervisor in each jurisdiction to adopt the standards or accept the guidance in whole, in part, or not at all.

Even so, the IAIS will be asking members to assess the extent to which they comply with the new guidelines.

The draft MoU recognises the increasing international activity in insurance markets and the need for mutual co-operation between regulators to improve their effectiveness when administering and enforcing insurance laws.

A copy of each of the three papers and the MoU is attached for further information.

The Association regards the three papers and the MOU as significant progress and achievement over the past 12 months. They also lay a foundation and structure for further progress.

Other important issues dealt with at the Conference included:

- plenary session on Co-operation Between Regulators;
- panel discussions on The Role of The Actuary, Licensing Criteria, Insurance and The Internet and Financial Reinsurance; and
- workshops dealing with matters such as Disclosure Standards and Market Practices for Life Insurance and Insurance Fraud.

Coordination With Other Supervisors

Guest speaker Mr Anthony Neoh, SC, Hong Kong, China, Chairman of the IOSCO Technical Committee told the Conference of the need for co-operation between financial regulators in an increasingly complex and rapidly evolving financial world.

Mr Neoh's comments are consistent with the Association's emphasis on establishing and developing its links with other international bodies in the finance sector, particularly the Basle Committee on Banking Supervision and IOSCO.

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

On a more positive note, it raises the desirability of a high level of uniformity and consistency for the benefit of insurers operating in many jurisdictions. There is considerable potential for economies and efficiencies in supervision across jurisdictions benefiting insurers and consumers.

Because there are no international laws governing insurance country differences arise in accounting standards, exit procedures and in supervisory rules. Harmonisation of standards and mutual recognition are therefore desirable if international financial stability is to be sustained.

Better co-operation between regulators is essential if financial conglomerates are to be well regulated. There are definite synergies between the ways in which prudential supervision is,

or can be, carried out in the different sectors.

Many of regulatory tools in the financial sector are common to the regulation of banks, insurers and securities houses. For example, licensing and powers to investigate and intervene, requirements to provide the supervisor with regular financial reports, the need for on-site inspections, internal control, disclosure standards, auditing requirements and so on.

For these reasons IAIS has taken positive steps to forge closer relations with the Basle Committee and IOSCO.

The IAIS is a new organization. The Sydney Conference put in place structures which will enable the IAIS to further build and strengthen its co-operation with the Basle Committee and IOSCO.

Changes To By-Laws

The Association amended the by-laws to increase the size of the Executive Committee, to support the location of the Secretariat in Basle Switzerland and to allow multiple memberships (such as the United States). Proposals relating to the question of country or geographic representation were deferred for further consideration.

Appointment Of The Secretary-General

The IAIS has recruited a Secretary-General of high calibre who will make a major contribution to the development of the Association. Dr Knut Hohlfeld, the President of the German Insurance Supervisory Office will take up the position, to be located in Basle, Switzerland, 2 January 1998.

It is intended to appoint a Deputy Secretary-General by mid 1998.

The appointment of a full-time Secretariat for the IAIS will strengthen the Association, improve the standard of service to members and accelerate the development of standards.

Work of the IAIS is directed by an Executive Committee, which is to be chaired from 4 September 1997 by Mr John Thompson, the current Vice Chairman. Mr Thompson is Deputy Superintendent, Office of the Superintendent of Financial Institutions, Canada.

The Association has a heavy program for the development of standards and improved training for supervisors for the next 12 months.

Work on the following standards is to proceed immediately:

- direct insurance and reinsurance;
- guidelines on market conduct;
- licensing, including fit and proper persons tests;
- on-site inspections; and
- solvency of life and general insurers.

Work is proceeding on derivatives, further consideration is to be given to the presentation of IAIS papers and a self assessment process is being developed for IAIS members.

The Association's work program also includes two regional seminars for the improvement of supervisory standards in emerging markets. The Association is in contact with a number of institutions to seek assistance with funding.

All committees face a substantial work programs, including the subcommittee on Derivatives which has a draft standard close to completion.

The Association's next Annual Conference will be hosted by Mexico in September 1998.

Joint Forum on Financial Conglomerates

19th February 1998

The Basle Committee on Banking Supervision (Basle Committee), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) announce the release of consultation documents prepared by the Joint Forum on Financial Conglomerates (Joint Forum) on the supervision of financial conglomerates. Background information on the Joint Forum is set out in the attached short explanatory document.

The papers prepared by the Joint Forum address important issues that arise for supervisors, in each of the banking, securities and insurance sectors, of legal entities residing within financial conglomerates and, in particular, provide concrete proposals for facilitating the exchange of information and for enhancing co-operation between supervisors. A synopsis of the documents forming the consultation package is set out in the attachment.

The Basle Committee, IOSCO and IAIS stress the working paper nature of the documents and invite comments which will be taken into account in the evolution of these papers and in the implementation of supervisory guidance. The input from both the industry and the supervisory community in each sector will also influence the continuing work of the Joint Forum in addressing supervisory issues that arise from the continuing emergence of financial conglomerates and the blurring of distinctions between the activities of firms in each financial sector.

The consultation documents are being distributed by each of the Basle Committee, IOSCO and IAIS to the industry and to the supervisory community in each sector.

The International Association of Insurance Supervisors invites feedback on the papers of the Joint Forum. The Joint Forum documents are accessible on the BIS Website (<http://www.bis.org>). Comments and feedback should be provided by 31st July 1998.

*Global Round Table on the Year 2000*9th April 1998

On 8th April the Bank hosted a Round Table on the Year 2000, jointly sponsored by the Basle Committee on Banking Supervision (Basle Committee), the Committee on Payment and Settlement Systems (CPSS), the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO). The meeting was attended by more than 200 senior executives (from 52 countries) representing a variety of public and private sector organisations in the financial, information technology, telecommunications and business communities around the world.

In 1997, the sponsoring organisations each took initiatives to raise awareness of the issues surrounding the century date change, enhance disclosure and prompt appropriate action within the financial industry. The sponsors' decision to organise the Round Table was motivated by their recognition of the seriousness of the challenges posed by the century date change in IT applications and of the potentially severe consequences in the financial markets associated with a lack of Year 2000 readiness. The discussions at the conference focused on the increasing challenges presented by the century date change, with specific emphasis on the identification of initiatives that need to be taken in order to ensure that financial market participants and the interconnected infrastructures around the world can continue to function without major disruptions during the transition to the new millennium.

The discussions at the Round Table confirmed that the Year 2000 issue needs to remain a top priority of senior management and emphasised that private and public sector bodies should coordinate their focus on a number of important issues and approaches. These include the continuing need to ensure strengthening and widening of external testing programmes, improving information sharing among market participants and their vendors and service providers, fostering increased disclosure by financial and non-financial corporations of their Year 2000 readiness and testing results, establishing market conventions and procedures for dealing with potential contingencies, and reinforcing the role of oversight bodies such as supervisors and auditors. The importance of thorough testing, both internally and with counterparties, was emphasised as the most effective way to ensure that problems are minimised.

Sponsors' recommendations

1. *Awareness of the seriousness and scope of the problem is high but varies considerably across markets and institutions worldwide. The sponsors believe that it is imperative that all market participants, and especially financial market supervisors, work to ensure that Year 2000 preparations receive the maximum senior management attention and priority, including at the board of directors level. In particular, market participants from regions that have not yet vigorously tackled the problem should consider the need to invest significant resources in the short time that remains.*
2. *Testing for Year 2000 readiness is the most critical and complex issue facing the financial industry. Because widespread testing has not yet begun, the extent of the problems and the amount of remediation work that remains is unclear. The sponsoring organisations urge market participants to explore ways to enhance the*

transparency of testing results.

3. *The sponsors consider it critical that financial market supervisors around the world implement programmes that enable them to assess the Year 2000 readiness of the organisations and market infrastructures that they supervise. Further, it is important for supervisors to ensure that the risks related to the century date change are identified, properly communicated among market participants and appropriately managed in their jurisdiction.*
4. *The sponsoring organisations agree that the highest possible priority should be given to Year 2000 preparations by telecommunications and electricity providers in each national jurisdiction. Failure of these organisations to prepare adequately and share information on their plans in order to promote effective testing could lead to serious disruptions in the world's financial markets.*
5. *In order to achieve a greater degree of market transparency, the sponsors believe that the sharing of critical information on Year 2000 readiness by all market participants is essential. The sponsors encourage private sector efforts to develop standard questionnaires and frameworks for Year 2000 disclosure as these have the potential to provide clear means for measuring progress.*
6. *Financial industry conventions and dispute resolution procedures should be developed to address the possibility of transaction failures. Additionally, contingency measures should be considered for the potential failure of key parts of the financial market infrastructure. Further, it is recognised that national payment systems need to coordinate testing schedules in order to provide opportunities for end-to-end testing on a domestic and international basis. The Round Table sponsors welcome and support the initiatives taken by various industry groupings in this respect.*

Joint Year 2000 Council

While the sponsoring organisations can raise awareness of the Year 2000 issue, only the private sector can assure that applications are ready and thoroughly tested internally and externally and on an international basis. To this end, several private sector initiatives fostering international coordination and cooperation were identified during the forum. To maintain a high level of attention within the supervisory community and to support and encourage these private sector efforts, the sponsoring organisations are forming a Joint Year 2000 Council comprised of senior members of each committee.

Attached to this communiqué are further details on the discussions and conclusions of the Round Table. The BIS Web site (www.bis.org) contains further information on the Round Table and will be used to provide ongoing information on the activities of the sponsoring organisations and of the Joint Year 2000 Council.

*Joint Year 2000 Council*19th May 1998

On the occasion of the Round Table on the Year 2000 held at the Bank for International Settlements (BIS) on 8th April 1998, the committees sponsoring the event agreed to establish a Joint Year 2000 Council. The Council is constituted by senior representatives of each committee, that is the Basle Committee on Banking Supervision (Basle Committee), the Committee on Payment and Settlement Systems (CPSS), the International Association of Insurance Supervisors (IAIS), and the International Organization of Securities Commissions (IOSCO). Mr. Ernest Patrikis, First Vice President, Federal Reserve Bank of New York, chairs the Council and its secretariat is provided by the BIS.

The Council intends to meet regularly and has agreed on a range of initiatives to ensure a high level of attention on the Year 2000 computer challenge within the global financial supervisory community, to share information on regulatory and supervisory strategies and approaches, to discuss possible contingency measures, and to serve as a point of contact with national and international private-sector initiatives.

At their meeting in London in early May, the G-7 finance ministers called on the Council and its sponsoring committees to monitor the Year 2000-related work in the financial industry worldwide and to take all possible steps to encourage readiness.

A fact sheet presenting the Council's objectives and projects as well as its membership is attached. Information regarding the Council's ongoing activities will be posted on the BIS Web site (www.bis.org).

Joint Year 2000 Council Fact Sheet

The mission of the Joint Year 2000 Council is:

- to ensure a high level of attention on the Year 2000 computer challenge within the global financial supervisory community;
- to share information on regulatory and supervisory strategies and approaches,
- to discuss possible contingency measures; and
- to serve as a point of contact with national and international private sector initiatives.

The Joint Year 2000 Council is sponsored jointly by:

- the Basle Committee on Banking Supervision;
- the Committee on Payment and Settlement Systems (CPSS);
- the International Association of Insurance Supervisors (IAIS); and
- the International Organisation of Securities Commissions (IOSCO).

The Secretariat for the Joint Year 2000 Council is provided by the Bank for International Settlements (BIS). Information from the Council will be made available on the BIS Web site (www.bis.org).

The projects envisaged by the Joint Year 2000 Council include:

- providing a forum for the disclosure of the status of global financial market preparations for the Year 2000;
- encouraging all payment and settlement systems, clearing houses, exchanges and other parts of the global financial market infrastructure to make publicly available information on their preparatory efforts and testing programs;
- meeting regularly with an external consultative committee composed of organisations or associations with an international perspective on Year 2000 preparations;
- developing a global supervisory contact list for the Year 2000 challenge that includes a coordinating contact covering as many countries as possible;
- supporting, co-sponsoring and providing assistance in planning further conferences and roundtables on the Year 2000 challenge in different regions of the world;
- facilitating exchanges of information related to Year 2000 testing programs within the international financial community;
- encouraging coordinated cross-border testing to the maximum extent possible;
- developing a series of publicly available working papers on different aspects of the Year 2000 challenge;
- facilitating the sharing of information on Year 2000 preparations by core infrastructure providers such as telecommunications, electric power and government utilities, as they relate to preparations by financial market participants;
- sharing and developing ideas on contingency measures appropriate for individual firms and domestic markets;
- serving as a point of contact for the coordination of international contingency efforts; and

- encouraging the development of and the global sharing of plans for market conventions and dispute resolution procedures designed to mitigate the effect of Year 2000 transaction failures.

Members of the Joint Year 2000 Council

Chairman	Mr. Ernest T. Patrikis Federal Reserve Bank of New York
Basle Committee	Mr. Marcel Maes Banking and Finance Commission, Belgium Mr. José Florencio Guzman Instituciones Financieras de Chile Mr. Huw Evans Bank of England
CPSS	Mr. Carlo Tresoldi Banca d'Italia Mr. Jammaz Al-Suhaimi Saudi Arabian Monetary Agency Mr. Philip Tromp South African Reserve Bank
IAIS	Mr. Richard Smith Insurance and Superannuation Commission, Australia Mr. Tarmo Pukkila Ministry of Social Affairs and Health, Finland Mr. Bertrand Labilloy Ministère de l'Economie et des Finances, France
IOSCO	Mr. George Wittich Federal Securities Supervisory Office, Germany Mr. Masayuki Tamagawa Securities Bureau of the Ministry of Finance, Japan Dr. Munir-Majid Malaysian Securities Commission
Ex officio	Chairman of the Basle Committee Chairman of the CPSS Chairman of IAIS Chairman of IOSCO

Please address inquiries to:

Joint Year 2000 Council Secretariat

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*Joint Year 2000 Council*6th July 1998

The Joint Year 2000 Council strongly recommends that all countries develop a national strategy with respect to the Year 2000 problem. The Council expects that the establishment of coordinated national strategies will produce efficiencies and accelerate the action necessary to address the Year 2000 problem in the short amount of time that remains before the millennium change. In many countries meaningful initiatives are already being taken in various sectors. However, the seriousness of the potential consequences of failing to adequately meet the Year 2000 challenges and the complexity of developing solutions to avoid major disruptions clearly demands a more coordinated effort across key industries than is currently under way in most countries. One possibility for designing and implementing a national coordinated strategy is the creation of a national government body that would coordinate preparations for Year 2000 readiness across the key industries and infrastructure providers in its jurisdiction.

In many countries financial market regulators have already taken meaningful initiatives to raise the awareness of the Year 2000 problem and to encourage readiness of key components of the financial market infrastructure. Given the importance of financial markets to the economy it is clear that financial market regulators could make an important contribution to the coordination of Year 2000 strategies on a national basis. National governments can play an important role in promoting broad-based awareness at the most senior level of the private and public sector of the potential disruptive effects of the millennium date change; in ensuring that appropriate action is taken by all major institutions in the economy, including utilities; and in coordinating action taken by different industries in both the public and private sector, both domestically and internationally.

Based on the experience of a number of countries which have developed and implemented concerted national Year 2000 strategies, the following tasks could usefully be assigned to a national government coordinating body:

- improving the awareness of the complexity of the Year 2000 challenges in both the private and the public sectors;
- cooperating with relevant private sector organisations to ensure that proper action is taken in all sectors of the economy to achieve Year 2000 readiness by all users of information technology, both large and small;
- paying particular attention to readiness efforts of major utility providers such as electricity companies, telecommunication companies and water suppliers;
- establishing target dates for completing key phases of Year 2000 programmes appropriate for the industry and market;
- evaluating the available human and financial resources to address the Year 2000 problem in key industries;
- ensuring proper action by various government agencies to minimise possible disruptions relating to the millenium date change;
- assessing the possible cross-border aspect of the Year 2000 problem and assisting in the international coordination of national strategies;
- developing and implementing a communications strategy to increase public

confidence as the millennium date change approaches;

- assisting in the coordination of contingency planning in both the private and the public sector.

The Joint Year 2000 Council is engaged in various global Year 2000 initiatives which may be relevant to the development of national coordinated strategies. It is developing a global databank of contacts in individual countries covering government entities, financial market regulators, financial industry associations and infrastructures, utilities and other relevant institutions. The Council also intends to regularly publish policy papers on specific Year 2000 issues. It has recently released a document providing supervisory guidance on the independent assessment of financial institution Year 2000 preparations. Forthcoming papers will cover the scope and impact of the Year 2000 problem; the importance of testing for Year 2000 readiness; disclosure issues; and contingency arrangements.

The Council is engaged in an active dialogue with various international groupings in the private and public sector in order to share information and coordinate Year 2000 readiness efforts as much as possible. The Council welcomes the efforts by the World Bank to develop a framework for the design of national Year 2000 programmes and to assist countries in implementing it.

Note for editors:

The Joint Year 2000 Council is sponsored by the Basle Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the International Association of Insurance Supervisors, and the International Organization of Securities Commissions. The Secretariat for the Council is provided by the Bank for International Settlements. Information on the Council's objectives and activities can be found at the BIS Web site (www.bis.org). The G-7 Finance Ministers have welcomed the establishment of the Council and have recommended that it take any appropriate action to ensure worldwide attention to the Year 2000 challenge.

*Federal Reserve Governor Roger W. Ferguson, Jr
to chair Joint Year 2000 Council*

21st July 1998

The sponsoring organisations of the Joint Year 2000 Council announced today that Roger W. Ferguson, Jr. will succeed Ernest T. Patrikis as Chairman of the Council with immediate effect. Governor Ferguson is a member of the Board of Governors of the Federal Reserve System.

The Joint Year 2000 Council, formed in April 1998, comprises senior representatives of its four sponsoring organisations: the Basle Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the International Association of Insurance Supervisors and the International Organization of Securities Commissions.

Governor Ferguson took office as a member of the Board of Governors of the Federal Reserve System in November 1997. Since that time, he has been closely involved in the Federal Reserve's preparations to meet the Year 2000 computer challenge, taking a particular interest in Federal Reserve contingency preparations.

In announcing his appointment, the chairmen of the four sponsoring organisations said that they believe Governor Ferguson has the right mix of skills and energy to continue the good work of the Joint Year 2000 Council in assisting international financial sector preparations for Year 2000 readiness. According to William J. McDonough, President of the Federal Reserve Bank of New York and Chairman of the Basle Committee on Banking Supervision, "Roger Ferguson has an enormous capacity to understand the many different aspects of this issue and how the public and private sectors can best work together to tackle them in the short time that remains."

"I am pleased to have been selected to chair the Joint Year 2000 Council. Preparing for the Year 2000 is of vital interest globally", said Governor Ferguson. "I am eager to work with the Council to help provide guidance to and assistance for supervisors and financial market participants in all countries regarding the steps they need to take to meet the challenge."

Governor Ferguson was born on 28th October 1951 in Washington, D.C. He received a B.A. in economics (magna cum laude) in 1973, a J.D. (cum laude) in 1979 and a Ph.D. in economics in 1981, all from Harvard University. From 1973 to 1974 Governor Ferguson was Frank Knox Fellow at Pembroke College, Cambridge University.

Before becoming a member of the Federal Reserve Board, Governor Ferguson was a partner at international management consultants McKinsey & Company, Inc. Based in New York City, he managed a variety of studies for financial institutions from 1984 to 1997. Governor Ferguson also served as Director of Research and Information Systems, overseeing a staff of 400 research professionals and managing the firm's investments in knowledge management technologies.

From 1981 to 1984 Governor Ferguson was an attorney at the New York City office of Davis Polk & Wardwell, where he worked with commercial banks, investment banks and Fortune 500 corporations on syndicated loans, public offerings, mergers and acquisitions and new product development.

Notes for Editors

The purpose of the Joint Year 2000 Council is to ensure a high level of attention to the Year 2000 computer problem on the part of the global financial supervisory community, to share information on regulatory and supervisory strategies and approaches, to discuss possible contingency measures and to serve as a point of contact with national and international private sector initiatives.

The Secretariat for the Joint Year 2000 Council is provided by the Bank for International Settlements (BIS).

Information on the Council's activities is available on the BIS Web site (<http://www.bis.org>).

Mr. Patrikis, the initial Chairman of the Council, has resigned his post as First Vice President of the Federal Reserve Bank of New York to take up a position in the private sector.