1998 Annual Report

International Association of
Insurance Supervisors

This Annual Report covers in general the period from September 1998 to September 1999

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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 100 jurisdictions, resolve:

to cooperate 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 insurance supervisory authorities of some 100 jurisdictions. It was formed to promote cooperation between insurance regulators and with regulators in other financial sectors. The IAIS develops principles and standards on insurance supervision and holds training seminars for insurance supervisors from emerging markets. In so doing, it seeks to help establish and maintain fair and efficient insurance markets for the benefit and protection of policyholders. The IAIS is led by an Executive Committee, with 9 to 15 members representing different regions of the globe. It is supported by a Secretariat located at the Bank for International Settlements in Basel, Switzerland.

Thanks to the work of a number of committees, subcommittees and working groups (see organisation chart on page 12), the IAIS has achieved remarkable results over the last few years. At the Fourth Annual Conference in 1997 in Sydney, Australia, members approved two principles, *Insurance Supervisory Principles* and *Principles Applicable to the Supervision of International Insurers and Insurance Groups and their Cross-Border Establishments – Insurance Concordat,* 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, Supervisory Standard on On-Site Inspections* and *Supervisory Standard on Derivatives* were approved at the Fifth Annual Conference in 1998 in Cancún, Mexico.

Two further papers, *Supervisory Standard on Asset Management by Insurance Companies* and *Principles for the Conduct of Insurance Business,* will be submitted for approval at the Sixth Annual Conference to be held in San Francisco in December 1999. In addition, it is expected that the IAIS membership will approve an extension of the *Insurance Concordat*, adopted in 1997, to insurance business that is conducted on a services basis without any foreign establishment. Another issue that will be submitted to the IAIS membership for approval this year -- an issue of great importance for the structure and future work of the IAIS -- is the opening of membership to Observers; i.e., non-regulators, particularly from the insurance industry.

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

The IAIS collaborates closely with other international regulatory organisations. In particular, the IAIS plays an important role as one of the constituting bodies in the activities of the Joint Forum and the Joint Year 2000 Council. The IAIS is represented on the Financial Stability Forum, set up at the beginning of 1999, and its Working Group on Offshore Financial Centres. Furthermore it is represented in the Multidisciplinary Working Group on Enhanced Disclosure as well as in a cross-sector Working Group that promotes the implementation of the IMF Code of Good Practices on Transparency in Monetary and Financial Policies. In addition, the IAIS has provided input to the International Accounting Standards Committee's work in establishing standards for insurance accounting.

Each year, the IAIS hosts an Annual Conference to encourage bilateral and multilateral discussions on topics of interest to insurance supervisors. This conference is also open to participants from the insurance industry. The Fifth Annual Conference was held in Cancún, and the Sixth Annual Conference will be held in San Francisco in December 1999.

Chairman's Report

The past year has been a busy one and one of great importance for the future of the IAIS. The committees, subcommittees and working groups worked hard and have been very successful. The IAIS has continued to grow, with its membership now comprising more than 100 jurisdictions from all over the world. As the acknowledged international standard-setting body for insurance regulation, it has accepted the task of contributing to worldwide financial stability.

The work plan for 1998/1999 was heavy. Priority was given to developing further principles and standards on insurance supervision. By summer 1999, three additional standards, *Supervisory Standard on Asset Management by Insurance Companies, Principles for the Conduct of Insurance Business* and a revised *Insurance Concordat,* were circulated for comment to the supervisory community and the insurance industry. Relevant feedback was incorporated, and the three papers will be submitted to the membership for adoption at the Annual Conference in San Francisco in December 1999.

The IAIS developed issues papers on solvency and reinsurance -- issues that are of great importance for effective insurance supervision. Another paper that is quite advanced covers supervision of insurance on the Internet. The Internet is a distribution channel that will gain more importance in the future -- supervising it will need international coordination. In addition, a paper is being developed on the issue of identifying a coordinator for the supervision of international insurance groups and international financial conglomerates that are significantly involved in insurance activities. It is based on the *Coordinator Paper* of the Joint Forum and includes practical rules for dealing with this complex international supervisory issue.

Training of insurance supervisors from emerging economies continued to be a major focus of the work of the IAIS during the past year. Given increasing globalisation, effective insurance supervision must be implemented worldwide. In particular, supervisors from emerging economies need to develop the necessary skills and expertise to exercise effective insurance supervision in accordance with IAIS principles and standards. I, along with other members, made presentations in training seminars in Singapore, Warsaw, Buenos Aires and Tokyo. It was encouraging to witness the dedication and enthusiasm of the participants. These training exercises are, and will remain, one of the most important goals of the IAIS.

The IAIS is now on-line! In spite of some initial difficulties, we have succeeded in creating a well-designed user-friendly website. Since its launch, the Secretariat has noticed an increased number of requests for information about the work and activities of the IAIS, and the website has met that demand. The website has also reduced the need for exchanging voluminous papers among members.

The G7 Finance Ministers continue to show interest in the stability of the financial sectors. Accordingly, I provided the G7 Financial Experts Group with a detailed report on the achievements of the IAIS in promoting financial stability and in enhancing regulatory cooperation.

The IAIS has continued to collaborate with other international standard-setting bodies -- the Basel Committee on Banking Supervision and IOSCO -- through the Joint Forum and the Joint Year 2000 Council. However, in the course of this past year, global cooperation has been broadened substantially. The recent economic turmoil has revealed inadequacies in understanding the inter-relationships between financial markets, particularly between developed and emerging economies, as well as inadequacies in the quality of risk assessment and gaps in the international regulatory system. The G7 Finance Ministers established the Financial Stability Forum (FSF) to strengthen international cooperation and coordination in the area of financial market supervision and surveillance. The participants include 39 members representing all G7 countries, four additional countries, the IMF, the World Bank, the OECD, and the IAIS, as well as the Basel Committee, IOSCO and other international financial regulatory groupings. As the IAIS representative in this Forum, I was

surprised by the concerns expressed regarding insurance, especially life insurance and reinsurance. The IAIS has been given the task of helping the participants understand better the role that insurance plays in financial markets.

The IAIS is represented in the FSF Working Group on Offshore Financial Centres, examining the impact that the use of offshore financial centres has on financial stability. Furthermore, the IAIS is a parent organisation of a Multidisciplinary Working Group on Enhanced Disclosure, as well as a Working Group supporting the IMF in implementing its *Code of Good Practices on Transparency in Monetary and Financial Policies.*

These developments have made the work plan for the 12 months far broader than could have been expected, making the past year very exciting and creating additional challenge for the work ahead.

Finalising the principles and standards papers remains the IAIS's main preoccupation. The work of the Task Force developing a methodology for implementing the *Insurance Supervisory Principles* is of particular importance to the G7 Finance Ministers and other international organisations, and the IAIS continues to develop this methodology. The resulting methodology will be an excellent means for the IAIS to assess the implementation of supervisory principles and standards in the different jurisdictions, through our self-assessment process or through assessments made by third parties such as the IMF or World Bank.

The IAIS agrees with the Financial Stability Forum that the implementation of internationally accepted standards is an important priority. Accordingly, the IAIS will continue to offer regional training seminars for supervisors from emerging economies.

In the next year the IAIS will be actively advising the International Accounting Standards Committee in their work of setting international accounting standards for insurers.

If the proposal is accepted at the Annual Meeting, a new class of members -- observers -- will be introduced in the IAIS. Observers will include participants from the insurance industry. The integration of the industry in the work of the IAIS will, in my view, be to great advantage. We need input from the industry in order to develop standards that are practical and understandable and that meet the needs of both regulators and regulated. It will also be a challenge to ensure that the integrity of the supervisory standards are maintained.

For the coming year, all these goals are essential to the continued international collaboration with the Basel Committee, IOSCO, IMF, World Bank, OECD, UNCTAD and other international organisations of the financial sector. The IAIS will, as an interested observer, support the World Trade Organisation/Government Agreement on Trade in Services (WTO/GTAS) negotiations that begin in 2000. The Financial Stability Forum is demanding further strengthening of cross-sector collaboration and will play a decisive role in this respect.

The past year has been a new and exciting experience. As Chairman of the IAIS, I put aside my national American hat as Commissioner of the State of West Virginia, and put on an international hat. I have developed a new perspective on the growing interdependency and certain convergence of the different financial sectors. My daily practice as Commissioner and my long experience in insurance supervision were great advantages. I am still convinced that insurance is an interesting and challenging business, and, despite interdependency and convergence, it is also unique. 'Cooperation and Communication' is my motto and, I believe, the key for financial stability.

I was able to meet the challenges of the past year only with the help I received from my Vice-Chairman, Arend Vermaat from the Netherlands, and the other members of the Executive Committee, as well as from all chairpersons and members of the numerous committees, subcommittees and working groups of the IAIS. I pass on my thanks to all. Their commitment

and enthusiasm are the source of the IAIS's success. I would also like to thank the Secretariat. In this respect, I would like to express special appreciation to the Bank for International Settlements for supporting the IAIS Secretariat by providing an additional Administrative Secretary, and to the Japanese Government for sending a secondee to our Secretariat's offices in Basel. I am looking forward to attending the Sixth Annual Conference in San Francisco in December 1999, and would like to thank the NAIC for organising and hosting this Conference.

I have had an exciting first year as Chairman of the IAIS and look forward to reaching the targets set for the coming year. This will require the continuing commitment and enthusiasm of the IAIS members. I promise that you can rely on my enthusiasm. Together we will meet the challenges ahead through 'Cooperation and Communication'.

Hanley Clark
Chairman of the Executive Committee

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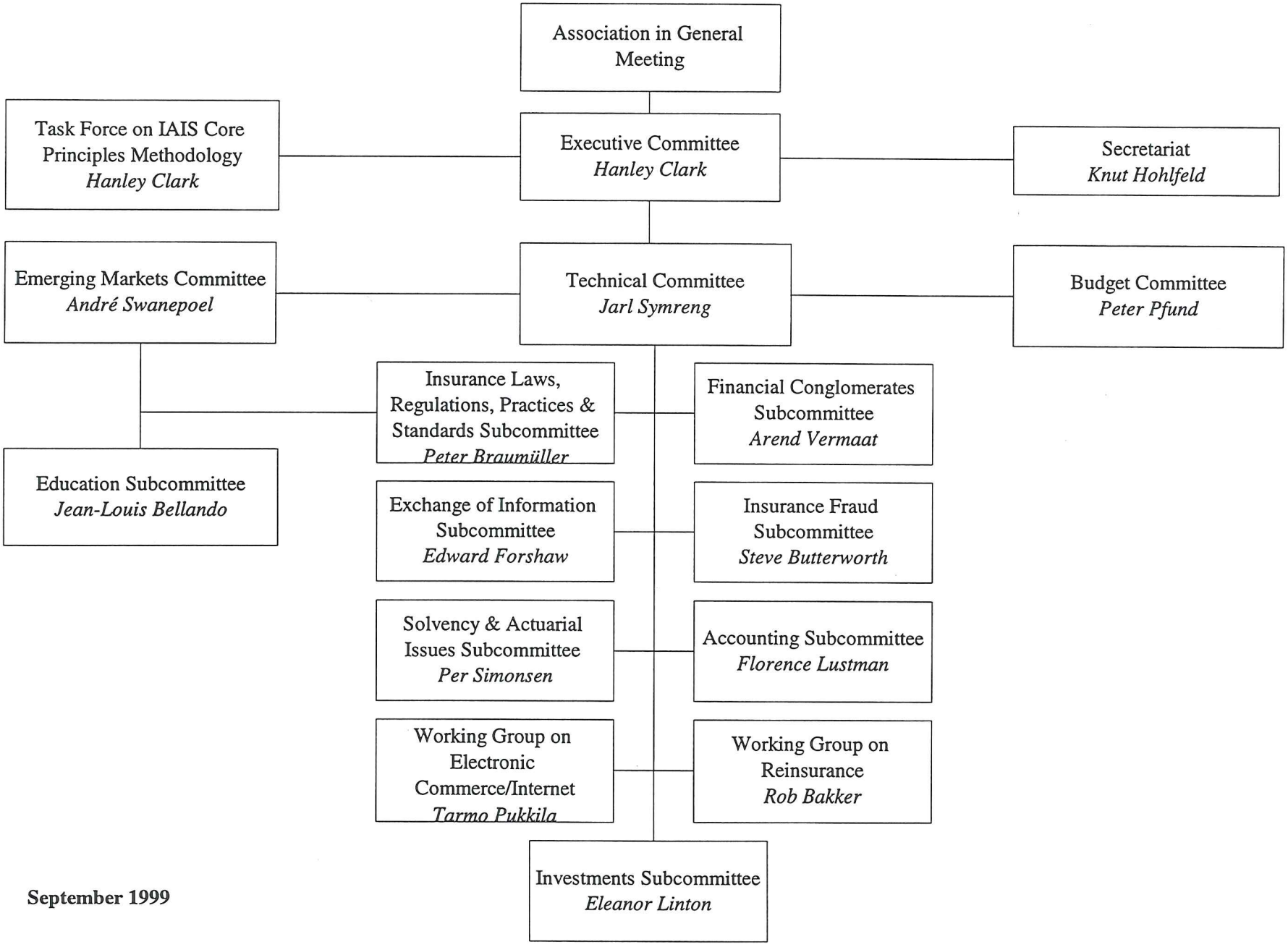
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IAIS ORGANISATIONAL CHART



September 1999

Reports of Committees

Executive Committee

The Executive Committee held meetings at the Annual Conference 1998 in Cancún, in Singapore (February 1999), in Basel (July 1999) and in Tokyo (October 1999). In Cancún Mr. Hanley Clark, Commissioner of the State of West Virginia/USA succeeded Mr. John Thompson as Chairman of the Executive Committee. Mr. Arend Vermaat, President of the Insurance Supervisory Authority of the Netherlands, was elected Vice-Chair.

The proposal for a new category of IAIS membership (observers) was the focus of several Executive Committee meetings. Observers include parties, predominantly from the insurance industry, interested in the work of the IAIS. In its discussions, the Executive Committee agreed on the rights and privileges of observers, and on the fee structure for membership. The proposal will be submitted to IAIS members for approval at the Annual Conference in San Francisco. The proposal recognizes the insurance industry's interest in the work of the IAIS and provides a forum to enhance the industry's relationship with the regulatory community.

In permitting observers, the Executive Committee felt it necessary to formalise the consultation process for papers that are developed by the IAIS. At its October meeting in Tokyo, the Executive Committee approved a paper setting out a uniform set of procedures for consultation in the development of principles, standards and working papers.

In May 1999 the Chairman of the Executive Committee addressed IOSCO's Annual Conference in Lisbon, Portugal. He used this occasion to point out the importance of good relationships among the international regulatory standard-setting bodies of the three financial sectors.

The Chairmen of the IAIS, IOSCO and the Basel Committee met in the Coordination Group in January 1999 in New York and in April 1999 in Paris to discuss issues of common concern, including future work of the Joint Forum.

The G7 Finance Ministers take great interest in the standards-setting work of the IAIS, as well as that of the Basel Committee and IOSCO. The Chairman of the Executive Committee reported on the work of the IAIS at a meeting of the Financial Experts Group in November 1998 in London. In February 1999 he submitted a formal report for the summit in Cologne, outlining the progress the IAIS has made and work it plans to do to contribute to the financial stability of the insurance sector.

The Chairman of the Executive Committee attended the meetings of the Financial Stability Forum in April 1999 in Washington and in September 1999 in Paris. As a consequence of recent economic turmoil, the Financial Stability Forum was established by the G7 Finance Ministers and Central Bank Governors, in order to strengthen international cooperation and coordination. In addition to the G7, it includes other countries, international financial institutions (e.g., IMF, World Bank and OECD) as well as the IAIS, the Basel Committee, IOSCO and other international financial regulatory groupings. The meetings search for ways to improve financial stability.

The Financial Stability Forum gave highest priority to the implementation of the core principles in the respective financial sectors. Accordingly, the Executive Committee set up a task force to develop methodology for implementing the *Insurance Supervisory Principles*. This methodology should help IAIS members assess compliance.

The NAIC will host the Sixth Annual Conference of the IAIS in San Francisco in December 1999. One can expect the success of the 1998 Annual Conference hosted by the Mexican Supervisory Authority to be repeated.

The past year has been a very busy one for the IAIS and for its Executive Committee. I would like to thank each member of the Executive Committee for working so diligently and for the support I received from each of them.

Hanley Clark, USA

Task Force on IAIS Core Principles Methodology

The Task Force on IAIS Core Principles Methodology was established to develop methodology for monitoring implementation of IAIS principles. Two meetings have been held -- one on 30 June 1999 in Basel and the other on 29 September 1999 in Tokyo. Draft methodology is to be finalised by April 2000.

Background of creating the Task Force

The IAIS plays an essential role in the international financial community by setting insurance supervisory principles and fostering and monitoring their implementation. In October 1998, the G7 Finance Ministers and Central Bank Governors called on "the IMF to monitor, in close cooperation with the standard-setting bodies, the implementation of the codes and standards as part of its regular surveillance under Article IV." Also the Financial Stability Forum was established to foster and monitor the worldwide implementation of accepted best practices and compliance with supervisory principles. Since the IAIS is endorsed by the international financial community as the standard-setting body for insurance regulation, it was asked to develop the necessary methodology as expeditiously as possible.

Mandate

The following mandate was adopted:

- review comprehensively the current IAIS supervisory principles;
- create methodology for monitoring the implementation of the IAIS supervisory principles by enumerating all significant criteria of insurance supervision;
- propose the best use of the methodology, in particular with regard to the conduct of an assessment and the compilation and presentation of the results; and
- update the methodology according to regulatory needs and development.

Members drafting the methodology

The members of the Task Force were chosen from the chairs of the committees and working groups that developed the standards or issues papers relating to the various areas covered.

Current and future work

The draft methodology, discussed in the meeting in Tokyo on 29 September 1999, will be revised and discussed again at the meeting in San Francisco in December 1999. It should be finalised by the April 2000 Financial Stability Forum meeting.

Ad-hoc project: Paper on the insurance industry for the Financial Stability Forum

At the second meeting of the Financial Stability Forum on 15 September 1999, concerns were raised about potential vulnerabilities within the insurance industry that could pose risks for the financial system generally. It was decided that a paper be prepared for the Forum's next meeting, reviewing recent developments in the insurance industry, gaps in the supervisory system, the inter-relationship between the insurance industry and other financial industries, and potential vulnerabilities within the industry and the scope for systemic risk. The IAIS Task Force decided to draft a paper by end-February 2000, and the work was started from the meeting in Tokyo on 1 October 1999.

Hanley Clark, USA

Technical Committee

The Technical Committee establishes principles and standards on insurance supervision. We are advancing at a great pace. In 1997 two principles papers were finalised and adopted. At the Fifth Annual Meeting held in Cancún on 1 October 1998 three standards -- *Supervisory Standard on Licensing, Supervisory Standard on On-Site Inspections* and *Supervisory Standard on Derivatives* -- were approved. With insurance markets constantly evolving, there will be a continuing and growing need for the Technical Committee to provide the corresponding timely and necessary guidance for supervisors on a range of issues.

The Technical Committee met on four occasions during 1998: in Johannesburg (27–29 January); Basel (5-6 May); Cancún (28 September); and Paris (10-12 December). During 1999 the Technical Committee will have convened four times: in Singapore (5–6 February); Basel (1–2 July); Tokyo (30 September – 1 October); and San Francisco (December). The papers that are tabled for adoption by the Sixth General Meeting in San Francisco are:

- *Principles Applicable to the Supervision of International Insurers and Insurance Groups and their Cross-Border Business Operations* -- an amended version of the Principles Applicable to the Supervision of International Insurers and Insurance Groups and their Cross-Border Establishments. The new name and amendments have been proposed to extend the scope of this paper to insurance business that is conducted on a services basis without any foreign establishment.

- *Principles for the Conduct of Insurance Business* -- has the objective of improving insurer, intermediary and consumer relationships, thereby strengthening consumer confidence in the industry. These principles will form the basis on which more specific standards for market conduct will later be developed.

- *Supervisory Standard on Asset Management by Insurance Companies* -- describing the essential elements of a sound asset management system and reporting framework across the full range of investment activities. It provides guidelines for good practice for supervisors to use in assessing how insurers control the risks associated with their investment activities.

These papers have gone through a consultation process among the IAIS members. In their turn some of these members have consulted the industry or other concerned parties.

There are also on-going projects that will result in issues papers. These papers identify problem areas and a process to tackle them. At a later stage some of the papers may develop into principles or standards. The following work has been carried on during 1998 and 1999:

- **Solvency and Solvency Assessment:** The implementation of solvency requirements as well as methods for prudent assessment of solvency are key elements of supervision. The mandate of the Subcommittee covers solvency and risks related to both sides of the balance sheet. The Subcommittee also maintains close contact with the International Association of Actuaries.

- **Financial Conglomerates:** Internationally operating financial groups are important players on worldwide financial markets and their operations give rise to supervisory problems of a complex nature. The Subcommittee's mandate covers such prudential issues. It works closely with the Joint Forum; several Subcommittee members are IAIS members of the Joint Forum.

- **Insurance/Reinsurance:** There are substantial differences in the regulation and

supervision of reinsurance among IAIS members' jurisdictions. The Working Group's aim is to identify differences between direct and indirect insurance as well as differences in the supervisory approach of them.

- **Exchange of Information:** The Subcommittee has drafted a Model Memorandum of Understanding, which was approved by the Technical Committee in 1997 as a model for all jurisdictions to use if they choose to do so. The Subcommittee is continuously working on identifying means to improve the exchange of information among supervisors.

- **Insurance Fraud:** The Subcommittee, which is dealing with different aspects of the important issue of fraud in the international insurance business, has identified and monitors areas prone to insurance fraud.

- **Insurance Law:** The Subcommittee has the task of mapping the legal environment of the IAIS members. It has elaborated a questionnaire, which has been sent out to the members. The results will be presented at the Sixth Annual Meeting in San Francisco.

- **Investments:** The work of the former Derivatives Subcommittee, consisting of identifying and assessing risks associated with derivative products, was completed with the adoption of the *Supervisory Standard on Derivatives* in Cancún. The Subcommittee's mandate was extended to investment risks in general and, as already mentioned, it has produced a standard that is tabled for adoption in San Francisco. It is proposed that the Subcommittee's future mandate will cover market risks and techniques for modelling, measuring and monitoring.

- **Electronic Commerce (Internet):** The development of electronic commerce and the Internet presents insurance supervisors with new kinds of challenges and questions. The Working Group, set up to address issues surrounding electronic commerce, continues to identify supervisory problems.

- **Accounting:** It is important that international accounting principles and standards are set for insurance enterprises, for the supervisors assessing the accounting rules and for the work of the external auditors. A Subcommittee has been set up to liaise with the International Accounting Standards Committee in this effort.

The documents that have been produced by the Technical Committee or its subcommittees and working groups are on the IAIS website. Working documents that are not yet final may be restricted to members of the Technical Committee or specific subcommittees and working groups.

Other documents that have been produced outside the Technical Committee and the IAIS may have direct impact on IAIS members. The documents, issued by the Joint Forum, are the following.

- Capital Adequacy Principles
- Supplement to the Capital Adequacy Principles
- Fit and Proper Principles
- Framework for Supervisory Information Sharing
- Principles for Supervisory Information Sharing
- Coordinator
- Supervisory Questionnaire

These documents, which have been processed in the Financial Conglomerates Subcommittee and the Technical Committee, are tabled for recommendation at the Sixth Annual meeting, implying that the IAIS members should apply the principles expressed in the

documents.

The Technical Committee has the mandate to liaise with other international bodies on matters of mutual concern in the effective regulation and supervision of financial services. An important decision was taken at the Technical Committee meeting in July 1999 where it was concluded that the Committee should participate in and contribute to the Multidisciplinary Working Group on Enhanced Disclosure. The object of this Working Group is to assess the feasibility and utility of enhanced public disclosure by financial intermediaries. To this effect, an experimental pilot study of firms representing a broad cross-section of financial market participants and activities will be organised. Two IAIS representatives were nominated who will report regularly to the Technical Committee. The Technical Committee has set up a separate Task Force to assist the IAIS representatives in their work.

The important cooperative work with the Basel Committee and IOSCO, instituted through the Coordination Group in 1997, embraces matters that are of common interest to the three committees. Three meetings were held during 1998 and three during 1999. The Coordination Group consists of the three Chairmen of the IAIS and IOSCO Technical Committees and the Basel Committee together with their respective Secretaries General,

Other important contacts with international bodies are those established with the Joint Forum, the IFAA and the IASC; these have already been touched upon. Worth mentioning also in this context is the ongoing discussions on the creation of a permanent cooperation with the OECD.

Jarl Symreng, Sweden

Emerging Markets Committee

The Emerging Markets Committee (EMC) has two subcommittees, the Education Subcommittee and the Insurance Laws, Regulations, Practices and Standards Subcommittee. Both subcommittees will report separately, but reference has been made here to their work.

Training

The work of the Education Subcommittee is of the utmost importance to the EMC. During this year:

- training sessions have been held in most regions in the world;
- a structural approach to the organisation and procedures of training seminars was put in place;
- development of training modules and accompanying textbooks on licensing and on-site inspections has progressed well;
- a data bank of case studies, including commentaries, is being compiled for future use by emerging market supervisors;
- a data bank is being compiled on insurance training activities sponsored by various institutions -- e.g. United Nations Conference on Trade and Development (UNCTAD), Organisation for Economic Co-operation and Development, the World Bank, the National Association of Insurance Commissioners and others. This should facilitate effective use of scarce resources and assist supervisors in selecting relevant training seminars.

The IAIS greatly appreciated the support given by the International Insurance Foundation, UNCTAD and the Japanese Government as well as the time and money spent by the supervisory authorities that sponsored regional training seminars.

Effort is continuing to disseminate the work of the EMC and to work with other emerging market supervisors that may not be members of the IAIS.

Exchange of Information

Exchange of information and access to reliable sources of information are important to build robust supervisory systems. It is for this reason that the work of the Insurance Laws and Regulations Subcommittee remains an important source of information for emerging market supervisors. Supervisors are constantly encouraged to make use of this data bank on regulatory policies and insurance laws.

Mentorship

Supervisors from developed countries are encouraged to offer their services as mentors on a direct relationship basis with selected emerging market countries. This assists emerging market countries to develop their knowledge and experience in insurance supervision.

EMC Website

The EMC and the Education Subcommittee have common committee pages on the IAIS website (members section). These pages include the terms of reference and work plan, guidance papers and other matters of interest to members. It is hoped that this access will assist emerging market supervisors to improve the standard of supervision in their countries, although it is a matter of concern that many emerging market supervisors do not yet have access to Internet facilities.

Terms of Reference and Work Plan

The terms of reference and work plan of the EMC is a living document and guides its activities. The overall aim is to enhance cooperation, encourage the establishment of effective supervisory systems, provide guidance, give support and exchange information.

Conclusion

The vision of the EMC is to assist in building sound foundations with regard to setting global insurance supervisory principles and standards. Supervisors of emerging market countries are encouraged to implement these international standards to the extent possible, thus building their own insurance industry's ability to offer efficient products and services to their consumers.

The work of the EMC relies heavily on the continuing commitment of many IAIS members to participate in training seminars, prepare case studies, compare legislation, mentor other members of the IAIS and participate actively in the work of the EMC generally. A word of thanks must go to those members.

André Swanepoel, South Africa

Budget Committee

The Committee met at the Fifth Annual Conference in Cancún to discuss the 1999 budget. The budget, which was proposed and approved by the membership at Cancún, included an increase in the membership contribution to US$ 3,500. It is intended to increase the contribution to US$ 5,000 for the year 2000 to ensure that the costs of the Secretariat are covered after the financial support of the Swiss government ends.

The Budget Committee reviewed the accounts for 1998 at its June meeting in Basel. These accounts showed a loss of nearly US$ 53,000 for 1998. The loss resulted from a timing discrepancy – under U.S. accounting rules, the income from the Swiss subsidy for the years 1998 and 1999 was credited as a revenue in 1997. However, the Swiss contribution due for 1998 (US$ 136,788) was actually paid in 1998. If the accounts are restated recognising the 1998 contribution in 1998, there would be a US$ 84,000 profit. This arises because the costs of the Annual Conference in Cancún were lower than had been forecast and the number of participants was higher than expected.

There were about US$ 60,000 of miscellaneous unforeseen costs. This included approximately US$ 27,000 for membership and registration fees which have not been paid and appeared to be uncollectable, and US$ 29,000 for exchange differences. The exchange differences arise because most of the IAIS payments are made in Swiss francs (CHF) whereas fees are paid in US dollars.

The Budget Committee again agreed not to budget for write-offs of fees or exchange differences since it is impossible to estimate what they will be. As was done in 1998, revenues will be estimated conservatively so that there remains a margin for write-off.

A first draft of the 2000 budget has been prepared. As previously noted, the Budget Committee will propose at the San Francisco Annual Meeting that the membership contribution be raised from US$ 3,500 to US$ 5,000. It is not expected that the annual membership fee would be increased again for several years.

The Committee took note that the cost of employee benefits increased by about US$ 16,000 because the BIS introduced a new pension scheme that affected members of the IAIS Secretariat.

Peter Pfund, Switzerland

Financial Conglomerates Subcommittee

The Joint Forum has 27 members, with 9 from each of the IAIS, IOSCO and the Basel Committee. The chairman is Alan Cameron from Australia. The IAIS Joint Forum members are drawn from the Financial Conglomerates Subcommittee -- Australia, Canada, France, Germany, Japan, the Netherlands, Sweden, UK and USA.

The Financial Conglomerates Subcommittee provides input to the IAIS members of the Joint Forum. In addition to meetings of the full Subcommittee, the IAIS members of the Joint Forum meet before Joint Forum sessions. This brought us together in Lilianfels (October 1998), Basel (January 1999) and Montreal (May 1999).

During this period the Joint Forum finalised various principles papers that were sent out for world-wide consultation during 1998. Afterwards the final texts were endorsed by the three parent organisations. During 1998-99 the Joint Forum developed two new papers -- *Intra-Group Transactions and Exposures Principles,* and *Risk Concentration Principles.*

The Subcommittee discussed the mandate and workplan of the Joint Forum, the possible relationship of the Joint Forum with the newly established Financial Stability Forum, and the G7 Ten Key Principles for Information Exchange. In future, the Joint Forum will continue to address cross-sectoral financial supervisory matters as directed by the three parent organisations.

In addition, the Subcommittee:

- held meetings in Cancún (September 1998), Paris (December 1998), Singapore (February1999), Basel (June 1999) and in Tokyo (September 1999);
- provided input on the final versions of the endorsed Joint Forum's papers;
- prepared IAIS representatives for meetings of the Coordination Committee (of the three parent organisations and the Joint Forum);
- began writing a standard on coordination between supervisors of international insurance groups and international financial conglomerates with significant insurance activities; and
- shortened its name to the present title (omitting the words: "The Supervision of").

Arend Vermaat, Netherlands

Insurance Laws, Regulations, Practices and Standards Subcommittee

The Insurance Laws Subcommittee collects, summarises, analyses and makes available information on insurance laws, regulations and practices in IAIS member countries, as well as on directives, regulations, recommendations and model laws that apply across jurisdictions. The Subcommittee includes members from Austria, Bulgaria, European Commission, Germany, Hungary, Malta, Netherlands, Netherlands Antilles, Norway, OECD, Poland, Russia, Spain, Sweden, Switzerland, United Kingdom, United States.

In 1998, the Subcommittee circulated a questionnaire covering the main areas of legislation in the field of insurance, particularly insurance supervision. It contained chapters on organisation 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.

The Subcommittee met on 30 and 31 July 1998 in Vienna to finalise the interim report to the 1998 Annual Conference. In Cancún the chairman presented the main findings from the questionnaire and distributed copies of the interim report on insurance legislation that was based on the responses of 63 members.

In 1999 interest was expressed in the Subcommittee preparing an analytical report on insurance laws, regulations and practices worldwide. The interest resulted from the presentation of the interim report and the involvement of the IAIS in regional training seminars in which several supervisory authorities from non-member jurisdictions participated.

The Subcommittee was asked to present its work at the OECD Conference in Singapore on 1 and 2 February 1999 and at the 15th Conference of European Insurance Supervisory Services in Warsaw from 26 to 28 May 1999. Supervisors who participated in the conferences and who were not members of the IAIS were asked to respond to the questionnaire, thus increasing the total number of respondents by seven. For the Warsaw Conference, the Subcommittee prepared a document outlining the main characteristics of the insurance supervisory systems in the Central and Eastern European countries.

In May 1999 the EDP-supported aggregation of the information of all respondents was finalised. Whereas the interim report included the answers of 63 jurisdictions, the final report will be based on 89. This large sample provides a reliable overview of insurance regulations and practices worldwide. By including several non-member countries in the exercise, the work of the Subcommittee and the IAIS is now better known, and we have learned more about insurance regulation in emerging markets.

The Subcommittee met in Vienna on 8 and 9 July 1999 and in Malta on 9 and 10 September 1999 to prepare the final report.

At the IAIS Committee meetings in Tokyo from 29 September to 1 October 1999, the Subcommittee presented a draft final report to the members of the Technical Committee and the Emerging Markets Committee. It was agreed to put the final report on the IAIS members' website and make hardcopies available to the IAIS members at the Sixth Annual Conference.

Both parent committees agreed to a new work plan for the Subcommittee. In future, the Subcommittee will follow a two-track approach. It will establish a permanent data base on insurance laws, regulations and practices accessible to all members through the IAIS website.

The data base should be updated annually. Also the Subcommittee will analyse information as requested by the parent committees; e.g., the analysis of developments in regulation over time or special projects on specific issues. The Subcommittee will prepare a detailed work plan for the next meetings of the Technical Committee and the Emerging Markets Committee which will take place in San Francisco at the beginning of December 1999.

Peter Braumüller, Austria

Exchange of Information Subcommittee

One objective of the IAIS is to facilitate the exchange of information among its members. During 1998-99 the work of the Exchange of Information Subcommittee focused on developing an IAIS response to the G7's *Ten Key Principles* for Information Exchange.

In 1998 the G7 Finance Ministers released a report, *Financial Stability – Supervision of Global Financial Institutions*, welcoming the work being pursued by international regulatory bodies, such as the IAIS, in contributing to financial stability and encouraging further efforts to improve cooperation among supervisors. The Finance Ministers endorsed *Ten Key Principles* on information exchange and agreed to promote these internationally. In doing so they sought the assistance of the international standard-setting bodies.

Accordingly, the IAIS Technical Committee invited the Exchange of Information Subcommittee to develop a standard. However, this work was delayed pending the completion of discussions within the U.S. and the European Union on how the *Ten Key Principles* relate to U.S. state insurance law and the European insurance directives respectively. A resolution is expected soon.

In the meantime, the Technical Committee invited the Exchange of Information Subcommittee to examine whether the existing IAIS principles, standards and guidance papers are compatible with the *Ten Key Principles*. The Subcommittee anticipates reporting on this matter later in 1999.

The Exchange of Information Subcommittee cooperates with other IAIS committees wherever possible. For example, the Subcommittee is investigating shared use data bases. This work may prove of particular interest to the Insurance Fraud Subcommittee. Also the Subcommittee is considering the exchange of information in respect of reinsurance -- a topic relevant to other IAIS initiatives.

Finally, the Exchange of Information Subcommittee is considering developing an international convention on the exchange of information. It is studying precedents in the financial services sector, along with potential barriers to such a convention.

Edward Forshaw, United Kingdom

Insurance Fraud Subcommittee

The Insurance Fraud Subcommittee (IFS) includes members from Argentina, British Virgin Islands, Cayman Islands, Germany, Hungary, Netherlands, Singapore, South Africa, Switzerland, United Kingdom and U.S.A. The Subcommittee identified three aspects of insurance fraud it wished to address:

- insurer fraud (i.e., fraud by the insurance company);
- claims and consumer-related insurance fraud (i.e., fraud on the insurance company); and
- money laundering, which could occur in both the previous categories.

The IFS first concentrated on insurance fraud and presented several recommendations to the Technical Committee including that:

- **Supervisors should have the power to monitor the activities of reinsurers and intermediaries and to intervene when necessary.**

- **Each member keep current a published list of reinsurers established in the member's jurisdiction.**

- **The committee considers investigating enforcement procedures in member jurisdictions.**

The IFS drafted a paper, *A Guidance Paper for Fit and Proper Principles and Their Application.* The paper is on the IAIS website. This paper encompasses the fit and proper guidelines of the Joint Forum and extends those guidelines to include insurance groups and insurance entities. It also provides suggestions on how to apply the principles to individuals who are in a position to influence an insurance entity. After incorporating comments received, the paper will be presented to the Technical Committee with the expectation that it will recommend it for adoption by IAIS members.

During the last year the IFS monitored discussions of its recommendations by various sub-committees. Aspects of the recommendations have been incorporated into the work on reinsurance, insurance intermediaries, exchange of information and e-commerce, but more work is needed in these and other areas in order to meet the IFS's objectives.

This year, the IFS began working directly on claims fraud and money laundering issues. A claims fraud questionnaire was sent to all IAIS members. The results of the questionnaire revealed some interesting methods that insurance supervisors and the insurance industry use to combat claims fraud. We will be exploring some of these solutions in a panel at the Annual Conference in San Francisco as well as summarising the conclusions of our work during the coming year.

The IFS hopes to finalise its paper on money laundering during the coming year for adoption at the Annual Conference in 2000. A draft of the paper is available on the IAIS website. Also the IFS is sending to all the members a money laundering questionnaire based on the one used in the European Economic Area.

The IFS believes that insurance fraud can be combated by encouraging cooperation among the insurance supervisors, the insurance industry and the appropriate law enforcement officers. In most parts of the world this cooperation is not particularly evident. As a result, the IFS, with the support of both the Association of British Insurers and the UK Association of Chief Police Officers, is organising a 'Tripartite Fraud Conference' in Guernsey, tentatively

scheduled for September 2000.

Eventually the IFS hopes to be able to assist in coordinating the fight against international insurance fraud. We have already circulated a list of names throughout the IAIS membership in order to ascertain whether any other international activity was evident in the well publicised Liberty Re/Frankel case.

The IFS welcomes additional members and encourages constructive suggestions concerning its current and future work both from IAIS members and from other interested parties.

Steve Butterworth, Guernsey

Solvency and Actuarial Issues Subcommittee

This report summarises the activities of the Subcommittee on Solvency and Actuarial Issues for the period from September 1998 to August 1999. The members of the Subcommittee include Australia, France, Germany, Japan, Norway, Sweden, Switzerland and U.S.A. In addition, the European Commission and the IAIS Secretariat are represented.

The Subcommittee's objectives are to investigate and develop proposals for standards and/or guidelines on solvency, solvency assessment and related actuarial issues and present them to the Technical Committee for adoption. For this purpose the Subcommittee:

- reviews all issues related to solvency and solvency assessment of insurance companies;
- review other actuarial issues relevant for insurance supervision;
- cooperates with the other subcommittees within IAIS; e.g., the Investments Subcommittee and the Accounting Subcommittee; and
- liaises with the Insurance Regulation Committee of the International Actuarial Association (IAA).

Within the period, the Subcommittee met three times: in Oslo (15–16 February 1999); Berlin (4 June 1999); and Oslo (30–31 August 1999). In addition, a joint meeting with the IAIS Accounting Subcommittee and the IAA Insurance Regulation Committee was held in Berlin on 3 June 1999 to discuss matters related to the IASC Insurance Project.

The Subcommittee received a written contribution from the IAA Insurance Regulation Committee on solvency and the role of the actuary. The Subcommittee will be asking the IAA Insurance Regulation Committee to elaborate its views.

The Subcommittee on Solvency and Actuarial Issues is aware that solvency and solvency assessment of insurance companies are multifaceted problems, and much work has to be done. As a first step, the Subcommittee will write an issues paper on solvency assessment. To date Subcommittee meetings have focused on developing this issues paper. The Subcommittee has been aided by a secretariat within the Norwegian supervisory authority.

The draft issues paper will be finalised in November and discussed by the Technical Committee in December 1999.

Per Simonsen, Norway

Investments Subcommittee

During 1998-99 the Investments Subcommittee (formerly the Derivatives Subcommittee) focused on preparing a supervisory standard on asset management. The first meeting of the Subcommittee, whose members are drawn from Denmark, France, Germany, the Netherlands, South Africa, Sweden and U.K., was held in Cancún in September 1998. The following mandate was agreed:

- to develop and recommend IAIS Supervisory Standards governing asset risk management by insurers, taking into account work done by other international standard setting organisations;
- to cooperate closely with the IAIS Subcommittee on Solvency and Actuarial Issues; and
- to cooperate with other relevant international entities.

Two further meetings of the Subcommittee were held in London (January 1999) and Copenhagen (April 1999) to prepare an initial draft standard. The Copenhagen meeting was also attended by Per Simonsen, Chair of the Subcommittee on Solvency and Actuarial Issues, thus maintaining close liaison and coordination with the related work being undertaken in these areas.

A draft standard was circulated to Technical Committee members in May for their consideration at the meeting held in Basel in June. The objective of the standard is to describe the essential elements of a sound asset management system and reporting framework across the full range of investment activities. It thus provides guidelines for good practice for supervisors to use as a checklist in assessing how insurers should control the risks associated with their investment activities.

In preparing the standard, the Subcommittee took account of the principles for the monitoring and control of derivatives activities undertaken by insurance companies, described in the IAIS *Supervisory Standard on Derivatives*. These principles apply with equal force to wider asset management activities. However, the *Supervisory Standard on Asset Management* is far broader in scope and, while it adopts a similar process-based approach to risk management, it has been enhanced to reflect the liability-driven nature of insurers' asset management activities. This includes recognition of the fundamental influence that the management of the asset/liability relationship has on the investment policies and procedures adopted by a company. The Subcommittee also took account of existing material produced by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO) that contain useful guidance on internal controls systems and risk management techniques. However, the direct application of this guidance to insurance companies was not appropriate given its strong emphasis on trading and credit activities.

Following relatively minor revisions in the light of comments received at the Basel meeting, the Technical Committee approved the draft standard for consultation with the IAIS membership and, through them, the insurance industry. Subject to the results of this consultation process, the standard will be put forward for adoption by IAIS members at the San Francisco meeting in December 1999. The standard will then be sent to the Basel Committee and to IOSCO in keeping with the Subcommittee's mandate to co-operate with other relevant international entities.

The Subcommittee's future work program will cover market risks and techniques for modelling, measuring and monitoring its effects.

Eleanor Linton, United Kingdom

Accounting Subcommittee

The IAIS set up a subcommittee on accounting issues in 1997 in order to liaise with the International Accounting Standards Committee (IASC). It met five times during 1998-1999: in Paris (8-9 December 1998); Singapore (3 February 1999); Paris again (16-17 February 1999); Berlin (3 June 1999); and Basel (30 June 1999).

As a result of discussions at the first three meetings, a letter expressing the specific concerns of the supervisors regarding the IASC project was prepared. The Berlin meeting was a joint meeting of the Solvency Subcommittee, the Accounting Subcommittee and the International Association of Actuaries (IAA) where the IAA made an oral presentation of a draft issues paper, *Meaningful Financial Statements for Insurance Contracts*. Subsequently, the Accounting Subcommittee sent them a series of written questions on the paper.

At the Basel meeting, following the Köln meeting of the IASC Steering Committee, the Subcommittee established a work plan to correspond with the IASC timetable. The work plan and timetable are set out below:

- As soon as the IASC *Issues Paper* is published (end of 1999), the document will be circulated to the members of the Subcommittee. This will be the starting point of the six-month comment period, at the end of which the IAIS should send its official comment to the IASC.

- During the first two to three months of that period, members of the Accounting Subcommittee will read the document and exchange comments or questions via e-mail. I hope this exchange period will be very active.

- At the end of this period we will hold a Subcommittee meeting that will identify the issues for the IAIS response to the IASC.

- The IASC Steering Committee will consider the comments and issue a Draft Statement of Principles in 2000, inviting further public comment.

- The Steering Committee will submit an Exposure Draft to the IASC Board. Following Board comment and approval (expected by 2001), the Exposure Draft will be circulated for public comment.

- The standard should be issued in 2002.

Florence Lustman, France

Education Subcommittee

The Education Subcommittee had another active year. In collaboration with other national and international bodies, the IAIS organised five training seminars and supported four others. Also, to assist insurance supervisors in learning essential regulatory and supervisory matters, it drafted a textbook on licensing and prepared several case studies about problem companies.

Training seminars

Seminars co-organised by the IAIS

Asia

The IAIS seminar on insurance supervision in Singapore on 3-4 February 1999 was sponsored by the Monetary Authority of Singapore (MAS) and the International Insurance Foundation (IIF) in collaboration with the OECD. The seminar focused on crisis prevention, making use of case studies prepared by the French insurance supervisory authority. About 70 representatives from 33 jurisdictions and 4 international organisations (European Commission, IAIS, IIF and OECD), including 30 participants from 14 Asian economies, attended the seminar.

Latin America

The ASSAL (Association of Insurance Supervisors of Latin America) and IAIS seminar on insurance supervision in Buenos Aires on 19-23 April 1999 was organised by the Insurance Superintendence of Argentina. A total of 37 participants from 16 countries attended. Issues discussed were protection of policyholders, insurer guardianship, supervision in Argentina, reinsurance, solvency regulation and dynamic solvency margin.

Central and Eastern European Countries

The XV Conference of European Insurance Supervisory Services in Warsaw on 26-28 May 1999 was organised by the Polish insurance supervisory authority in collaboration with the IAIS and IIF. A total of 65 supervisors from central and eastern Europe and other IAIS member countries as well as representatives from international organisations attended. Through case studies and subsequent group discussions, participants exchanged their views on supervisory measures and learned from each other how to supervise insurance companies in difficulty.

Africa (English-speaking countries)

The training seminar for insurance supervisors from English-speaking Africa in Pretoria, South Africa on 6-8 July 1999 was organised by Financial Services Board, South Africa, in collaboration with the IAIS and IIF. Representatives from 15 African countries and international organisations (UNCTAD, IIF and IAIS) attended the meeting. The main items for discussion were: liberalisation and privatisation, licensing, on-site inspections, rating agencies, asset valuation and investment risk management, Y2K issues, analysis/interpretation of statutory returns, memorandum of understanding and information sharing, and supervision of insurance companies in difficulty.

Emerging Markets

The Executive seminar on insurance supervisors in Tokyo on 27 and 28 September was hosted by Financial Supervisory Authority (FSA), Japan. The Ministry of Finance Japan, IAIS, OECD and ADBI (Asian Development Bank Institute) assisted FSA Japan in the organisation. The main items for discussion were organisational structure of an insurance supervisory body, professionalism and independence of an insurance supervisor, prudential regulation, supervision of financial conglomerates, exchange of information among supervisors,

regulatory issues on financial sector convergence, crisis management, and supervision of insurance companies in difficulty. About 90 representatives from 55 jurisdictions and 4 international organisations (ADBI, European Commission, IAIS and OECD) attended the seminar.

Seminars in which the IAIS participated

The Secretariat presented material and made presentations on IAIS activities and core principles in the following training seminars for

- regulators of financial sectors from economies in transition at the Joint Vienna Institute in the end of March 1999, organised by the BIS;
- French speaking African insurance supervisors in Tunis, Tunisia on 14-18 June 1999, organised by UNCTAD;
- Asian insurance professionals on 19-21 July 1999 in Kuala Lumpur, Malaysia, organised by UNCTAD and the Malaysian Insurance Institute supported by the Central Bank of Malaysia;
- African insurance supervisors on 5-7 October 1999 in Addis Ababa in Ethiopia, organised by UNCTAD, AAISA (Association of African Insurance Supervisory Authorities) and AIO (African Insurance Organisation).

Textbooks and case studies

Developing training materials for insurance regulators is the essential task for the Subcommittee. In the past year, the Subcommittee developed the following:

Textbook on licensing
The textbook on licensing sets out what insurance supervisors should consider when licensing companies to operate in their jurisdiction. The textbook was prepared by the German Insurance Authority.

Case studies
Case studies assist insurance supervisors in acquiring indispensable knowledge of insurance regulation and supervision. The case-study method used in seminars in Singapore and Warsaw proved very effective. Case studies developed by the Botswana's Supervisory Authority, French Supervisory Authority, Hungarian Supervisory Authority, Mexican Supervisory Authority and South African Supervisory Authority will be reviewed by the Subcommittee at its meeting in Paris on 26 November 1999.

Jean-Louis Bellando, France

Working Group on Reinsurance

The Technical Committee established the Working Group on Reinsurance in Johannesburg in January 1998. The primary objective of the Working Group is to draft an issues paper on the supervision of reinsurance and reinsurers. Later on, the Technical Committee agreed to extend the mandate -- to develop a proposal for a minimum regulatory position on reinsurance. The issues paper will provide the background to preparing principles of reinsurance supervision.

Last year, two additional members -- Singapore and the European Union -- joined the Working Group. Other members include Germany, Guernsey, Switzerland, U.K., U.S.A. and the Netherlands (chair).

During the past 12 months the Working Group met in Apeldoorn (January 1999) and Basel (June 1999).

At the Apeldoorn meeting the Working Group agreed the primary aims of the issues paper were to:

- develop a proposal for a minimum regulatory position related to buyers (insurance companies) and sellers (reinsurance companies) of, broadly speaking, risk transfer products; and
- provide a comprehensive overview for educational purposes for all IAIS members of those issues related to reinsurance that are relevant for supervisors.

The Working Group made other IAIS subcommittees and working groups aware of the issues it was addressing in case they were of common interest.

A first draft issues paper (based on several partial drafts submitted by the members of the Working Group) was discussed in Basel and revised. This subsequent draft was used by the members of the Working Group informally to consult representatives of the reinsurance industry in their jurisdictions.

A final draft issues paper, including all comments the Working Group members received to date, was submitted to the Technical Committee for discussion during its Tokyo meeting in September 1999. Subsequently, the Committee will decide on the recommendations of the Working Group.

After discharging the Working Group as soon as the issues paper has been finalised, one recommendation is to set up a Reinsurance Subcommittee. This Subcommittee would:

- carry out a formal consultation with the reinsurance industry on the issues paper
- develop IAIS principles on reinsurance supervision.

Rob Bakker, Netherlands

Working Group on Electronic Commerce/Internet

At its meeting in Johannesburg, South Africa, the Technical Committee of IAIS set up the Working Group on Electronic Commerce/Internet. The Group was asked to produce an issues paper on the challenges to insurance supervision of Electronic Commerce/Internet.

The Working Group is chaired by Finland. The other members include United States, European Commission, United Kingdom, Germany, and Spain.

The meetings of the Working Group have been held in Basel (6 May 1998); Cancún (25 October 1998); Helsinki (25 January 1999); Warsaw (27 May 1999); and Basel (29 June 1999).

The Working Group's paper, *Insurance on the Internet and Other Electronic Media: Issues for Supervisors,* identifies a number of key issues related to the use of the Internet. The Working Group intends to prepare another paper, *Proposals for the Supervision of Insurance Activities on the Internet.* The IAIS Technical Committee meeting discussed a draft of this paper at its meeting in Basel, 1-2 July 1999.

Tarmo Pukkila, Finland

Report of the Secretariat

The second year saw expansion in the Secretariat, as well as the IAIS. The Bank for International Settlements (BIS) very generously granted us an additional administrative staff member, Elspeth Cornes, for two years; the Japanese Government provided a secondee, Masaya Amau, also for two years. This will assist the Secretariat to manage the continually increasing workload.

Over the year, IAIS membership continued to increase. By October 1999 the Secretariat had received 10 new applications for membership that will be submitted for approval at the Annual Conference in December 1999 in San Francisco. More than 100 jurisdictions will then be represented in the IAIS -- not a bad result for an association that was founded only five years ago.

The highlight of 1998 was the Fifth IAIS Annual Conference in Cancún in September, hosted by the Mexican Comision Nacional de Seguros y Fianzas and coorganised by the IAIS Secretariat. The conference was a great success with nearly 250 participants from the supervisory community and the insurance industry. The Secretariat is now preparing for the Sixth Annual Conference in December 1999 in San Francisco, which will be hosted by the National Association of Insurance Commissioners (NAIC). Interesting panels and workshops are on the agenda. It is hoped that last year's success will be repeated in San Francisco.

The IAIS is now an association under Swiss law ("Verein"). Also the Secretariat received written confirmation from the competent Swiss tax authority that IAIS is exempt from federal as well as local taxes.

In addition to its day-to-day operational tasks, the Secretariat:

- organised IAIS committee meetings in June and July 1999 in Basel and supported the organisation of committee meetings in December 1998 in Paris, February 1999 in Singapore and September 1999 in Tokyo;
- supported the work of the main IAIS committees, several subcommittees, working groups and task forces;
- analysed the members' self-assessment against the *Insurance Supervisory Principles*;
- analysed members' responses to two questionnaires on Year 2000 compliance;
- issued the 1997 Annual Report and issued the IAIS Newsletter and updated the World Directory (members list) quarterly;
- discussed and settled the 1998 IAIS financial statements with the auditor; and
- drafted the IAIS budget for 2000, for approval by the Budget Committee and the Executive Committee and submission to the IAIS membership for approval at the Annual Conference in San Francisco.

With the help of a web designer, the Secretariat developed an IAIS website (www.iaisweb.org) which was launched in summer 1999. The website enables the Secretariat to distribute information and papers in a cost-effective and timely manner. But a number of members still do not have Internet access and can be reached only by e-mail, fax or mail. The website has given the IAIS broader exposure to the public, as indicated in the increasing number of requests for additional information.

The Secretariat attended meetings and contributed to the work of the Financial Stability Forum and its Working Group on Offshore Financial Centres, the Coordination Group, the Joint Forum and the Joint Year 2000 Council. The on-going close contacts with the Secretariats of the Basel Committee and IOSCO helped us to prepare for meetings of the various cross-sectoral working groups and to understand problems in the different financial sectors. In addition, the Secretariat has a good relationship with, and met, representatives of other international organisations -- the IMF, the World Bank and the Institute of International Finance, as well as the newly established World Federation of Insurance Intermediaries (WFII). It also supported the Working Group on Enhanced Disclosure. The Secretariat provided the IMF with a list of insurance experts that could help assess compliance of jurisdictions with internationally accepted supervisory standards.

The Secretariat continued its strong involvement with the work of the Education Subcommittee in regional training seminars and conferences in order to introduce IAIS principles and standards and provide supervisory expertise to insurance supervisors from emerging economies. The Secretariat cooperated with the respective national authorities in organising regional training seminars in May 1999 in Warsaw and in July in Pretoria. With the OECD and the Monetary Authority of Singapore, the Secretariat organised the February 1999 Singapore training seminar for insurance supervisors from Asian countries. We worked with the Japanese Financial Supervisory Agency, which hosted the executive seminar in Tokyo in September 1999, for the heads or deputies of insurance supervisory authorities of emerging economies from all over the world. The seminars profited from taking place back-to-back with IAIS committee meetings. This made it possible to include the insurance supervisors of major insurance markets in the discussions.

The Secretariat also represented the IAIS at UNCTAD-organised training seminars held in June 1999 in Tunis and in July 1999 in Kuala Lumpur, and at a management workshop organised in cooperation with the African Insurance Organization (AIO) and Association of African Insurance Supervisory Authorities (AAISA) held in October 1999 in Addis Ababa.

The IAIS enjoys the support of the World Bank and International Insurance Foundation in offering training activities for insurance supervisors in emerging economies.

Knut Hohlfeld
Secretary General

1998 Financial Statement & Independent Auditors' Report

Independent Auditors' Report to the Honorable Members of the

International Association of Insurance Supervisors, Basel

We have audited the accompanying balance sheet of the International Association of Insurance Supervisors (the "IAIS") as of December 31, 1998, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of IAIS as of December 31, 1997, were audited by other auditors whose report thereon dated February 15, 1998, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 1998 financial statements referred to above present fairly, in all material respects, the financial position of the IAIS as of December 31, 1998, and the results of its activities and its cash flows for the year then ended in conformity with generally accepted accounting principles.

KPMG Fides Peat

Armin Bähler Christine Gasser

Basel, April 27, 1999

Enclosure 1

Balance Sheet as per December 31,	**1998**	**1997**
	USD	USD
ASSETS		
Cash and cash equivalents	660,842	429,359
Accounts receivable, net	4,000	8,700
Contributions receivable	125,838	352,482
TOTAL	790,680	790,541
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	72,120	16,397
Deferred revenue	0	2,795
Total liabilities	72,120	19,192
Net assets		
Unrestricted	718,560	519,673
Temporarily restricted	0	251,676
Total net assets	718,560	771,349
TOTAL	790,680	790,541

See notes to financial statements

Enclosure 2/1

Statements of Activities years ended December 31,	**1998**	**1997**
	USD	USD
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and gains:		
Contributions	0	428,211
Membership fees	312,125	172,670
Meeting registration fees	167,463	70,800
Interest income	22,771	20,527
Newsletter subscriptions	870	650
Total unrestricted revenues and gains	503,229	692,858
Net assets released from restrictions	251,676	0
Total unrestricted revenues and gains	754,905	692,858
Expenses		
Program Expenses		
Meeting services	78,084	20,188
Management & General		
Salary & Benefits	286,791	0
Training	3,752	0
Translation services	0	15,885
Administrative	0	76,633
Fax & Telephone	24,288	16,886
Travel and transportation	46,102	11,636
Postage and office supplies	3,656	12,216
Professional services	3,926	8,411
Printing	5,306	6,157
Relocation	43,390	0
Miscellaneous expenses	60,723	0
Total expenses	556,018	168,012
Increase in unrestricted net assets	198,887	524,846

Enclosure 2/2

Statements of Activities years ended December 31,	**1998**	**1997**
Carried forward	198,887	524,846
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Released from restrictions	- 251,676	0
Decrease in temporarily restricted net assets	- 251,676	0
DECREASE / INCREASE IN NET ASSETS	- 52,789	524,846
NET ASSETS, BEGINNING OF YEAR	771,349	246,503
NET ASSETS, END OF YEAR	718,560	771,349

See notes to financial statements

Enclosure 3

Statements of cash flows years ended December 31,	**1998**	**1997**
	USD	USD
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	- 52,789	524,846
Changes in:		
Accounts receivable	4,700	14,250
Contributions receivable	226,644	- 352,482
Accounts payable	55,723	- 12,874
Deferred revenue	- 2,795	- 72,934
Net cash provided by (used in) operating activities	231,483	100,806
CASH FLOWS FROM FINANCING ACTIVITIES	0	0
INCREASE IN CASH AND CASH EQUIVALENTS	231,483	100,806
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	429,359	328,553
CASH AND CASH EQUIVALENTS, END OF YEAR	660,842	429,359

See notes to financial statements

Enclosure 4/1

Notes to financial statements
years ended December 31, 1998 and 1997

1. NATURE OF ORGANISATION

The International Association of Insurance Supervisors (the "IAIS") is an Association in accordance with Swiss Law. During the year the Association moved from the State of Illinois, USA, and is newly domiciled in Basel, Switzerland. The Association receives membership fees from members world wide

It is an organisation 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 meeting are recorded when earned or incurred. All revenues are unrestricted except wherefore contribution receivable discussed below.

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 include 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.

Notes to financial statements
years ended December 31, 1998 and 1997

3. INCOME TAXES

IAIS moved to Switzerland during the first quarter of 1998. Up to this period it was 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 agreed to contribute the following amounts to IAIS:

1997	100,806
1998	125,838
1999	125,838

Only the 1999 contribution has not been received by the Association.

5. RELATED PARTY TRANSACTIONS

The National Association of Insurance Commissioners (the "NAIC") is an affiliated organization which is also a member of IAIS. Under a Services Agreement between the NAIC and IAIS, which was cancelled during 1998, the NAIC provided certain administrative services to IAIS. For the years ended December 31, 1998 and 1997, the total amount charged by the NAIC for administrative service was USD 11,336.57 and USD 58,399, respectively. As of December 31, 1998 and 1997, IAIS had amounts payable of USD 0 and USD 12,642, respectively, to the NAIC for services rendered or expenses paid by the NAIC on behalf of IAIS.

6. BENEFITS RECEIVED

In early 1998, IAIS started to benefit from administration, accounting and other advisory services provided by the Bank for International Settlements, Basel; the total amount of these benefits has not been determined.

Enclosure 4/3

Notes to financial statements
years ended December 31, 1998 and 1997

7. YEAR 2000

IAIS does not have a formal plan concerning the Year 2000 problem. However, the Association does not rely on significant information technology. In view of the nature and size of the Association, the risk of any inability to continue as a going concern as a result of the Year 2000 issue, is considered to be minimal.

8. COMMITMENTS AND CONTINGENCIES

Until the agreement with the Swiss tax authorities is settled, it is unclear what tax consequences, if any, will result from the operations and activity of 1998.

Appendices

Appendix 1: List of Members

Financial Services,
Government of Anguilla
The Valley
P.O. Box 60
Anguilla

Superintendencia de
Seguros de la Nacion
Argentina
Julio A. Roca 721, Piso 7
Buenos Aires
Argentina

Centrale Bank van Aruba
Havenstraat #2
Oranjestad
Aruba Dutch Caribbean

Australian Prudential
Regulation Authority
(APRA)
400 George Street
Sydney NSW 2000
Australia

Motor Accidents Authority
of NSW
139 Macquarie Street
Level 12
Sydney NSW 2000
Australia

Ministry of Finance
Johannesgasse 14
A-1015 Vienna
Austria

Registrar of Insurance
Ministry of Economic
Development
P.O. Box N-4849
Nassau N.P.
Bahamas

Ministry of Finance and
Economic Affairs
Ist Floor Nicholas House
Broad Street
Bridgetown
Barbados

Office de Controle des
Assurances
61 Avenue de Cortenbergh
B-1000 Brussels
Belgium

Office of the Supervisor of
Insurance, Ministry of
Finance
New Administrative Building
Belmopan
Belize

Bermuda Government
Government Administration
Building
30 Parliament Street
Hamilton HM12
Bermuda

Superintendencia de
Pensiones, Valores y
Seguros
Calle Federico Zuazu esq.
Reyes Ortiz
Edificio "Tórres Gundlach",
Piso 3
La Paz
Bolivia

Ministry of Finance &
Development Planning
Private Bag 008
Gaborone
Botswana

Superintendencia de
Seguros Privados (SUSEP)
Rua Buenos Aires, 256-4
20061-000 Rio de
Janeiro/RJ
Brazil

Financial Services
Department
The Haycraft Building,
Pasea Estate
Road Town
Tortola
British Virgin Islands

Insurance Supervision
Directorate
6, Tzar Osvoboditel Blvd.
Sofia
Bulgaria

Office of the
Superintendent of Financial
Institutions Canada
Kent Square
255 Albert Street
16th Floor
Ottawa, Ontario K1A 0H2
Canada

Inspecteur General Des
Institutions Financières
800, Place D'Youville
8e - Etage
GIR 4Y5 Québec
Canada

Cayman Islands Monetary
Authority
Department of Insurance
P.O. Box 10052 APO
Grand Cayman, B.W.I.
Cayman Islands

Superintendencia de
Valores y Seguros
Teatinos 120, Piso 6
Santiago
Chile

Ministry of Finance --
Service for the Control of
Insurance Companies
P.O. Box 23364
1682 Nicosia
Cyprus

Danish Financial
Supervisory Authority
GL. Kongevej 74 A
DK-1850 Frederiksberg C
Denmark

Superintendencia de
Bancos
12 de Octubre N24-185 y
Madrid
Casilla 171777-0
Quito
Ecuador

Egyptian Insurance
Supervisory Authority
P.O. Box 2545
28 Talaat Harb Street
Cairo
Egypt

Superintendencia del
Sistema Financiero
7a. Avenida Sur No. 240
entre 1a. Calle Poniente y
Calle Arce
Apartado Postal 2942
San Salvador
El Salvador

European Commission
Rue de la Loi/Wetstraat
200
B-1049 Brussels
Belgium
European Commission

Reserve Bank of Fiji
Pratt Street
Suva
Fiji

Ministry of Social Affairs &
Health
Insurance Department
Hallituskatu 5
P.O. Box 267
FIN-00171 Helsinki
Finland

Ministère de l'Economie,
des Finances et de
l'Industrie
139, rue de Bercy
F-75012 Paris
France

Commission de Contrôle
des Assurances
54, rue de Châteaudun
F-75436 Paris Cedex 09
France

Bundesministerium der
Finanzen
Graurheindorfer Straße 108
D-53003 Bonn
Germany

Bundesaufsichtsamt für das
Versicherungswesen
Ludwigkirchplatz 3-4
D-10719 Berlin
Germany

National Insurance
Commission Ghana
P.O. Box CT 3456
Cantonments
Accra
Ghana

Financial Services
Commission
Suite 943 Europort
P.O. Box 940
Gibraltar

Direction of Insurance
Enterprises and Actuaries
Insurance Division
Kaning Square
10181 Athens
Greece

Superintendencia de
Bancos
9a. Av. 22-00, Zona 1
Ciudad de Guatemale
C.P. 01001
Guatemala

Guernsey Financial
Services Commission
La Plaiderie Chambers
La Plaiderie
St. Peter Port
GY1 1WG (Via UK)
Guernsey

Direction des Assurances
Banque Centrale de la Rep.
De Guinee
3 Bd. Du Commerce
BP=692
Conakry
Guinea

Office of the Commissioner
of Insurance
21st Floor, Queensway
Government Offices
66 Queensway
Hong Kong

State Supervising Authority
of Insurance
Pf. 481
H-1369 Budapest
Hungary

The Financial Supervisory
Authority
Sudurlandsbraut 32
108 Reykjavík
Iceland

Insurance Regulatory
Authority
Ministry of Finance, Govt.
of India
Ground Floor, Tower-I,
Jeevan Bharati Bldg.
124 Connaught Circus
New Delhi--110001
India

Irish Insurance Supervisory
Authority
Department Enterprise,
Trade & Employment
South Frederick Street
Dublin 2
Ireland

Isle of Man Government,
Insurance and Pensions
Authority
HSBC House
Ridgeway Street
Douglas
1M1 1ER
Isle of Man

Ministry of Finance
1 Kaplan Street
P.O.B. 13195
Jerusalem 91131
Israel

ISVAP
Via del Quirinale 21
I-00187 Rome
Italy

Financial Supervisory
Agency
Kasumigaseki 3-1-1
Chiyoda-ku
Tokyo 100-0013
Japan

Ministry of Finance
Financial System Planning
Bureau
1-1 Kasamigaseki 3 chome
Chiyoda-ku
Tokyo 100
Japan

Jersey Financial Services
Commission
P.O. Box 267
Nelson House
David Place
St. Helier JE4 8TP Chanel
Islands
Jersey

Financial Supervisory Service
27 Yoido-dong
Youngdeungpo-gu
Seoul 150-600
Korea (South)

Commissariat aux Assurances
7, Boulevard Royal
L-2449
Luxembourg

Autoridade Monetária e Cambial de Macau
Rua Pedro Nolasco da Silva, No. 45
P.O. Box 3017
Macau

Labuan Offshore Financial Services Authority (LOFSA)
Level 17, Main Office Tower
Financial Park Complex
Labuan F.T. 87000
Malaysia

Bank Negara Malaysia
Insurance Regulation Department
11th Floor, Block A
Jalan Dato' Onn
50480 Kuala Lumpur
Malaysia

Malta Financial Services Centre
Attard
Malta

Sew Hee House
7 Leoville L'Homme Street
Port Louis
Mauritius

Comision Nacional de Seguros y Fianzas
Av. Insurgentes Sur No. 1971
Torre Norte 2 Piso
Col. Guadalupe Inn
01020 D.F.
México

Beema Samiti (Insurance Board)
Blood Bank Complex,
Exhibition Road
Kathmandu P.O. Box # 2172
Nepal

Verzekeringskamer
32, J.F. Kennedylaan
Postbus 929
Apeldoorn 7301 BD
Netherlands

Ministry of Finance of the Netherlands
P.O. Box 20201
2500 EE
The Hague
Netherlands

Bank van de Nederlandse Antillen
Breedestraat 1 (P)
Willemstad
Curaçao
Netherlands Antilles

Ministry of Commerce
Business & Registries Branch
P.O. Box 10843
The Terrace
Wellington
New Zealand

KreditTilsynet
Ostensjovn. 43
N-0667 Oslo
Norway

Organization for Economic Co-operation & Development
2, rue André Pascal
F-75775 Paris, Cedex 16
France
OECD

Superintendencia de Panama
Calle 51 y Avenida Ricardo Arias, Edificio C-11
Diagonal a la Universidad Latina de Panamá
Apartado 832-1683 World Trade Center
Panamá City
Panama

Department of Finance
Level 4, Pulupindi Haus
P.O. Box 122
Port Moresby
Papua New Guinea

Superintendencia de Banca y Seguros del Peru
Los Laureles No. 214, San Isidro
Lima 27
Peru

Insurance Commission
Department of Finance
1071 United Nations Avenue
Ermita, Manilla
Philippines

State Office for Insurance Supervision
pl. Dabrowskiego 1
00-057 Warsaw
Poland

Instituto de Seguros de Portugal
Ave. Berna, 19
1050-037 Lisboa
Portugal

Department of Insurance Supervision
Ministry of Finance
20, Tverskaya Street
103009 Moscow
Russian Federation

Monetary Authority of Singapore
10 Shenton Way
M.A.S. Building
079117
Singapore

Ministry of Finance, Insurance Supervisory Authority
Republika Slovenija
Trg Republike 3
1000 Ljubljana
Slovenia

Ministry of Finance
P.O. Box G34
Honiara
Solomon Islands

Financial Services Board
446 Rigel Avenue South
Erasmusrand
Pretoria 0181
South Africa

Direccion General de Seguros
Ministerio de Economia y Hacienda
Paseo de la Castellana, 44
28046 Madrid
Spain

Ministry of Finance,
Insurance Division.
Lady Lochore Bldg., 100
Sir Chittampatam A Gardiner Mawatha
Colombo 02
Sri Lanka

Finansinspektionen
Regeringsgatan 48
P.O. Box 7831
S-103 98 Stockholm
Sweden

Federal Office of Private Insurance
Friedheimweg 14
CH - 3003 Bern
Switzerland

Ministry of Finance
Department of Insurance
Ministry of Finance
2, Ai-Kuo West Road
Taipei
Taiwan ROC

Department of Insurance
Ministry of Commerce
44/100 Sanambinnam-Nonthaburi Road
Bangkrasor, Amphur Muang
Nonthaburi 11000
Thailand

Prime Ministry,
Undersecretariat of Treasury
Insurance Supervisory Board
Inonu Cad. Hazine Binasi
06510 Emek/Ankara
Turkey

Financial Services Commission
P.O. Box 173
Post Office Building
Front Street
Grand Turk
Turks & Caicos BWI

Financial Supervisory Agency
25 The North Colonnade
Canary Wharf
London E14 5HS
United Kingdom

Superintendencia de Seguros y Reaseguros
Paysandu, Esq. Florida
C.P. 11 100
Montevideo
Uruguay

National Association of Insurance Commissioners (NAIC)
Hall of States
444 N. Capitol Street, N.W., Suite 701
Washington, D.C. 20001-1512
USA

State of West Virginia,
Office of Insurance Commissioner
P.O. Box 50540
Charleston
West Virginia 25305-0540
USA

Candidates for membership in December 1999

Financial Services Commission of Ontario
5160 Yonge Street
17th Floor
North York ON M2N 6L9
Canada (Ontario)

Estonian Insurance Supervisory Authority
A. Lauteri 5
Tallin 10114
Estonia

Insurance Supervisory Authority
P.O. Box 449
FIN-00101 Helsinki
Finland

Insurance State Supervision Service of Georgia
45 Vazha-Pshavela
Tbilisi 380077
Georgia

Office of the Superintendent of Insurance
51 St. Lucia Avenue
Kingston 5
Jamaica, W.I.

Directorate of Insurance Control
Ministry of Industry and Trade
P.O. Box 2019
Amman 11181
Jordan

Insurance Supervision Inspectorate
Street Smilsu 1
Riga
LV 1050
Latvia

Central Bank of Lesotho
P.O.Box 1184
Maseru
Lesotho

Amt für Volkswirtschaft,
Versicherungsaufsicht
Gerberweg 5
FL-9490 Vaduz
Liechtenstein

State Insurance Supervisory Authority
Under the Ministry of Finance
Birutes 56
LT-2600 Vilnius
Lithuania

Centrale Bank van Suriname
Waterkant 20
P.O. Box 1801
Paramaribo
Suriname

Appendix 2: List of Papers Presented at the Fifth Annual Conference

29 September 1998 – 1 October 1998
Cancún, Mexico

Official Opening Speech by Mr José Angel Gurría Treviño, Treasury Secretary, Mexico

Chairman's Opening Remarks and Annual Report, John Thompson, Chairman of the Executive Committee, Canada

Appropriate Accounting Principles and Standards for Accurate Information, Gérard de Martinière, Directeur Général, Axa, France

Brief Summary Workshop on On-Site Inspections and Chilean System of On-Site Inspections, Mónica Cáceres Ubilla, Intendente de Seguros, Superintendencia de Valores y Seguros, Chile

Demutualisation: The Case of Swiss Life, Peter Pfund, Direktor, Bundesamt für Privat-versicherungswesen, Switzerland

Developments on E-Commerce in the EU, Matthew King, Administrator European Commission, Belgium

Expose sur "Controles sur Place", Helmut Müller, Präsident, Bundesaufsichtsamt für das Versicherungswesen, Germany

The Financial Examination System in the United States, Alfred W. Gross, Commissioner of Insurance, Commonwealth of Virginia, USA

Going Beyond Confrontation Toward a New Regulation, Gordon Cloney, President, International Insurance Council, USA

Guaranty Funds, an American Perspective, Alessandro A Iuppa, Superintendent Maine Bureau of Insurance, USA

IAIS's Insurance Project, Peter Clark, Research Manager, International Accounting Standards Committee (IASC), UK

The Importance of the Reinsurance Control for Emerging Markets, J Alisse, Director of the Legal Department, SCOR Paris, France

Insurance Supervisory Framework in Emerging Markets and Recent GATS Agreement, Ricardo Xazier, Secretary General, Superintendencia de Seguros Privados, Brazil **and** Lidio Duarte, Director, Superintendencia de Seguros Privados, Brazil

Insurance Supervisory Framework in Emerging Markets and Recent GATS Agreement, David Deacon, Head of Unit, DG XV, European Commission

Insurance Supervisory Framework in Emerging Markets and Recent GATS Agreement and Summary, Masamichi Kono, Counsellor, Trade in Services Division, WTO

La Problematique des Fonds de Protection des Assures, Jean-Louis Bellando, Secrétaire Général, Commission de Contrôle des Assurances, France

Managing the Y2K Problem, Tarmo Pukkila, Director General, Ministry of Social Affairs and Health, Finland

The Marketing of Insurance Over the Internet, Glenn Pomeroy, President, National Association of Insurance Commissioners & Commissioner of Insurance State of North Dakota

Mutuals and Demutualization: Experience in the United Kingdom, Edward Forshaw, Deputy Director, Head of International Relations, HM Treasury, UK

Mutuals and Demutualization, Michael Hale, Director, Actuarial Division, Office of the Superintendent of Financial Institutions Canada, Canada

On Site Supervision in France, Jean-Louis Bellando, Secrétaire Général, Commission de Contrôle des Assurances, France

Policyholder Protection Funds, John Thompson, Chairman of the Executive Committee, Canada

Regulación de Reaseguro, Armando Venegas, General Director of Reinsurance Supervision, Comisión Nacional de Seguros y Fianzas, México
Restructuring Mutual Insurance Companies by Way of So Called Demutualization, Helmut Müller, Präsident, Bundesaufsichtsamt für das Versicherungswesen, Germany
The Role of the Framework of the IASC for the Development of an Insurance Standard, Gerd Geib, Member of the Board, KPMG Deutsche Treuhand Gesellschaft, Germany
Speech on IAIS Panel in Cancun, Timo Ahjos, Fellow of Actuarial Society of Finland (FASF), Finland
Supervision on Reinsurance in Emerging Countries: business as usual? Rob Bakker, Director of Research and Advisory Department Verzekeringskamer, Netherlands
Supervisory Framework in Emerging Markets, Mónica Cáceres Ubilla, Intendente de Seguros, Superintendencia de Valores y Seguros, Chile
Thailand's Insurance Supervisory Framework towards Liberalisation, Potjanee Thanavaranit, Deputy Director-General of the Department of Insurance, Thailand

Additional Papers
Insurance on the Internet and in Other Electronic Markets, Timo Ahjos, Finland
Year 2000 Risk from Insurer Perspective, Arto Ojala, Managing Director, Federation of Finnish Insurance Companies, Finland

Appendix 3: Press Communiqués

IAIS/OECD Insurance Supervisory Seminar for Asian Countries

8 February 1999

1. Introduction

In the framework of the recent Asian financial crisis, two international meetings dealing with the financial safety and soundness of insurance companies were held in Singapore on 1-4 February 1999: the IAIS (International Association of Insurance Supervisors) Seminar on Insurance Supervision and the OECD (Organisation for Economic Co-operation and Development) Conference on Insurance Regulation and Supervision in Asia. The IAIS seminar and the OECD policy dialogue aimed at promoting the strengthening of insurance regulatory and supervisory systems.

The meetings were hosted by the Monetary Authority of Singapore (MAS) and opened by Mr. Lim Hng Kiang, Minister for National Development and Second Minister for Finance, who called for greater regulatory cooperation and dialogue among Asian economies as well as advanced market countries and the international organisations. Other opening speakers were His Excellency Hashimoto, Ambassador of Japan and Mrs Conruyt, chairperson of the OECD Insurance Committee. These meetings benefited from funding contributions from the Government of Japan, MAS and the IIF (International Insurance Foundation).

2. IAIS Seminar

The IAIS Seminar on 3-4 February focused on crisis prevention from the insurance regulatory/supervisory perspective. The IAIS is the international insurance standard-setting body, whose standards have been adopted globally by over 100 jurisdictions. Targeted at the insurance supervisors of Asian economies, the Seminar assembled about 70 high level supervisory and regulatory officials from all over the world.

The Seminar was chaired by Mr Jean-Louis Bellando, Secretary General, Commission de Contrôle des Assurances, France and co-chaired by Mrs Lim Shu Chiau. The main part of the Seminar consisted of case studies. The Asian supervisors exchanged views particularly on: essential elements of IAIS supervisory standards, current regulatory/supervisory challenges for financial stability in Asian countries, crisis prevention, in particular supervision of insurance companies in difficulties and implementation of the IAIS supervisory standards. Asian insurance supervisors, when appropriate and suitable, will consider implementing IAIS supervisory principles and standards.

Concluding the discussions, supervisors were urged to have regard to the following points in the treatment of insurance companies in difficulties:

- always keep in mind the preventive mission of supervision;
- assess the seriousness of the situation and adapt the measures requested by the company according to the perceived degree of urgency;
- examine whether measures (for instance, prohibiting the free disposal of assets or appointing a temporary administrator) are necessary to protect the interests of the insured;

- if the recovery endeavour fails, choose from among the available sanctions that whose severity and nature are most relevant to safeguarding the interests of the insured, taking into account the nature of the infraction;
- endeavour to the very end, to promote take-over solutions (mergers, transfers of contract portfolios, etc.);
- and withdraw the licences and announce liquidation due to insolvency only as a very last resort.

3. OECD Conference on Insurance Regulation and Supervision in Asia

The OECD Conference on Insurance Regulation and Supervision in Asia on 1-2 February was organised in the framework of the outreach activities of the OECD Insurance Committee and the Centre for Co-operation with Non-Members programme. The Conference was sponsored by the Government of Japan and the MAS, whose Insurance Department Head, Mrs Lim Shu Chiau co-chaired the meeting. It brought together more than 110 high level participants, from 12 Asian economies (Brunei, Hong Kong, Indonesia, Lao PDR, Macau, Malaysia, the Philippines, Singapore, Sri Lanka, Chinese Taipei, Thailand and Vietnam) and from a large number of the OECD Member countries. Sessions focused on an overview of insurance markets and regulation, a survey of financial turmoil impact, issues related to the prevention of financial insolvencies of insurers through prudential regulation, solvency and investment regulation and how best to address these financial difficulties.

It was the first time the OECD organised a meeting on insurance issues in Asia, after holding numerous meetings in the 1990s with Central and Eastern European countries and the New Independent States. This reflects the new orientation of the OECD outreach programme on insurance and private pension issues, which put more emphasis on policy dialogues with emerging countries.

The following conclusions were endorsed by the participants: *In the wake of the recent financial and economic turbulence in Asia, this conference provided an unique opportunity for participants from Asian and OECD countries to discuss key regulatory policy issues and how to prevent and address difficulties that insurance companies may face. Participants largely agreed that high policy priority should be attached to designing and implementing effective supervisory and regulatory systems for insurance business. Particularly, the participants from Asian countries acknowledged the importance and relevance for their markets, with appropriate qualification related to the characteristics of these markets, of the "Twenty Insurance Guidelines" which were developed by the OECD in order to promote basic principles on broad insurance policy issues to the attention of policymakers from non-OECD members.*

The Conference discussed and highlighted the importance or strong licensing criteria, adequate solvency measures and proper technical provisions, appropriate regulation of investment (including valuation and disclosure), promotion of relevant methods and actuarial profession, monitoring of reinsurance business and development of specific measures to handle distressed insurance companies, and further liberalisation of insurance markets of Asian countries. The participants from Asian countries underlined the crucial importance to consider the specific needs and stages of development of their insurance markets.

In addition, the participants from Asian countries took note and appreciated the significance and relevance of the Recommendation on Assessment of Reinsurance Companies by the OECD Council.

Proceedings of the meetings will be made available shortly.

4. Future Cooperation

Finally, at both meetings participants recognised the need for further cooperation. In this respect, it was recommended that consideration should be given to the following work:

- the OECD will organise on a regular basis similar policy dialogue meetings and technical workshops (with a limited number of countries) on specific issues and will launch related selected studies for policy action;
- upon requests, the IAIS will consider providing technical training and educational assistance for Asian supervisory authorities;
- the IAIS and the OECD will support the efforts of Asian emerging economies to strengthen the insurance supervisory and regulatory systems and increase transparency of the system so as to ensure the proper function of market mechanisms;
- Asian insurance supervisors will strengthen exchange of information between other insurance supervisors as well as the IAIS and the OECD. The IAIS will assist in the activities by promoting the IAIS model Memorandum of Understanding and by providing Asian countries with relevant insurance supervisory material. The OECD is also willing to establish electronic networks between representatives of Asian insurance authorities and the OECD Secretariat in order, inter alia, to provide a channel for transmission of selected documentation distributed by the Insurance Committee;
- and the IAIS and the OECD will work closely to provide advice and assistance to Asian emerging economies through the activities mentioned above.

The International Association of Insurance Supervisors (IAIS) Fifth Annual Conference: New Global Insurance Standards Adopted

6 October 1998

The International Association of Insurance Supervisors (IAIS) representing insurance supervisors from around the world held its Fifth Annual Conference in Cancún, Mexico from 28th September to 1st October 1998.

Established in 1994, the IAIS seeks to establish international standards on insurance supervision and conducts training seminars for insurance supervisors from emerging markets. The Association also seeks to coordinate its efforts with other global financial regulators, particularly those from the banking and securities industries.

Three new standards on insurance supervision approved at the General Meeting of members will contribute to improved supervision of the insurance industry at the domestic as well as the international level. They were developed in consultation with industry and professional bodies.

The first, the "Supervisory Standard on Licensing", identifies the requirements that should be met by an insurance company seeking a licence and also covers the standards that apply to the licensing procedure itself. Licensing plays an important role in insurance markets by encouraging efficiency and stability.

The second is "Standards on On-Site Inspections". On-site inspections are important tools for supervisors to obtain reliable data and information in order to assess a company's current and prospective solvency. The paper lays down the procedures and standards for the organisation of on-site inspections.

The third standard, "Supervisory Standard on Derivatives", provides guidance to supervisors in assessing how insurers control risks in derivatives, as IAIS members recognise that the supervisory approaches taken by member jurisdictions are evolving in response to developments in derivatives markets.

The IAIS encourages members to comply with its insurance supervisory principles and has developed a self-assessment programme for members. The results of this self-assessment were presented at the Conference.

The IAIS actively promotes implementation of its supervisory standards by offering effective training programs. In the previous year, the IAIS in collaboration with other organisations conducted five training seminars for insurance supervisors in several regions throughout the world.

Incoming Executive Committee Chairman Hanley Clark promised that the IAIS would continue to develop insurance supervisory standards, and announced that the IAIS would organise several regional seminars and provide training for supervisors during the next year. He stated that it is important that the IAIS continue to work with other financial sector regulators on issues such as the Year 2000 problem and supervision of financial conglomerates.

He emphasised that the Year 2000 issue is particularly pressing and said the IAIS would address this issue in collaboration with the Basel Committee on Banking Supervision (Basel Committee), the International Organization of Securities Commissions (IOSCO), the Committee on Payment and Settlement Systems (CPSS) and other organisations.

The sixth IAIS Annual Conference will be held in San Francisco in December 1999.

Mr. Hanley Clark (West Virginia, United States) elected Chairman of the IAIS Executive Committee

6 October 1998

The International Association of Insurance Supervisors (IAIS) announces that Mr. Hanley C. Clark has been elected Chairman of the IAIS Executive Committee to succeed Mr. John Thompson of Canada. Hanley Clark is the Insurance Commissioner of the State of West Virginia, United States. Mr. Clark also serves as the Chairman of the International Insurance Issues Committee of the National Association of Insurance Commissioners (NAIC) in the United States.

Mr. Arend Vermaat of the Netherlands has been elected Vice Chairman of the organisation. Other countries represented on the IAIS Executive Committee are Australia, Canada, Chile, Guernsey, Japan, Mexico, Poland, Singapore, South Africa, Sweden and the United Kingdom.

As a parent organisation of The Joint Forum and the Joint Year 2000 Council, the IAIS issued the following additional press communiqués this year. Copies can be obtained at the "Press Releases" section of www.iaisweb.org.

1. Release of consultation documents by the Joint Forum, 8 July 1999.

2. Joint Year 2000 Council's Round Table meeting indicates progress on readiness and contingency planning in financial markets, 1 July 1999.

3. Joint Year 2000 Council issues guidance on Year 2000 contingency planning for financial market authorities, 24 February 1999.

4. Release of final documents by the Joint Forum on Financial Conglomerates, 17 February 1999.

5. Joint Year 2000 Council identifies Year 2000 action plans for the financial market's private and public sectors, 8 January 1999.