

Annual Report 2005-06

*Activities from October 2005 to September 2006
including 2005 financial statements*

International Association of
Insurance Supervisors



INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Contributing to worldwide financial stability

The IAIS was established in 1994. Its membership includes insurance regulators and supervisors from over 180 jurisdictions from 130 countries. Its objectives are to:

- cooperate to contribute to improved supervision of the insurance industry on a domestic as well as on an international level in order to maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders
- promote the development of well-regulated insurance markets
- contribute to global financial stability.

✎ Taken from Article 2 of the IAIS By-laws ✎

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International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel, Switzerland
Telephone: 41 61 225 7300
Fax: 41 61 280 9151
Website: <http://www.iaisweb.org>

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Foreword

The International Association of Insurance Supervisors (IAIS) was established in 1994 to promote cooperation among insurance supervisors and other financial sector supervisors. Over the years the membership has continued to grow steadily. Today insurance supervisors from over 180 jurisdictions are members, and more than 100 organisations and individuals representing professional associations, insurance and reinsurance companies, international financial institutions, consultants and other professionals are observers. This involvement reflects the increasingly global nature of insurance markets and the need for consistent supervisory standards and practices. In addition, it recognises the important contribution that strong supervisory regimes can make to financial stability. The IAIS provides an effective forum for standard-setting and implementation activities by providing opportunities to both practitioners and policy makers to share their expertise, experience and understanding.

The IAIS's achievements are made under the guidance of its Executive Committee, which comprises of 15 voting members elected from different regions of the globe and the Chair of the Budget Committee who is an ex officio non-voting member. This is complemented by the Technical Committee, the Implementation Committee and the Budget Committee, supported by their working parties. The day-to-day business and affairs of the IAIS are taken care of by its Secretariat, located at the Bank for International Settlements in Basel, Switzerland.

The IAIS develops principles, standards and guidance for effective insurance supervisory regimes. In doing so it helps to establish and maintain fair and efficient insurance markets for the benefit and protection of policyholders. The IAIS also prepares issues papers that provide background on specific areas of interest to insurance supervisors.

The IAIS actively promotes the implementation of its supervisory standards. Working closely with international organisations, regional groups and supervisors, it supports training seminars and conferences. In addition, the IAIS contributes to assessments of observance of standards in close collaboration with the IMF and the World Bank. The Insurance Core Principles, methodology and self-assessment questionnaire are used for this purpose. These tools are also useful for jurisdictions wishing to improve their supervisory laws and practices.

The IAIS collaborates closely with other international financial institutions and international associations of supervisors or regulators and assists in shaping financial systems globally. In particular the IAIS is one of the constituting bodies of the Joint Forum and participates in all of its working groups. It is also represented on the Financial Stability Forum. The IAIS provides input to the International Accounting Standards Board (IASB) for its work on the international financial reporting standards most relevant to insurers, and is a member of the IASB's Standards Advisory Council as well as an official observer of its Insurance Working Group and Financial Instruments Working Group. It also has observer status on the Financial Action Task Force, which combats money laundering and terrorist financing.

Every year the IAIS hosts an Annual Conference to encourage multilateral discussions on topical issues for insurance supervisors and other insurance professionals. The 12th Annual Conference was held in Vienna, Austria on 18-21 October 2005, on the theme *Solvency, Governance and Market Conduct*. The theme for this year's conference, which is being held in Beijing, China from 18-21 October 2006, is *Fostering Development & Managing Risk — Challenges for Insurance Supervision*.

Chairman's report



Alessandro A. Iuppa
Chair
Executive Committee

The past year marks a number of significant achievements for the IAIS. At our 2005 Annual General Meeting in Vienna, Austria last October, two papers, *A new framework for insurance supervision* (Framework) and *Towards a common structure for the assessment of insurer solvency: cornerstones for the formulation of regulatory financial requirements* (Cornerstones Paper), were adopted. The Framework underpins the IAIS's past and future standard-setting activities on insurance supervision and is a major step in communicating the over-arching inter-relationships between IAIS principles and standards. It also provides a structure for identifying key areas for future work. In addition, the paper proposes the development of a common structure and standards for the assessment of insurer solvency, a significant priority of the insurance supervisory regime. The Cornerstones Paper builds upon existing IAIS papers on solvency and sets out a more precise view on a number of key elements or 'cornerstones' for the formulation of regulatory financial requirements.

These papers mark the beginning of the development of the new insurance regulatory regime for the IAIS. Accordingly, as a critical first step, in early 2006 we issued a workplan for new solvency standards, a *Roadmap for a common structure and common standards for the assessment of insurer solvency* (Roadmap Paper). During the year a significant amount of progress was made on the first paper in this workplan, *The IAIS common structure for the assessment of insurance solvency*, to be finalised in 2007. These papers pave the way for our future work.

While the IAIS is working on regulatory financial requirements and the determination of technical provisions, the International Accounting Standards Board (IASB) continues to work on developing an international accounting standard for insurance contracts: Phase II of its Insurance Contracts Project.

The standard that emerges will have a major impact upon insurers and insurance supervisors alike. We are therefore continuing to devote significant resources to providing input to the IASB to promote the development of a high-quality standard. In this regard during the year we provided a second set of observations on Phase II issues to the IASB, and the IAIS will continue to work closely with the IASB on the project.

The past year also marks a significant milestone with the completion of the Core Curriculum Project. The project was undertaken in partnership with the World Bank, which provided strong leadership and significant financial support. This project began in 2003 with the aim of addressing the lack of standardised insurance supervisory training material. The resulting product is a comprehensive curriculum that will be a highly valued training tool for insurance supervisors. I am confident that this project will be perceived as one of the most notable achievements of the IAIS and deserves our recognition and gratitude.

You can read more on all of the above important developments in the following pages.

Currently the IAIS is engaged in two initiatives to encourage and facilitate cooperation amongst international insurance supervisors. First, we are developing a Multilateral Memorandum of Understanding (MMOU). Once adopted the MMOU will provide both a formal framework and principles for the sharing of information amongst supervisors in different jurisdictions. Second, we continue to work towards the development of principles for mutual recognition between jurisdictions of reinsurance supervision. The latter is our effort to move towards a more global approach to reinsurance supervision.

Together with other members of the international regulatory community the IAIS supported the establishment of the Public Interest Oversight Board (PIOB) by becoming a founding member. The PIOB was set up to oversee the public interest activities of the International Federation of Accountants, the international auditing standard setter. Our support of this important new oversight body is consistent with our support for the promotion of high quality financial reporting.

In view of the close relationship between insurance and pension products and their supervision the IAIS set up a Pension Coordination Group to work on a Cooperation Agreement with the International Organisation of Pension Supervisors. The group will check the consistency of related insurance and pension standard-setting activities and monitor the scope of IAIS members' involvement in pension supervision.

The IAIS also continues to work actively and closely with a number of international organisations: in particular with the Financial Stability Forum on global stability issues, with the Joint Forum and its working parties on issues common to the supervision of the three financial sectors, and with the International Monetary Fund, the World Bank and the OECD Insurance and Private Pensions Committee on specific projects and issues of common interest.

The IAIS continues to receive substantial support from the Bank for International Settlements for the smooth running of its Secretariat. While thanking all IAIS members and observers for their continued support, I would also like to acknowledge especially the assistance of the China Insurance Regulatory Commission, the Financial Services Agency (Japan), the Dutch National Bank (Netherlands), the Insurance Regulatory and Development Authority (India), the Financial Supervisory Service (Republic of Korea), the Federal Office of Private Insurance (Switzerland) and the National Association of Insurance Commissioners (NAIC) for their support over the past year.

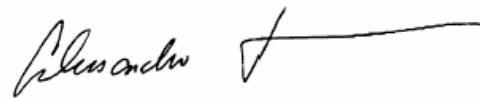
In addition to expressing our gratitude to the many organisations that have contributed to the IAIS I would like to assure you that we are managing our resources prudently and planning for the future. The Financial Outlook Task Force is currently looking at the next five years with a view to ensuring that fees from members and observers can support the IAIS's core activities. The Task Force is also

discussing how to position the Association to meet future demands and initiatives.

Last year the IAIS adopted its *Policy statement on the scope of observers' participation in IAIS activities*. The IAIS remains committed to operate in an open and transparent manner, and to maintain a close dialogue with observers. We very much appreciate the valuable input observers have contributed to our work over the past year.

Over the years the IAIS has transformed from its modest beginnings in 1994 to a more mature organisation with increasing international recognition. I believe that the IAIS now needs to build upon its achievements and to look towards improving the effectiveness of its core activities. To meet the challenges before us we need to consider if the current IAIS structure is the most effective means to do so. As we move into the new year I encourage IAIS members to consider an alternative framework. This might include the creation of a separate organisation to serve as a source of experts for training and education. A committee of major markets could focus on standard setting, thus providing a forum for bringing together insurance supervisors from the world's most experienced and economically developed markets to continue the development of global supervisory standards. Regardless of our ultimate decision on organisational structure, it is imperative that we recognise and address the diversity of the IAIS membership.

As we address these and other challenges, I look forward to your continued input, enthusiasm, support and friendship.



Alessandro A. Iuppa

Report from Chair of the Technical Committee



Tom Karp
Chair
Technical Committee

Standard setting is a core activity of the IAIS. Currently the Technical Committee's prime task is to establish a coherent regime of global insurance regulatory and supervisory principles and standards as

outlined in the 2005 paper *A new framework for insurance supervision*. This year we continued to move towards a common structure and common standards for the assessment of insurer solvency as well as developing other standards and practices, especially in the areas of disclosure and reinsurance.

The *Roadmap for a common structure and common standards for the assessment of insurer solvency* (Roadmap Paper) outlines the IAIS workplan and timetable for developing international standards on insurance solvency assessment. Our goal is to enhance transparency and comparability of insurers' solvency and of solvency regimes worldwide, for the benefit of consumers, the industry, investors and other interested parties.

We are taking this ambitious project forward with *The IAIS common structure for the assessment of insurer solvency* (Structure Paper). This paper is now at an advanced stage, to be finalised in early 2007 prior to adoption at the 2007 General Meeting (see box on page 4). We will then turn to developing standards and possibly guidance papers in four main areas of solvency assessment: the determination of insurance liabilities or technical provisions, the determination of capital requirements, the suitability and valuation of assets, and the recognition and valuation of forms of capital.

A draft standard and an accompanying issues paper on asset-liability management will also be tabled at the 2006 General Meeting, completing the trilogy of standards for this core aspect of insurer solvency.

Insurance supervisors are significant users of insurers' financial statements and are thus key stakeholders in the development of

international accounting standards that impact insurers. The IAIS has intensified its work in providing input to the International Accounting Standards Board in respect of Phase II of its Insurance Contracts Project, which deals with the valuation of insurance liabilities for general purpose financial reporting (see box on page 7). There is widespread support within the IAIS for an effort to achieve a single set of accounts that can be used for both general purpose financial reporting and regulatory reporting. With this aim in mind the IAIS will continue to provide input to, and work closely with, the IASB throughout Phase II.

With respect to reinsurance, during the year we revised the 2005 *Guidance paper on risk transfer, disclosure and analysis of finite reinsurance*. We are also developing criteria and processes for mutual recognition between jurisdictions of reinsurance supervision. The aim is to move towards a system of accreditation of home supervisors as part of a global approach to the regulation of reinsurers, as anticipated in the 2003 *Standard on supervision of reinsurers*.

In December 2005 we published our second *Global reinsurance market report*, which reviews the overall financial health of the sector during 2004 and briefly discusses the 2005 loss-causing events. The report concludes that the reinsurance sector showed considerable resilience in the face of major natural catastrophes and demonstrated its ability to attract additional capital. However, the greater frequency and severity of catastrophes underlines the importance of understanding aggregate exposure positions and of performing stress and scenario tests of these exposures.

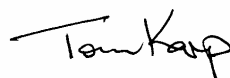
Recognising that supervisors must collaborate at both a national and an international level to ensure that insurers and reinsurers are supervised effectively, the IAIS initiated further work to facilitate cooperation. We have a project underway to develop a framework for a *Multilateral Memorandum of Understanding (MMOU)*. The MMOU will define a set of principles and procedures for sharing information, views and assessments, and it will provide a more efficient basis to make such sharing possible.

Regarding disclosure, we will be tabling at this year's General Meeting a *Standard on disclosures concerning technical risks and*

performance for life insurers. This follows two previous disclosure standards: the *Standard on disclosures concerning technical performance and risks for non-life insurers and reinsurers* (2004) and the *Standard on disclosures concerning investment risks and performance for insurers and reinsurers* (2005). Subsequently the three papers will be combined into a single document.

We have also developed a *Guidance paper on preventing, detecting and remedying fraud in insurance*, aimed at helping insurers and supervisors reduce the potential for fraud in the insurance sector.

As for the coming year, we shall be focussing our efforts on making progress towards an effective international framework for insurance supervision, moving ahead to produce common standards for the assessment of insurer solvency, and actively cooperating with and providing input to the IASB in its work on international accounting standards that impact insurers. We also plan to develop guidance on corporate governance and market conduct.



Tom Karp

The IAIS common structure for insurer solvency assessment

The Structure Paper is part of a major IAIS project to formulate a consistent, reliable and transparent approach to the assessment of insurer solvency, and follows on from the earlier Framework, Cornerstones and Roadmap papers.

Significant work on this paper during the year has brought it to an advanced stage; it is expected to be finalised in early 2007 and formally adopted at the 2007 General Meeting.

In outlining the IAIS philosophy on the assessment of insurer solvency, the Structure Paper will set out a number of main concepts; for example, that a solvency regime should follow a 'total balance sheet approach', and that it should be risk-sensitive. The solvency regime should make use of a combination of

- financial requirements
- quantitative limits
- qualitative requirements and
- additional capital requirements or safety measures arising from supervisory assessment.

The paper will describe the overall IAIS risk-based approach to the assessment of insurer solvency. It will also present, within this wider context, a coherent risk-based methodology for the setting of financial regulatory requirements, which should properly reflect the risk exposure of the insurer. Specific financial regulatory requirements should be formulated to cover at least underwriting risk, credit risk and market risk, which are generally considered to be fairly quantifiable as compared with other main risk types – operational and liquidity risk. However, risk-sensitive financial requirements can only fulfil their intended role if the insurer meets sound governance, market conduct and public disclosure requirements.

The paper will outline the respective roles of market-consistent technical provisions and required capital in a risk-based solvency regime. Market-consistent technical provisions represent the amount that another insurer requires to take on the insurance obligations. The capital requirements provide a further safeguard for policyholders by 'protecting' the technical provisions, even when the insurer experiences adversity.

The paper will also reiterate the IAIS common view that the methodology for the determination of technical provisions and, more widely, the assessment of insurer solvency is also appropriate for the purposes of the public financial reporting.

Report on standard-setting and other technical activities

The IAIS is the recognised international standard setter for insurance supervision. The Technical Committee oversees this work.

Standard-setting achievements during 2005-06

<p>Roadmap paper <i>Roadmap for a common structure and common standards for the assessment of insurer solvency</i></p>	<p>The paper outlines the deliverables needed for the future development of international supervisory standards for the assessment of insurer solvency and the proposed timeframes for their delivery. It sketches how the IAIS plans to build upon the details elaborated in the Cornerstones Paper issued in 2005.</p>
<p>Standard <i>Standard on asset-liability management</i></p>	<p>This standard describes best practices for asset-liability management (ALM) that a well managed insurer would be expected to follow and, thereby, assists supervisors in assessing the practices that insurers in their jurisdictions have in place.</p>
<p>Standard <i>Disclosure concerning technical risks and performance for life insurers</i></p>	<p>The main aim of this standard is to enhance market transparency and to facilitate market discipline by setting minimum disclosure requirements for life insurers and reinsurers. The requirements place emphasis on the adequacy of qualitative information in the following areas: company profile, technical risks, technical provisions, capital adequacy, portfolio segmentation and performance measurement.</p>
<p>Guidance paper <i>Preventing, detecting and remedying fraud in insurance</i></p>	<p>This paper is intended to provide guidance on identifying potential areas of risk to fraud by insurers with the aim of reducing this as far as possible. Supervisors should be able to form an opinion on insurers' fraud policies, procedures and controls and to select the most appropriate remedial action where the internal control system is weak.</p>
<p>Revision of guidance paper <i>Risk transfer, disclosure and analysis of finite reinsurance</i></p>	<p>The paper outlines the background on the development of finite reinsurance and the uses of this product by insurers. It identifies the issues in finite reinsurance that supervisors should be aware of and various supervisory approaches taken to address these. The revision is largely to address the life insurance sections and to reflect the latest developments in accounting for reinsurance contracts.</p>
<p>Issues paper <i>Asset-liability management</i></p>	<p>This paper has been developed to accompany the <i>Standard on asset-liability management</i>. It provides additional background on ALM techniques and related considerations and contains an appendix with definitions of ALM related terms.</p>
<p>Issues paper <i>Regulation and supervision of captive insurance companies</i></p>	<p>This paper outlines a number of features that differentiate captive insurance companies from traditional insurers. It also emphasises particular factors that supervisors should take into account when evaluating individual captive insurance companies.</p>
<p>Issues paper <i>Issues in regulation and supervision of Takaful (Islamic insurance)</i></p>	<p>This paper, prepared jointly by the IAIS and the Islamic Financial Services Board (IFSB), deals with the application of the IAIS Insurance Core Principles to the regulatory and supervisory standards and guidance for the Takaful industry, to be developed by the IFSB.</p>

Market report <i>Global reinsurance market report - 2005 edition</i>	This is the second IAIS global reinsurance market report. It is based upon global reinsurance market statistics for the financial year 2004, covering a high proportion of reinsurance activity worldwide.
Comment paper <i>Issues arising as a result of the IASB's Insurance Contracts Project – Phase II: Second set of IAIS observations</i>	This second comment paper provides further IAIS input to the IASB in respect of Phase II of the IASB's Insurance Contracts Project. The comments take the form of key observations and principles on a number of identified themes relating to Phase II issues. See also boxed text on page 7.
Summary report <i>Report on insurance core principles self-assessment Exercise 2004/2005</i>	The aim of this report is to assist insurance supervisors in determining the level of observance of IAIS Insurance Core Principles. It also identifies areas of broad observance and potential areas for technical assistance, as well as areas where existing standards may need to be reinforced.
Survey report <i>Impact upon supervisors of implementation of IFRS</i>	The report collects and analyses information on the status of the application of IFRS in member jurisdictions, including their impact and the reaction by insurance supervisors arising from such impact.
Survey report <i>Global insurance industry in the face of an influenza pandemic</i>	The report collects survey responses from IAIS members and analyses the potential impacts of an influenza pandemic on the global insurance industry.

Work in progress

Accounting Subcommittee

The Accounting Subcommittee monitors developments in the field of accounting related to insurers and insurance supervision, and responds for the IAIS where appropriate. The subcommittee also monitors the accounting-related output of organisations such as the International Federation of Accountants, the International Actuarial Association and the IASB on issues other than those dealt with by the Insurance Contracts Subcommittee, and liaises with these and other organisations on topics of mutual interest. The Accounting Subcommittee is chaired by Tomoko Amaya, Japan.

Enhanced Disclosure Subcommittee

During the year the Enhanced Disclosure Subcommittee finalised a *Standard on disclosures concerning technical risks and performance of life insurers*, which will be presented to the 2006 General Meeting for adoption. The draft standard is the last of three disclosure standards, following the *Standard on disclosure concerning technical performance and risks for non-life insurers and reinsurers* and the *Standard on disclosures concerning investment risks and performance for insurers*, adopted in 2004 and 2005 respectively. Once the new standard has been adopted work is expected to shift to combining the three papers into a single standard. The Enhanced Disclosure Subcommittee is chaired by Henning Göbel, Germany.

Financial Conglomerates Subcommittee

The Financial Conglomerates Subcommittee provides a link between the IAIS and the Joint Forum. The subcommittee has highlighted the need to develop a consistent body of principles and standards for insurance groups in light of Insurance Core Principle (ICP) 17 *Group-wide supervision* and is currently working on *Group Principles and Standards*. A special Working Group is presently developing the framework for a *Multilateral Memorandum of Understanding (MMOU)*, the aim of which is to increase cooperation between insurance supervisors. The MMOU will define a set of principles and procedures for sharing information, views and assessments, and will provide a more efficient basis than bilateral MOUs to make such sharing possible. The Working Group conducted a *Survey on MMOU Issues of IAIS members* in January 2006 and the responses provided a strong indication of

members' readiness to become a signatory to a multilateral MOU. The Financial Conglomerates Subcommittee is chaired by Noël Guibert, France.

Insurance Contracts Subcommittee

This Insurance Contracts Subcommittee monitors the IASB's projects on insurance contracts, financial instruments and revenue recognition and responds for the IAIS where appropriate. During the year the subcommittee completed a second comment paper *Issues arising as a result of the IASB's Insurance Contracts Project – Phase II: Second set of IAIS observations*, which the IAIS provided to the IASB as further input into its Phase II project, following on from the initial IAIS observations of May 2005. The subcommittee will continue to provide input to the IASB throughout the Phase II project. The Insurance Contracts Subcommittee is chaired by Rob Esson, U.S./NAIC.

Accounting for insurance contracts – IAIS provides further input to IASB

One of the main objectives of the IAIS is to promote the development of well regulated insurance markets. This includes the development and implementation of high quality financial reporting standards, in particular those which most impact insurers, in the interest of providing a meaningful, economically sound portrayal of these enterprises to the external markets.

Over the last year the International Accounting Standards Board (IASB) has been making significant progress on Phase II of its Insurance Contracts Project (Phase II), which deals with the measurement of insurance liabilities for general purpose financial reporting and will eventually result in an International Financial Reporting Standard (IFRS). IFRSs, including Phase I of the Insurance Contracts Project, have been implemented in many jurisdictions – notably in the European Union, but also elsewhere – for general purpose financial reporting, with further jurisdictions scheduled to implement IFRS in the near term. There are also convergence projects with the accounting standards in both the U.S. and Japan. The standard which arises from Phase II will have a significant impact upon insurers' financial reports and thus upon insurance supervisors around the world.

As the international standard setter for insurance supervision the IAIS is concerned both with general purpose accounting and with reporting for solvency purposes. The IAIS favours methodologies for calculating items in general purpose financial statements that can be used for, or are substantially consistent with, those used for regulatory reporting purposes. This would result in the two sets of reports being as similar as possible with any differences easily reconcilable. Indeed, there is widespread support for an effort to achieve a single set of accounts that can be used for both general purpose financial reporting and regulatory reporting, notwithstanding the potentially differing purposes of such reports. Achievement of this aim will help to maintain the credibility of the reporting regimes and is likely to reduce costs and workload for regulated insurers. The developments and progress on Phase II are therefore of enormous interest to insurance supervisors – as well as the industry – and monitoring and providing input on the project a high priority for the IAIS.

At the end of May 2006 the IAIS issued a second comment paper, prepared as further input to the IASB in respect of Phase II. The paper *Issues arising as a result of the IASB's Insurance Contracts Project – Phase II: Second Set of IAIS Observations* (known as the second 'Liabilities Paper') follows on from the initial IAIS comment paper of May 2005. It sets out a number of principles, or key observations, on measurement themes common to both general purpose financial reporting and regulatory reporting that the IASB is addressing in its consideration of Phase II. The principles identified include various features of insurance liability measurement, risk margins and aspects of life insurance accounting. Amongst these we highlight, for instance, the importance of cash flows relating to full settlement with a claimant or beneficiary as the basis for insurance liability measurement. As a result of the paper Rob Esson, Chair of the Insurance Contracts Subcommittee, was invited to make a presentation to the full IASB Board at its meeting in June 2006.

As noted elsewhere in this report the IAIS is engaged in an ambitious project to define an international framework for solvency assessment. Many of the challenges and issues faced by the IASB in its work on Phase II are also encompassed within this work. At this stage the IAIS believes there should be no major conceptual differences between the methodologies used to generate both general purpose and regulatory financial reports, even though many significant issues and questions still remain for the Phase II project. Achieving a solution which can be implemented and has widespread support will require considerable effort and therefore the IAIS will continue to provide input to and work with the IASB throughout the Phase II project.

Insurance Fraud Subcommittee

During the year the Insurance Fraud Subcommittee finalised a *Guidance paper on preventing, detecting and remedying fraud in insurance*, which will be proposed for adoption at the 2006 General Meeting. The subcommittee, in cooperation with other working parties, plans to undertake work on compliance and corporate governance in the coming year.

The IAIS has observer status in the Financial Action Task Force (FATF) and is represented at its plenary meetings by the Insurance Fraud Subcommittee chair. In 2005 the FATF created a Working Group on Evaluations and Implementation in which the IAIS is represented by the Guernsey Financial Services Commission. In addition, the subcommittee participates in the Interpol Working Group on Money Laundering & Terrorist Financing. The Insurance Fraud Subcommittee is chaired by Peter van den Broeke, Netherlands.

Pension Coordination Group

In May 2005 the IAIS set up a Pension Coordination Group consisting of members who are also represented in the International Organisation of Pension Supervisors (IOPS). The mandate of the Group is: to prepare a cooperation framework with IOPS and a strategy with regard to pension supervision, to check the consistency of standard setting activities as relevant, and to monitor the scale of IAIS members' involvement in pension supervision. The Group has completed a Cooperation Agreement with IOPS, examined the consistency of draft IOPS and OECD papers on pension supervision and regulation with IAIS standard-setting activities, conducted surveys on the relationship between insurance and pension supervision in IAIS member jurisdictions and on the attitude of IAIS members towards pension supervision. The group also heard presentations from its members about pension systems and supervisory activities in relation to insurance. The Pension Coordination Group has been chaired by Jan Monciewicz, Poland. Selection of a new Chair was in progress at the date of this report.

Reinsurance and Other Forms of Risk Transfer Subcommittee

During the year the Reinsurance and Other Forms of Risk Transfer Subcommittee revised its *Guidance paper on risk transfer, disclosure and analysis of finite reinsurance* and carried out a survey on supervision of reinsurers. In the coming year the subcommittee intends to revise the two issues papers on life and non-life securitisation and the supervisory standard on the evaluation of reinsurance cover. After undertaking a further survey of IAIS members, its Mutual Recognition Subgroup intends to develop a guidance paper on mutual recognition of reinsurers. The Reinsurance and Other Forms of Risk Transfer Subcommittee is chaired by Julie Bowler, U.S./Massachusetts.

Reinsurance Transparency Group

The Reinsurance Transparency Group completed the second IAIS *Global Reinsurance Market Report* in December 2005, based upon global reinsurance statistics for the financial year 2004. This report, and its predecessor published in 2004, present worldwide reinsurance statistics in a manner which has not previously been available. Work is now in progress on the production of the third report, based upon 2005 data. The Reinsurance Transparency Group is chaired by Julian Adams, United Kingdom.

Solvency and Actuarial Issues Subcommittee

During the year the Solvency and Actuarial Issues Subcommittee continued its work in the development of an international supervisory structure for insurer solvency assessment with:

- i) the paper *A Roadmap for a common structure and common standards for the assessment of insurer solvency* (Roadmap Paper), which was approved by the IAIS Technical Committee in February 2006; and
- ii) significant progress in drafting *The IAIS common structure for the assessment of insurer solvency* (Structure Paper), to be finalised in 2007.

In addition to completing the Structure Paper the subcommittee will continue its work on supervisory standards in four main areas of solvency assessment: the determination of insurance liabilities or technical provisions, the determination of capital requirements, the suitability and valuation of assets, and the recognition and valuation of forms of capital. Additionally, a guidance paper *Use and validation of internal models* is under development. The subcommittee liaises closely with the International Actuarial Association (IAA) which contributes to this work.

The subcommittee has been chaired for the past three years by Wil Dullemond (Netherlands), who retires at the end of 2006. Selection of a new Chair was in progress at the date of this report.

Plans for new and future work include:

Expected
completion

The IAIS common structure for the assessment of insurer solvency	2006-07
Consolidated disclosure standard (replacing the three individual standards)	2006-07
Standard on the recognition and valuation of forms of capital	2006/07
Standard on the suitability and valuation of assets for insurers	2006/07
Standard on the determination of capital requirements	2006/07
Standard on the determination of insurance liabilities and technical provisions	2006/07
Standard on risk management by insurers	2006/07
Standard on market conduct in relation to solvency assessment	2006/07
Revision of standard on the evaluation of the reinsurance cover of primary insurers and the security of their reinsurers	2006-07
Guidance paper on the use and validation of internal models	2006/07
Revision of issues paper on life insurance securitisation and upgrade to a guidance paper	2006-07
Revision of issues paper on non-life insurance securitisation and upgrade to a guidance paper	2006-07
Multilateral memorandum of understanding (MMOU) for the sharing of information between supervisors	2006-07
Standard on principles & standards on group supervision	2006-07
Guidance paper on mutual recognition of reinsurers	2007-08
Comment paper(s) in respect of further input into Phase II of the IASB's Insurance Contracts Project	Ongoing
Global reinsurance market reports	Annual

Report from Chair of the Implementation Committee



*Carl Hiralal
Chair, Implementation
Committee*

The Implementation Committee has enjoyed a rewarding year. During the period from October 2005 to September 2006 it sponsored and organised nine regional seminars for insurance supervisors in Central and Eastern Europe, Asia, Latin America, Offshore jurisdictions, the

Middle East and North Africa, and Sub Sahara Africa. In addition, the IAIS assisted with several other seminars and conferences. For each event insurance supervisors from approximately 15-20 jurisdictions received training on the Insurance Core Principles and other important supervisory subjects through lectures, panel discussions, and other educational tools. Examples of educational tools developed by trainers for these seminars are case studies on risk-based supervision, corporate governance, preventive and corrective measures, licensing, and market conduct and consumer protection. The events have been well received.

Following the reorganisation of the former Emerging Markets Committee as the Implementation Committee, the Committee pursued its goals with renewed vigour. The Regional Coordination Subcommittee, under the new Chair, Dr. Bassel Hindawi, Jordan,

reorganised some regional groupings based on language and geography in order to promote training efficiency. It advanced discussions on the development of a guidance paper on future IAIS training strategy. Other key focus areas of the Committee included supporting improvements to the Insurance Laws Database and contributing to an issues paper on microinsurance.

However, the year's major achievement was the successful completion of the Core Curriculum Project, launched in 2003 in partnership with the World Bank (see boxed text on following page). This has truly been a global effort and many people, including active and former insurance supervisors and industry professionals, who have contributed time and energy to the project in writing and reviewing material, and in organising and presenting pilot seminars. We thank them for their diligent efforts. The IAIS also wishes to thank the World Bank – and Craig Thorburn in particular – for unwavering support and effort throughout the entire three-year development of the project. Thanks also go to the numerous volunteers who actively supported the project.

A handwritten signature in black ink, appearing to read 'Hiralal', with a stylized flourish at the end.

Carl Hiralal

Report on standard-implementation activities

The Implementation Committee, together with the Regional Coordination Subcommittee, coordinates IAIS activities aimed at developing sound insurance regulatory and supervisory systems. Important components of the committee's work are the provision of training materials based on the IAIS Insurance Core Principles and the organisation of training seminars for insurance regulators and supervisors.

Completion of Core Curriculum Project

The Core Curriculum Project was designed to fill a void in the availability of standardised insurance training materials. A nine-member Task Force oversaw the project, with the World Bank providing strong leadership and financial support in the development and overall management. This included raising funds of USD 1.5 million, including an annual grant totalling USD 600,000 over the three years provided directly by the World Bank and managed by the IAIS.

During the developmental stage several of the modules were pilot tested in order to ensure that the final products would be of practical use to the regulatory community worldwide. This included, in particular, the testing of case studies and self-test exercises, which have been strategically embedded as important features of the modules.

As a result a comprehensive learning curriculum, comprising 36 basic modules covering all 28 IAIS Insurance Core Principles plus five additional complex case studies, is now available on the IAIS website for use by members in the training of supervisors. There is no doubt that supervisors will find this material an invaluable asset for training both new and seasoned supervisory staff.

The project has now been successfully completed. The material is of high quality and will comprise a core component of the IAIS training strategy in the future. Subject to IAIS approval corporate users may also use the Core Curriculum material in the development of training courses. A keen interest has already been expressed in using the material in this way.

With the completion of the project the Task Force which oversaw the Insurance Core Curriculum Project will be disbanded after its meeting in October 2006. A consultant has been hired to evaluate the Core Curriculum Project's achievements and deliverables vis-à-vis its original objectives.

Regional Coordination

The Regional Coordination Subcommittee, created by the merger of the Education Subcommittee and the Regional Coordinators Group, maps international training needs region by region, identifying regional technical assistance objectives and developing strategies for implementing training objectives. It coordinates the work of regional technical assistance providers and training organisations. In promoting the IAIS it recruits new members and observers in the regions.

The subcommittee has revised guidelines to enhance the quality of training for insurance supervisors and recently established new regional groupings for more effective training: America, Asia & Oceania, Sub Sahara Africa, Central & Eastern Europe & Transcaucasia, Middle East & North Africa, Offshore & Caribbean Islands, and Western Europe. Regional Coordinators will take leadership in assisting and coordinating activities within their respective regions.

Report on Insurance Core Principles self-assessment exercise

The Task Force on Assessment and Implementation of Insurance Core Principles submitted its *Report on ICP self-assessment exercise 2004/2005* in February 2006. Fifty-nine respondents from 58 countries completed the self-assessment questionnaire. The exercise was carried out to assist insurance supervisors in determining their level of observance of IAIS Insurance Core Principles. It also identifies potential areas for technical assistance as well as areas where existing standards need to be reinforced.

Having fulfilled its mandate the members agreed to disband the Task Force. The Task Force was chaired by Alessandro Iuppa, U.S./Maine.

Training seminars

In collaboration with the Financial Stability Institute (FSI), the IAIS organises and publishes a list of training seminars for insurance supervisors. This helps supervisors to plan and budget for training. In addition, the IAIS and the FSI, sometimes in collaboration with other international or local organisations, assist jurisdictions in planning and organising training seminars. The seminars focus on specific Insurance Core Principles depending on the interest and needs of the audience.

Insurance Laws Database

The Insurance Laws, Regulations, Practices and Standards Subcommittee collects and analyses regulatory information through the Insurance Laws Database. The database is an online facility which compiles comprehensive data about insurance laws, regulations and practices in IAIS member jurisdictions. A summary report, based on information from the database, was published in October 2005.

The database helps IAIS members and observers improve their legislation by enabling them to draw upon best practices elsewhere. So far around 60 jurisdictions have contributed data. The subcommittee is encouraging all other IAIS members to participate in the project, thus improving the overall quality, effectiveness and credibility of the database. More than 20 observers and 3 third parties (a university and 2 non-profit institutions) have been granted access since February 2006 when the database was opened to non-members.

During 2006 the subcommittee worked on enhancing the database's technical functionalities and content. With the technical enhancements completed in April, the subcommittee is now focussing on the extension and improvement of chapters and questions; these are expected to be implemented in early 2007. The subcommittee is chaired by Peter Braumüller, Austria.

Microinsurance

A Joint Working Group on Microinsurance – comprised of members of the IAIS and the Consultative Group to Assist the Poor (CGAP) – is developing an issues paper on the regulation and supervision of microinsurance. The paper will analyse the evolution of microinsurance and its potential for expansion, as well as comment on the various models for delivery and types of microinsurance products. It will also examine the different legal and regulatory frameworks and other relevant market conduct and governance issues, with the ultimate objective of suggesting an enabling environment for developing a microinsurance structure consistent with the IAIS Insurance Core Principles.

Multilateral Memorandum of Understanding

As noted on page 6 the IAIS is developing a Multilateral Memorandum of Understanding to enhance cooperation and information exchange amongst supervisors. This is expected to be presented for approval by the Executive Committee in early 2007. Following its adoption the Implementation Committee will assume responsibility for overseeing the implementation and monitoring of the MMOU regime.

Translations

The IAIS encourages the translation of its training manuals and case studies to ensure their maximum use. In addition, translations of IAIS principles, standards and guidance papers into Arabic, French, German and Spanish, prepared by members, are available on the IAIS website. Members are encouraged to submit translations for website posting, particularly as papers are revised and new papers developed.

Cooperation with external organisations

The continued cooperation with other international organisations – including the FSI, the World Bank, the IMF, the OECD, FIRST Initiative, the Toronto International Leadership Centre for Financial Sector Supervision, the International Insurance Foundation, the NAIC, the Geneva Association and UNCTAD – has helped enormously in ensuring that emerging markets have access to assistance and training in insurance supervision. The IAIS also greatly appreciates the support given by the Japanese government. Increasingly, in cooperation with the IAIS, many developed countries are organising and participating in training seminars for emerging markets.

Report from Chair of the Budget Committee



*Thomas Steffen
Chair
Budget Committee*

For the financial year 2005, the IAIS financial statements resulted in a considerable surplus of CHF 1,008,166 due mainly to fees from new members and observers, a favourable movement in the Swiss franc to U.S. dollar exchange rate, surplus from the Annual Conference, and the successful implementation of cost reduction

measures within the framework of continued strong financial and budgetary controls.

From 2005 onwards the IAIS has moved to the Swiss franc (CHF) as our operating and reporting currency, which means that fees are paid in Swiss francs and financial statements are denominated in Swiss francs. In 2005, the IAIS also decided to convert all assets into Swiss francs, except for an investment of USD 1 million in U.S. Treasury Notes. This substantially decreased foreign currency exposure and exchange rate risks. Nevertheless, some risk remained that could cause volatility in the Association's reserves. In 2005, the remaining USD 1 million investment produced an unrealised exchange gain. In 2006, because of unfavourable exchange rate movements, it was decided to convert the U.S. Treasury notes into CHF-denominated investments, thus realising an exchange loss which partly offset the 2005 gain. Although this may result in some reduction in investment income, it has brought the IAIS's exposure to exchange rate risks down to a minimum.

It is essential that the Association has adequate reserves to remain fully operational in the future. Thus a new risk-based reserve policy has been set to help determine the optimum amount of reserves. It includes both a minimum reserve, based on stress testing, and a dynamic target reserve, based on the total annual expenses including estimated total third party support.

According to current budget control figures which do not yet include the Annual

Conference results the year 2006 is likely to end with a surplus in line with the 2006 Budget estimate. This is mainly due to fees from new members and observers and to continued strong financial and budgetary controls. The 2007 budget that is being proposed for adoption at the 2006 General Meeting, prepared for the third time in Swiss francs, includes membership fees that are consistent with the fee basis set out in the IAIS Medium Term Working Plan.

The total current level of support that the IAIS receives from third parties, in the form of either grants or support in kind, is almost equal to the IAIS annual budget for operating expenses. The IAIS is very grateful to the third parties for their substantial contributions. For planning purposes, however, the IAIS should recognise that this additional support will not necessarily continue.

For the future, in order to provide the Association with a proper medium-term financing plan that includes adequate buffers, a Financial Outlook Task Force – consisting of members of the Executive Committee and the Budget Committee, and in close consultation with the chairs of the Technical and Implementation Committees and the Secretariat – is forecasting IAIS activities and the required resources for the period 2008-2012. It is also taking into account strategic factors such as future IAIS objectives and priorities and the dependence of the Association on contributions from third parties. In the future the IAIS's core activities should be supported by a Secretariat with sufficient and stable staffing levels, and this is likely to require additional IAIS resources.

Now that we have reduced potential exchange rate risk to a minimum, and with the adoption of the new risk-based reserve policy, I believe that the IAIS has a sound platform from which to plan for its future resource requirements.

A handwritten signature in black ink, appearing to read 'h. Steffen'.

Thomas Steffen

External support provided to the IAIS

The total support, not funded from membership fees, that the IAIS expects to receive for the financial year 2006 is estimated at CHF 2.5 million (USD 1.9 million), which is almost equivalent to the total operating expenses forecast in the IAIS 2006 annual budget.

- The Financial Services Agency (FSA) Japan provided a grant to finance most of the cost of three staff engaged in IAIS standard-implementation activities, including the enhancement of the insurance laws database. Since April 2002 the total contributed will have reached CHF 1.81 million by the end of 2006. The renewal of this grant is subject to annual approval by the Japanese Diet.
- The World Bank provided a grant for the Core Curriculum Project, to reimburse costs relating to the development of educational material. Since January 2004 total contributions have amounted to CHF 792,000 (USD 600,000), representing an annual grant over the three year period to completion of the project this year.
- The Financial Sector Reform and Strengthening (FIRST) Initiative – a multi-donor programme which provides technical assistance grants for short and medium-term projects in the areas of financial regulation, supervision and development – contributed to specific training seminars and technical assistance activities. Funds available from FIRST need to be used at the latest by September 2008.
- The Bank for International Settlements (BIS) provided support to the IAIS in terms of office space, various administrative support facilities, the funding of two staff, and assistance by the Financial Stability Institute in organising training courses. There is no time limit on the support agreement between the BIS and the IAIS.
- The IAIS also received support from member authorities which sponsor secondments to the Secretariat. Supervisory authorities that provided such support during the year were: the China Insurance Regulatory Commission, the Insurance Regulatory and Development Authority of India, the Financial Supervisory Service of the Republic of Korea, the Dutch National Bank, and the Swiss Federal Office of Private Insurance.

The IAIS is most grateful to these organisations for their substantial contribution to the activities and achievements of the Association.

The total financial support from these organisations during the financial year 2006 is estimated as follows:

	CHF'000*	USD'000*
FSA Japan	579	440
World Bank	263	200
FIRST Initiative	211	160
BIS and others	1,447	1,100
	<hr/> 2,500	<hr/> 1,900

*converted at an agreed internal rate of CHF 1: USD 0.76.

Audited financial statements for the year ended 31 December 2005



PricewaterhouseCoopers AG
St. Jakobs-Strasse 25
Postfach 3877
4002 Basel
Switzerland
Telephone +41 58 792 51 10
Fax +41 58 792 59 92

Report of the Auditors
to the Members
International Association of Insurance Supervisors
Basel

We have audited the accounting records and the financial statements (statement of financial position, statement of activities and notes) of the International Association of Insurance Supervisors (the "IAIS") for the year ended 31 December 2005.

These financial statements are the responsibility of IAIS's management. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the Swiss legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss auditing standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and the financial statements comply with Swiss law and the Association's by-laws.

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

PricewaterhouseCoopers AG

A blue ink signature of Ralph R Reinertsen, written in a cursive style.

Ralph R Reinertsen

A blue ink signature of Garrett C Thompson, written in a cursive style.

Garrett C Thompson

Basel, 17 May 2006

Enclosures:

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

International Association of Insurance Supervisors
Statement of Financial Position
As at 31 December 2005
(in Swiss francs)

	Notes	2005	2004
ASSETS			
Cash and investments	7	3,316,049	2,199,421
Accounts receivable		707,783	451,271
Less: Provision for bad debts		(16,654)	(11,371)
Net accounts receivable	9	691,129	439,900
Prepayments	10	4,981	6,229
Total assets		4,012,159	2,645,550
LIABILITIES			
Accounts payable	11	594,011	430,005
Deferred revenue	12	547,750	345,183
Advances received	5	13,221	21,351
Total liabilities		1,154,982	796,539
UNRESTRICTED NET ASSETS			
Retained earnings		1,849,011	1,514,582
Unrestricted net assets for the current year	3	1,008,166	334,429
Total unrestricted net assets		2,857,177	1,849,011
Total liabilities and unrestricted net assets		4,012,159	2,645,550

International Association of Insurance Supervisors
Statement of Activities
For the year ended 31 December 2005
(in Swiss francs)

	Notes	2005	2004
CHANGES IN UNRESTRICTED NET ASSETS			
Operating revenue and gains			
Members fees		1,405,500	995,531
Observers fees		875,000	533,300
Conference income	9	645,040	430,625
Total operating unrestricted revenue and gains		2,925,540	1,959,456
Operating expenses			
Salaries		1,269,117	1,138,301
Relocation		985	14,704
Conference expenses	9 & 11	550,723	364,567
Education and training		103,643	56,163
Travel		149,162	95,009
Administration	13	17,539	10,024
Audit		6,000	4,000
Meetings		6,683	260
Web site		51,237	41,319
Change in provision for bad debts	9	5,283	-
Total operating expenses		2,160,372	1,724,347
CHANGES IN OPERATING UNRESTRICTED NET ASSETS		765,168	235,109
Interest income	14	37,861	10,881
Donations	8	(15,916)	-
Foreign exchange movement	3	221,053	88,439
CHANGES IN UNRESTRICTED NET ASSETS (see accompanying notes)		1,008,166	334,429

International Association of Insurance Supervisors

Notes to the Financial Statements

Year ended 31 December 2005

1. NATURE OF ORGANIZATION

The International Association of Insurance Supervisors (IAIS "the Association") is an Association in accordance with Swiss Law. The Association is domiciled in Basel, Switzerland and receives fees from members and observers worldwide.

It is an association of and for the international insurance supervisory officials. The IAIS provides an independent forum for insurance supervisors 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. SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Association are drawn up on the historical cost basis and income and expense items are recorded on the accruals basis.

The presentation of the financial statements has been amended to provide better disclosure to the reader.

A. Scope of financial statements

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

B. Functional and presentation currency

At the General Meeting on the 3 October 2003, it was agreed to change the presentation currency to Swiss francs (previously U.S. dollars) with effect from the financial statements for the year 2005. Year 2004 comparatives have been restated in Swiss francs in these financial statements.

The spot rate used to convert the year 2004 figures to Swiss francs was 1.1371 CHF to 1 U.S. dollar.

Being an international organisation the Association is exposed to various currencies in conducting its activities. The main currencies the Association was exposed to in 2005 were the U.S. dollar and the Swiss francs.

All transactions are recorded in Swiss francs at the exchange rates ruling at the date of the transaction.

Exchange differences arising from the retranslation of monetary assets and liabilities are included as foreign exchange movement in the statement of activities.

C. Cash and Investments

The Association considers cash and investments to be investments, which are highly liquid and readily convertible to cash.

Treasury notes are accounted for using the effective interest rate basis.

All returns from cash and investments are accounted for in Interest Income.

D. Accounts receivable and Accounts payable

Accounts receivable and accounts payable are principally short-term amounts relating to the settlement of transactions as a result of activities of the organisation. They are included in the statement of financial position at cost.

E. Provision for bad debts

Provisions are recognised, as a charge to the statement of activities, if the Association has concern over the recovery of outstanding accounts receivable.

3. SENSITIVITY TO FOREIGN EXCHANGE MOVEMENTS

The revenue and expenditure of the Association are predominantly received and paid in Swiss francs. The Association holds cash and investments in U.S dollars and Swiss francs.

Accordingly, movements of foreign exchange rates over the course of a financial year can have a significant impact on the finances of the Association.

Exchange differences arising from the retranslation of monetary assets and liabilities are included as foreign exchange movement in the statement of activities. Unrealized as well as realized gains would increase the organisation's reserves in one year while unrealized as well as realized losses could have the reversed impact on reserves the year after.

The spot rates on 31 December 2005 were:

1.31725 CHF = 1 USD

1.55449 CHF = 1 EUR

4. BENEFITS RECEIVED

The Association is hosted by the Bank for International Settlements, Basel, and benefits from administration, accounting, other advisory services and other contributions provided by the Bank for International Settlements. The total amount of these benefits has not been determined.

5. THIRD PARTY CONTRIBUTIONS

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

DNB Dutch Contribution

USD 50,000 contribution since October 2002. The balance as at 31 December 2005 was USD 10,037 (CHF 13,221). Funds are held within the IAIS as "advances received". This was previously known as the PVK Dutch contribution.

FSA Japan Grant

CHF 1,546,938 total contribution since April 2002. The balance as at 31 December 2005 is CHF 315,905. Funds are held in a separate UBS CHF bank account. All transactions are financially independent from the IAIS and the financial records are independently audited.

DGF World Bank Grant

USD 400,000 contribution since January 2004. The balance as at 31 December 2005 was USD 39,381. Funds are held in a separate UBS USD bank account. All transactions are financially independent from the IAIS and the financial records are independently audited.

6. INCOME TAXES

The Association is exempt from income tax.

7. CASH AND INVESTMENTS

	31.12.2005	31.12.2004
	CHF	CHF
USD Current account	68,030	387,313
CHF Current account	1,930,259	527,522
CHF Money market deposits	-	1,284,586
	<u>1,998,289</u>	<u>2,199,421</u>
US Treasury notes	1,317,760	-
	<u>3,316,049</u>	<u>2,199,421</u>

As at 31 December 2005, 2.25% US Treasury Notes with a nominal value of USD 1,000,000 were held. These Notes will be held until maturity on 30 April 2006. The effective interest rate basis was used to account for this investment.

The fair market value as of 31 December 2005 was USD 993,750.

8. FOUNDER CONTRIBUTION TO INITIAL ENDOWMENT OF FOUNDATION

In accordance with a decision of its Executive Committee on 18 October 2005, the IAIS has become a founder member of the International Public Oversight Board for Auditing Standards, Professional Ethics and Related Matters Foundation, also known as the Public Interest Oversight Board (PIOB), and in this respect contributed to the initial endowment of the Foundation in an amount of 10,000 euros. The Foundation was incorporated in Spain under Spanish applicable law, under the legal name "Fundación Consejo Internacional de Supervisión Pública en Estándares de Auditoría, Ética Profesional y Materias Relacionadas".

9. ACCOUNTS RECEIVABLE

	31.12.2005	31.12.2004
	CHF	CHF
Membership fees receivable	61,154	20,468
Annual conference	645,040	429,488
Other	1,589	1,315
	<u>707,783</u>	<u>451,271</u>

Membership fees: A provision of CHF 16,654 has been created due to concern over the recovery of certain outstanding membership fees.

	31.12.2005
	CHF
Opening bad debt provision	11,371
Change in bad debt provision	<u>5,283</u>
Closing bad debt provision	16,654

Annual conference 2005: The amount receivable was EUR 414,953. Expenses for the annual conference total EUR 354,279 and are included in Accounts payable (see note 11).

10. PREPAYMENTS

Prepayments consist of the future year's website maintenance and running costs.

11. ACCOUNTS PAYABLE

	31.12.2005 CHF	31.12.2004 CHF
Annual conference expenses	539,866	355,759
Bank for International Settlements	13,117	35,533
Seminars	32,760	34,113
Auditors	5,785	4,600
Other	2,483	-
	<u>594,011</u>	<u>430,005</u>

Annual conference 2005: The expenses were EUR 354,279 of which CHF 10,857 had already been paid. The remaining amount due was CHF 539,866 based on the EUR spot rate as at 31 December 2005.

12. DEFERRED REVENUE

As at 31 December 2005 some Members and Observers had paid fees for 2006. These amounts will be reflected in the Statement of Activities for 2006.

	31.12.2005 CHF	31.12.2004 CHF
Membership fees	307,250	154,750
Observership fees	240,500	190,433
	<u>547,750</u>	<u>345,183</u>

13. ADMINISTRATION

Administration costs include:

	31.12.2005 CHF	31.12.2004 CHF
Telephone & Fax	8,725	6,740
Copies & Postage	1,512	1,139
Printing & Documentation	2,376	-
Bank Charges	4,926	2,145
	<u>17,539</u>	<u>10,024</u>

14. INTEREST INCOME

	31.12.2005 CHF
Bank accounts	3,006
Money market deposits	10,359
Treasury notes	24,496
	<u>37,861</u>

15. RECONCILIATION TO 2004 STATEMENT OF FINANCIAL POSITION

To provide better disclosure, the items "Prepayments" and "Accounts payable, net" in the 2004 financial statements have been restated as follows:

Assets / (Liabilities)	Restated 31.12.2004 CHF	Reallocated	Converted* to CHF	Original 31.12.2004 USD
Accounts payable	(430,005)	(17,276)	(412,729)	(362,966)
Prepayments (liabilities)	-	356,230	(356,230)	(313,279)
Prepayments (assets - note 10)	6,229	6,229		
Deferred revenue (note 12)	(345,183)	(345,183)		

* rate : 1.1371CHF = 1 USD

The original 2004 prepayments (liabilities) of CHF (356,230) have been split into the three following items in the restatement of 2004 financial statements:

- accounts payable (liabilities): CHF (17,276)
- deferred revenues (liabilities): CHF (345,183)
- prepayments (assets): CHF 6,229.

The total 2004 amount of accounts payable (liabilities) has accordingly been restated as CHF (430,005), which comprises CHF (412,729) (original 2004 amount) and CHF (17,276) (reallocation of original 2004 prepayments).

Report from the Secretariat



*Yoshihiro Kawai
Secretary General*

The Secretariat aims both to provide high-quality service to IAIS members and observers, and to help improve the IAIS's operations. This report summarises the Secretariat's activities over last year. It also highlights the current challenges.

The Secretariat supports members and observers in three main areas: standard setting, standard implementation, and communication.

We provided support to the standard-setting activities of the Technical Committee and all of its working parties over the year. This has involved over 35 meetings – many of which have taken place over two or three days – and the results of this work include the papers listed on pages 5 and 6.

The Secretariat also helped with the implementation of IAIS standards. A key example is support provided to the Core Curriculum Project, in collaboration with the World Bank (see box on page 11). In addition, we organised or assisted with the 13 regional seminars and workshops listed in Appendix V, and attended or spoke at others, helping to increase insurance supervisors' knowledge of the IAIS and of its principles and standards.

In total we assisted with over 60 meetings of IAIS working parties covering the standard-setting, implementation and financial aspects of the IAIS's operations during the year.

We have also made efforts to improve communication with members and observers with the introduction last autumn of an e-mail alert system. This enables registered members and observers to receive automatic notification when documents are uploaded onto the IAIS website. We continue to provide regular reports on meetings and calendar updates, and issue newsletters and an annual report.

Over the past year the Secretariat represented the IAIS and helped to enhance the level of cooperation with various organisations including the Financial Stability Forum, the

Coordination Group (a group formed of the Chairs and Secretary Generals of the IAIS, the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions), the Joint Forum, the IMF, the World Bank, the OECD, the FSI and the International Federation of Accountants (IFAC) Monitoring Group. At these meetings the Secretariat plays a role in identifying key issues, coordinating members' views, presenting them and reporting the results of the main discussions back to the members.

The Secretariat's efforts to improve IAIS operations during the year focussed on budget control and generating resources.

Like any other organisation the IAIS needs to be cost-effective. The Secretariat has assisted the Budget Committee in improving budget-related policies and procedures, including a reserve policy, an investment policy, and a secondment policy. The implementation of these new policies has helped us to strengthen the financial management of the IAIS and to enhance efficiency. The Secretariat has also been assisting the Financial Outlook Task Force in its forecasting of financial resource requirements over the next five years, with an aim that the IAIS becomes self-sufficient in funding its core activities.

In addition, in cooperation with members, the Secretariat succeeded in recruiting 5 new members and 12 new observers in 2006.

We are very grateful for the special support the IAIS has received from partner organisations and members (see box on page 14) and I should like to join our Chairman in thanking these organisations for their substantial contributions to the IAIS. This support has helped the IAIS to keep within its expense budget as well as to maintain members' and observers' fees at levels much lower than those of similar organisations.

Over the years the IAIS has been attracting increasing attention. To illustrate the organisation's growing success, the number of participants at IAIS triannual meetings only a few years ago was around 60; this has now increased to almost 250. The number of comments on draft papers, enquiries and requests has also increased significantly in the last few years. This attests to the Association's increasing profile and important role within the insurance community. The IAIS must remain a

catalyst for better insurance supervision, by providing high quality supervisory standards. The organisation should also continue to promote closer cooperation and communication between supervisors, and to help supervisors in the implementation of standards.

At the Secretariat we remain committed, as ever, to providing a high-quality and efficient service and to contributing towards a more

sustainable running of the Association to meet the challenges ahead.



Yoshi Kawai

IAIS Secretariat – October 2005 to September 2006

Financed by

Secretary General

Yoshihiro Kawai IAIS

Deputy Secretary General

Catherine Lezon IAIS

Members of the Secretariat

Luc Cardinal	IAIS	
Arup Chatterjee	FSA, Japan; IRDA, India	
Peter Cooke	BIS	(BIS funded until year end 2006)
Karen Doran	IAIS	(From August 2006)
Zhenzhen Jiang	CIRC, China	(From April 2006)
Shinichi Kishi	FSA, Japan	(From June 2006)
Lone Mørup	IAIS	(From May 2006)
In Seok Seong	FSS, Republic of Korea	
Makoto Okubo	FSA, Japan	(Until June 2006)
Lonny McPherson	IAIS	(Until August 2006)

Administrative Officers

Choon Choon Blanchard	IAIS	
Sylvie Ellet	FSA Japan	(From April 2006)
Anne-Marie Kelly	IAIS	
Carine Notter	BIS	
Masako Anan	FSA, Japan; World Bank	(Until June 2006)

Intern

Alberto Dreassi	DNB, Netherlands	(From June 2006)
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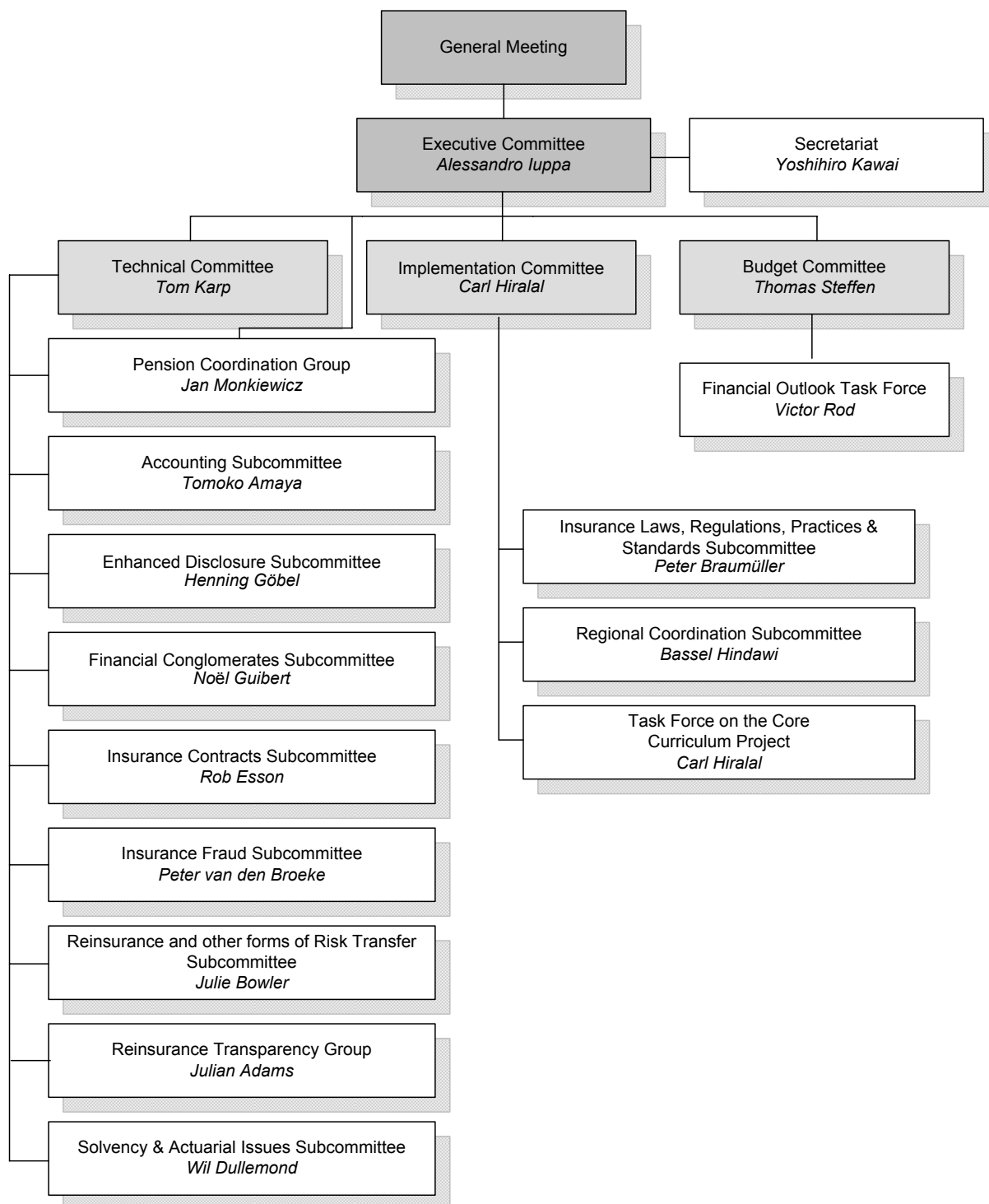
Valérie Staehli employed with the Federal Office of Private Insurance, Switzerland provides part-time assistance on the IAIS Insurance Laws and Reinsurance Databases.

Executive Committee

(Serving since 2005 Annual General Meeting)

Alessandro Iuppa <i>Chairman</i>	National Association of Insurance Commissioners; State of Maine	United States
Michel Flamée <i>Vice-Chairman</i>	Commission bancaire, financière et des assurances	Belgium
Tom Karp	Australian Prudential Regulation Authority	Australia
Peter Braumüller	Financial Market Authority	Austria
Carl Hiralal	Office of the Superintendent of Financial Institutions	Canada
Thomas Steffen	Bundesanstalt für Finanzdienstleistungsaufsicht	Germany
Peter Neville	Guernsey Financial Services Commission	Guernsey
C.S. Rao	Insurance Regulatory and Development Authority	India
Nobuyoshi Chihara	Financial Services Agency	Japan
Bassel Hindawi	Insurance Commission	Jordan
Manuel Aguilera-Verduzco	Comisión Nacional de Seguros y Fianzas	México
Jan Monkiewicz	Insurance and Pension Funds Supervisory Commission	Poland
Low Kwok Mun	Monetary Authority of Singapore	Singapore
Mashudu Munyai	Financial Services Board	South Africa
Ricardo Lozano Aragües	Dirección General de Seguros y Fondos de Pensiones	Spain
Ana Acosta y Lara	Superintendencia de Seguros y Reaseguros	Uruguay

IAIS Organisational structure



Subgroups of subcommittees and working parties of the Technical Committee are not shown.

* The selection of new Chairs of the Solvency & Actuarial Issues Subcommittee and the Pension Coordination Group was in progress at the date of this report.

IAIS Members in 2006

International Organisations	European Commission International Monetary Fund Organization for Economic Co-operation & Development World Bank
Africa	Conférence Interafricaine des Marchés d'Assurances
Albania	Albanian Insurance Supervisory Commission
Argentina	Superintendencia de Seguros de la Nacion Argentina
Aruba	Centrale Bank van Aruba
Australia	Australian Prudential Regulation Authority Motor Accidents Authority of NSW Private Health Insurance Administration Council
Austria	Financial Market Authority
Bahamas	Office of the Registrar of Insurance Companies, Ministry of Economic Development
Bahrain	Bahrain Monetary Agency
Barbados	Ministry of Finance and Economic Affairs
Belgium	Commission bancaire, financière et des assurances
Belize	Office of the Supervisor of Insurance
Bermuda	Bermuda Monetary Authority
Bhutan	Royal Monetary Authority of Bhutan
Bolivia	Superintendencia de Pensiones, Valores y Seguros
Botswana	Ministry of Finance & Development Planning
Brazil	Superintendencia de Seguros Privados
British Virgin Islands	Financial Services Commission
Bulgaria	Financial Supervision Commission
Canada	Office of the Superintendent of Financial Institutions Autorité des marchés financiers, Québec
Cayman Islands, BWI	Cayman Islands Monetary Authority
Chile	Superintendencia de Valores y Seguros
China	China Insurance Regulatory Commission
Chinese Taipei	Financial Supervisory Commission
Cyprus	Insurance Companies Control Service
Czech Republic	Czech National Bank, Insurance Companies Regulation and Supervision Department
Denmark	Finanstilsynet (Danish Financial Supervisory Authority)
Dominican Republic	Superintendencia de Seguros de la República Dominicana

Ecuador	Superintendencia de Bancos
Egypt	Egyptian Insurance Supervisory Authority
El Salvador	Superintendencia del Sistema Financiero
Estonia	Estonian Financial Supervision Authority
Fiji	Reserve Bank of Fiji
Finland	Insurance Supervisory Authority Ministry of Social Affairs & Health
France	Autorité de Contrôle des Assurances et Mutuelles Ministère de l'Economie, des Finances et de l'Industrie
Georgia	Insurance State Supervision Service of Georgia
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht Bundesministerium der Finanzen
Ghana	National Insurance Commission Ghana
Gibraltar	Financial Services Commission
Greece	Ministry of Development, Direction of Insurance Undertakings and Actuary
Guatemala	Superintendencia de Bancos
Guernsey	Guernsey Financial Services Commission
Guinea	Direction des Assurances
Honduras	Comisión Nacional de Bancos y Seguros
Hong Kong	Office of the Commissioner of Insurance
Hungary	Hungarian Financial Supervisory Authority
Iceland	The Financial Supervisory Authority
India	Insurance Regulatory and Development Authority
Ireland	Central Bank & Financial Services Authority of Ireland
Isle of Man	Isle of Man Government, Insurance and Pensions Authority
Israel	Ministry of Finance
Italy	Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo
Jamaica	Financial Services Commission
Japan	Financial Services Agency
Jersey	Jersey Financial Services Commission
Jordan	Insurance Commission
Kazakhstan	Financial Supervision Agency of Kazakhstan
Kosovo	Banking and Payments Authority of Kosovo
Kuwait	Ministry of Commerce & Industry
Labuan, Malaysia	Labuan Offshore Financial Services Authority
Latvia	The Financial and Capital Market Commission
Lebanon	Insurance Control Commission
Lesotho	Central Bank of Lesotho
Liechtenstein	FMA Financial Market Authority
Lithuania	Insurance Supervisory Commission of the Republic of Lithuania

Luxembourg	Commissariat aux Assurances
Macau	Autoridade Monetária de Macau
Macedonia	Ministry of Finance
Malaysia	Bank Negara Malaysia
Malta	Malta Financial Services Authority
Mauritius	Financial Services Commission
México	Comisión Nacional de Seguros y Fianzas
Mongolia	Ministry of Finance and Economy
Morocco	Direction des Assurances et de la Prevoyance Sociale
Namibia	Namibia Financial Institutions Supervisory Authority
Nepal	Beema Samiti (Insurance Board)
Netherlands	De Nederlandsche Bank Ministerie van Financiën
Netherlands Antilles	Bank van de Nederlandse Antillen
Nevis	Nevis Financial Services Department
New Zealand	Ministry of Economic Development
Norway	Kredittilsynet
Pakistan	Securities and Exchange Commission of Pakistan (Insurance Division)
Panama	Superintendencia de Panama
Papua New Guinea	Department of Finance & Treasury
Peru	Superintendencia de Banca, Seguros y Administradoras Privatas de Fondos de Pensiones del Peru
Philippines	Insurance Commission
Poland	Insurance and Pension Funds Supervisory Commission
Portugal	Instituto de Seguros de Portugal
Republic of Croatia	Croatian Agency for Supervision of Financial Services
Republic of Korea	Financial Supervisory Service & Financial Supervisory Commission
Romania	Insurance Supervisory Commission
Russia	Federal Authority for Insurance Supervision
Samoa	International Companies Office
Saudi Arabia	Saudi Arabian Monetary Agency
Serbia	National Bank of Serbia, Insurance Supervision Department
Singapore	Monetary Authority of Singapore
Slovakia	National Bank of Slovakia
Slovenia	Insurance Supervisory Authority
South Africa	Financial Services Board
Spain	Dirección General de Seguros y Fondos de Pensiones
Sri Lanka	Insurance Board of Sri Lanka
Sudan	Insurance Supervisory Authority

Sultanate of Oman	Capital Market Authority
Suriname	Centrale Bank van Suriname
Sweden	Finansinspektionen
Switzerland	Bundesamt für Privatversicherungen
Syria	Syrian Insurance Supervisory Commission
Tanzania	Ministry of Finance
Thailand	Department of Insurance
Trinidad & Tobago	Central Bank of Trinidad & Tobago
Tunisia	Ministère des Finances, Comité Général des Assurances
Turkey	Prime Ministry, Undersecretariat of Treasury
Turks & Caicos BWI	Financial Services Commission
Uganda	Uganda Insurance Commission
United Arab Emirates	Dubai Financial Services Authority
United Kingdom	Financial Services Authority
Uruguay	Superintendencia de Seguros y Reaseguros
United States	National Association of Insurance Commissioners
Vanuatu	Vanuatu Financial Services Commission

Candidates for membership since the 2005 General Meeting (applications received by end of August 2006):

Iraq	Iraqi Insurance Diwan
Kenya	Ministry of Finance, Department of Insurance
Nigeria	National Insurance Commission
Qatar	Qatar Financial Centre Regulatory Authority
Zambia	Pensions and Insurance Authority

IAIS Observers in 2006

International Institutions	Asian Development Bank
	Association Internationale des Sociétés d'Assurance Mutuelle
	Comité Européen des Assurances
	Federación Interamericana de Empresas de Seguros
	International Actuarial Association
	International Cooperative and Mutual Insurance Federation
	International Insurance Foundation
	The Geneva Association
	World Federation of Insurance Intermediaries
Australia	Insurance Council of Australia Limited
Bermuda	Association of Bermuda Insurers and Reinsurers
	Scottish Re Group Limited
Brazil	Federação Nacional das Empresas de Seguros Privados e de Capitalização
Canada	Assuris
	Canadian Life & Health Insurance Association Inc.
	Insurance Bureau of Canada
	Lawrie Savage & Associates Inc.
	Manulife Financial
	Property and Casualty Insurance Compensation Corporation
	RGA International Corporation
	Sun Life Financial
	The Toronto International Leadership Centre for Financial Sector Supervision
Chinese Taipei	Taiwan Insurance Institute
	The Life Insurance Association of the Republic of China
	The Non-Life Insurance Association of the Republic of China
Finland	Federation of Finnish Insurance Companies
France	Deloitte Touche Tohmatsu
	Fédération Française des Sociétés d'Assurance
	SCOR
Germany	Allianz AG
	Gesamtverband der Deutschen Versicherungswirtschaft
	KPMG Deutsche Treuhand-Gesellschaft AG
	Munich Re Group
India	ICICI Lombard General Insurance Company Limited
Ireland	Dublin International Insurance & Management Association
Israel	Association of Life Insurance Companies Ltd
Italy	Associazione Nazionale fra le Imprese Assicuratrici

Japan	<p>Aioi Insurance Co Ltd.</p> <p>Meiji Yasuda Life Insurance Company</p> <p>Mitsui Sumitomo Insurance Co, Ltd</p> <p>Nippon Life Insurance Company</p> <p>NIPPONKOA Insurance Company Ltd</p> <p>Sompo Japan Insurance Inc</p> <p>Sumitomo Life Insurance Company</p> <p>The Dai-ichi Mutual Life Insurance Company</p> <p>The General Insurance Association of Japan</p> <p>The Life Insurance Association of Japan</p> <p>The Toa Reinsurance Company Ltd</p> <p>The Tokio Marine and Nichido Fire Insurance Co. Ltd</p>
Netherlands	<p>ING Group</p> <p>Network for Studies on Pensions, Aging & Retirement</p> <p>Verbond van Verzekeraars</p>
Poland	<p>Polish Chamber of Insurance</p>
Portugal	<p>Associação Portuguesa de Seguradores</p>
Republic of Korea	<p>Hyundai Marine & Fire Insurance Co Ltd.</p> <p>Korean Reinsurance Company</p> <p>Kyobo Life Insurance Co Limited</p> <p>LIG Insurance Co., Ltd.</p> <p>Oriental Fire & Marine Insurance Co Ltd</p> <p>Samsung Fire and Marine Insurance Company, Limited.</p> <p>Samsung Life Insurance Co Ltd</p>
Russia	<p>Russian Association of Motor Insurers</p>
Singapore	<p>General Insurance Association of Singapore</p> <p>Life Insurance Association</p>
Spain	<p>Unión Española de Entidades Aseguradoras y Reaseguradoras</p>
Switzerland	<p>Schweizerischer Versicherungsverband</p> <p>Swiss Re</p> <p>Towers Perrin Tillinghast</p> <p>XL Insurance</p> <p>Zurich Financial Services</p>
Turkey	<p>Association of the Insurance and Reinsurance Companies of Turkey</p>
Ukraine	<p>Lemma Insurance Company</p>
United Kingdom	<p>Association of British Insurers</p> <p>Barlow Lyde & Gilbert</p> <p>Clifford Chance</p> <p>Ernst & Young LLP</p> <p>Government Actuary's Department</p>

	International Underwriting Association of London
	LeBoeuf, Lamb, Greene & MacRae
	Lloyd's
	Mercer Oliver Wyman
	PricewaterhouseCoopers
	Royal & Sun Alliance Insurance Group plc
United States	A.M. Best Company
	ACE INA Holdings Inc
	ACORD
	American Council of Life Insurers
	American Insurance Association
	American International Group Inc
	Group of North American Insurance Enterprises, Inc
	Insurance Services Office Inc
	New York Life International
	Office of Thrift Supervision
	Property Casualty Insurers Association of America
	Reinsurance Association of America
	The Chubb Corporation
	The PMI Group, Inc

Candidates for observership since the 2005 General Meeting (applications received by end of August 2006):

Bermuda	Axis Capital Holdings Limited
	PartnerRe Limited
Brazil	Bradesco Seguros S/A
France	AXA Group
India	General Insurance Corporation of India
Japan	ZENROSAI (National Federation of Workers and Consumers Cooperatives)
Republic of Korea	Korea Deposit Insurance Corporation
	Korea Insurance Development Institute
	Korea Non-Life Insurance Association
Russia	All Russia Insurance Association Moscow
United States	General Reinsurance Corporation
	Navigant Consulting, Inc

Training seminars during 2005-06

The IAIS assisted or sponsored and organised the following training seminars for insurance supervisors during the year October 2005 to September 2006:

	Location	Organiser(s)	Audience
November	Buenos Aires, Argentina	National Insurance Superintendence – Argentina, ASSAL, IAIS, FIDES	Latin American insurance supervisors
	Hyderabad, India	Insurance Regulatory and Development Authority – India, IAIS, Institute of Insurance and Risk Management	Asian insurance supervisors
	Johannesburg, South Africa	Financial Services Board – South Africa, IAIS, FSI	African insurance supervisors
	Warsaw, Poland	Insurance and Pension Funds Supervisory Commission in Poland, IAIS, Toronto Centre	Central and Eastern European insurance supervisors
March	Manama, Bahrain	Bahrain Monetary Agency, IAIS, FSI, Bahrain Institute of Banking and Finance (BIBF)	Middle East and North African insurance supervisors
April	Ho Chi Minh City, Vietnam	Ministry of Finance – Vietnam, ASEAN Insurance Training & Research Institute, IAIS	Asian insurance supervisors
	Lisbon, Portugal	Portuguese Insurance Institute, ASSAL, IAIS, OECD	Latin American insurance supervisors
May	St Lucia	St Lucia Ministry of Finance, Offshore Group of Insurance Supervisors, IAIS	Offshore and other insurance supervisors
	Rio de Janeiro, Brazil	Brazilian Insurance Supervisors (SUSEP), Brazil Insurance Federation (FENASEG) – in conjunction with the IAIS	Insurance supervisors and senior industry participants
June	Ottawa, Canada	Office of the Superintendent of Financial Institutions (OSFI) – Canada, IAIS	Insurance supervisors
July	Vienna, Austria	FSI, Joint Vienna Institute	Insurance supervisors from Central and Eastern Europe, Central Asia and Transcaucasia
August	Beatenberg, Switzerland	FSI	Insurance supervisors
September	Almaty, Kazakhstan	Financial Supervision Agency of Kazakhstan, IAIS, FSI	Insurance supervisors from Central and Eastern Europe, Central Asia and Transcaucasia