



International Association  
of Insurance Supervisors

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# ANNUAL REPORT

## 2011-2012

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Activities from October 2011 to September 2012  
including 2011 Financial Statements



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# CONTENTS

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1.	Foreword	02
2.	Report from the Chair of the Executive Committee	04
3.	Report from the IAIS Secretary General	06
4.	Report from the Chair of the Technical Committee	08
5.	Reports from the Technical Committee Subcommittees	10
6.	Standard Setting Achievements during 2011 – 12	14
7.	Report from the Chair of the Implementation Committee	16
8.	Reports from the Implementation Committee Subcommittees	18
9.	Report from the Chair of the Financial Stability Committee	22
10.	Report from the Financial Stability Committee Subcommittee	24
11.	Report from the Chair of the Supervisory Forum	25
12.	Report from the Chair of Budget Committee	26
13.	Auditor's Report	28
14.	Financial Statements	29

## Appendices

- I Executive Committee Members
- II 2011-2012 Regional Training Seminars
- III Organisational Structure
- IV Staff of the IAIS Secretariat

# 1. FOREWORD

The International Association of Insurance Supervisors (IAIS) is a voluntary membership-driven organization of insurance supervisors and regulators from over 190 jurisdictions in more than 140 countries. In addition to its Members, approximately 135 Observers representing international institutions, professional associations and insurance and reinsurance companies, as well as consultants and other professionals participate in IAIS activities. A full list of IAIS Members and Observers can be found on the IAIS website ([www.iaisweb.org](http://www.iaisweb.org)).

## THE IAIS MISSION

The mission of the IAIS is to promote effective and globally consistent regulation and supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

Established in 1994, the IAIS is the international standard setting body responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector. The IAIS also provides a forum for Members and Observers to share their experiences and understanding of insurance supervision and insurance markets. In recognition of its collective expertise, the IAIS is routinely called upon by the G20 leaders and other international standard setting bodies.

The IAIS is a non-profit organisation formed under Article 60 of the Swiss Civil Code, domiciled in Basel, Switzerland. Its By-Laws can be found at <http://www.iaisweb.org/By-laws-45>. The activities of the IAIS are supported by its Secretariat located in Basel and headed by a Secretary General. The IAIS is hosted by the Bank for International Settlements (BIS).

## THE IAIS COMMITTEE SYSTEM

Under the direction of its Members, the IAIS conducts activities through a Committee system designed to achieve its mandate and objectives.

The IAIS Committee system is led by an Executive Committee whose members come from different regions of the world (see Appendix I). It is supported by four Committees established by the By-Laws – the Audit, Budget, Implementation, and Technical Committees – as well as by the Financial Stability Committee and the Supervisory Forum (see Fig. 1). Committees may establish

subcommittees or working parties to help carry out their duties.

## THE THREE PILLARS OF IAIS ACTIVITIES

Activities undertaken in furtherance of its mission can be divided into three categories:

1. *Standard setting.* The IAIS develops supervisory material (principles, standards and guidance) for effective insurance supervision. The IAIS also prepares supporting papers (such as issues papers) that provide background on specific areas of interest to insurance supervisors.
2. *Implementation.* The IAIS actively promotes the implementation of its supervisory material. Working closely with international organisations, regional groups and supervisors, it supports training seminars and conferences and addresses financial inclusion. In addition, the IAIS conducts assessments and peer reviews of observance of supervisory material, consistent with the Financial Sector Assessment Program (FSAP) conducted by the International Monetary Fund (IMF) and the World Bank.
3. *Financial stability.* The IAIS plays a central role in financial stability issues, including developing a methodology for the identification of any global systemically important insurers (G-SIIs). It assists its Members in developing enhanced macroprudential surveillance tools.

## GLOBAL COORDINATION

The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators, and assists in shaping financial systems globally. In particular, the IAIS is a:

- member of the Financial Stability Board (FSB)
- founding member and co-parent of the Joint Forum, along with the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO)
- member of the Standards Advisory Council of the International Accounting Standards Board (IASB)
- partner in the Access to Insurance Initiative (A2ii).

The IAIS also participates as an observer or partner with numerous other organisations, including the Arab Forum of Insurance Regulatory Commissions (AFIRC), Asian Forum of Insurance Regulators (AFIR), Association of Latin American Insurance Supervisors (ASSAL), Consultative Group to Assist the

Poor (CGAP), European Insurance and Occupational Pensions Authority (EIOPA), Financial Action Task Force (FATF), International Actuarial Association (IAA), IMF, International Organisation of Pension Supervisors (IOPS), Islamic Financial Services Board (IFSB), National Association of Insurance Commissioners (NAIC), Offshore Group of Insurance Supervisors (OGIS), Organisation for Economic Cooperation and Development (OECD), Insurance and Private Pensions Committee (IPPC), and World Bank.

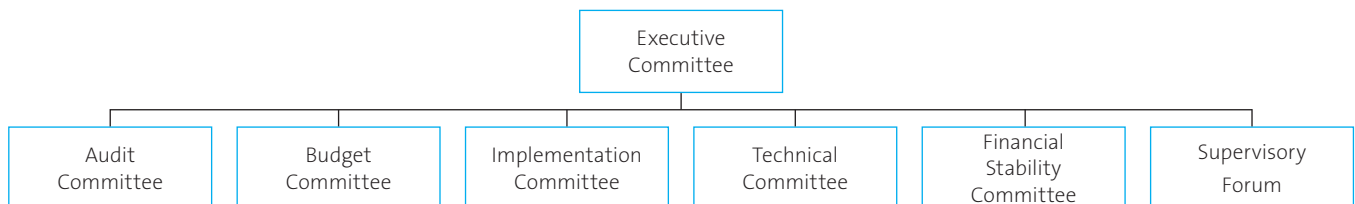
### GLOBAL INVOLVEMENT

The IAIS holds Committee meetings four times a year, as well as Working Party meetings as needed, throughout the world. At its June meetings, the IAIS hosts a Global Seminar affording

insurance supervisors and industry representatives a unique opportunity to discuss current and globally significant matters impacting the insurance sector, as well as to learn about new international standards.

To further encourage multilateral discussions on topical issues for insurance supervisors and other insurance professionals, the IAIS holds an Annual Conference. In conjunction with this conference, it convenes an Annual General Meeting of Members where it conducts official business. A successful Annual Conference was held in Seoul in October 2011. The 2012 conference will be held in Washington, D.C. in October.

Fig. 1: The IAIS Committee System



*“The IAIS has been playing a key role in the improvement of insurance regulation and supervision around the globe. Going forward, the development of a global standard for internationally active insurers is a huge challenge. This standard should create a level-playing field for international players, foster a common language between supervisors and improve international cooperation and information exchange. I believe that, through this and other activities, the IAIS will further contribute to increased financial stability and enhanced consumer protection worldwide.”*

Gabriel Bernardino, EIOPA Chairman and member of the IAIS Executive Committee

## 2. REPORT FROM THE CHAIR OF THE EXECUTIVE COMMITTEE

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**Peter Braumüller**  
Chair, Executive Committee

*P. Braumüller*

Last year, the Association took important steps in the development of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and made significant progress in the development of a methodology for identifying G-SIIs. It developed and launched initial self-assessments and peer reviews of Members' observance of IAIS supervisory material. In addition, it gave higher prominence to the important issue of financial inclusion.

Persisting turbulence in the financial sector and continuing global focus on financial stability placed an ongoing claim on the Association's agenda. FSB work has required our intensive involvement, crucial to ensuring that the international community properly understands the important role insurance plays in global financial stability.

This year, the Association developed an assessment methodology for identifying insurers whose distress or disorderly failure, because of their size, complexity and interconnectedness, might cause significant disruption to the global financial system and economic activity. These insurers would be regarded as systemically important on a global basis. Section 9 of this report contains more information about the work done by the Financial Stability Committee (FSC) in this area, as well as about its work on developing policy measures for G-SIIs.

Also this year, the Association began publishing bi-weekly Market Development Reports monitoring the macroeconomic and financial market environment impacting the insurance sector. These reports complement the periodic surveys of key insurance risks and trends, and the monitoring of broad developments in the global insurance market.

The Association has also vigorously continued its ComFrame efforts - the integrated, multilateral and multidisciplinary framework for the

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group-wide supervision of internationally active insurance groups (IAIGs). Considerable progress was made in this high priority area. The Association is well on its way to developing a comprehensive range of qualitative and quantitative requirements for IAIGs, as well as specifying the supervisory process and prerequisites for supervisors to implement ComFrame. The development phase of ComFrame will be completed by the end of 2013, and will be followed by one or more impact assessments of both qualitative and quantitative IAIG requirements.

In June, Desmond Smith, President of the IAA, joined the Executive Committee meeting for a signing of a memorandum of understanding (MoU) formalising the long-standing mutual cooperation between the IAA and IAIS in areas such as solvency, financial stability, stress testing, and risk management. The MoU will ensure continued and enhanced cooperation and collaboration between our organisations.

Another achievement this year, which you will read about in the sections on standard setting activities, was the revision of Insurance Core Principle (ICP) 9. In addition, our FSB involvement has prompted significant work in the area of self-assessment surveys of Members' observance with IAIS supervisory material related to stability concerns. A self-assessment on cooperation and information exchange standards was completed and will serve as the basis for future surveys. Currently under review are compliance with ICP 1 (Objectives, powers and responsibilities of the supervisor), ICP 2 (Supervisor) and ICP 23 (Group-wide supervision). To add value to self-assessments, they have been coupled with peer reviews of all survey responses.

This year also marks the establishment of the Financial Inclusion Subcommittee (FISc) further enhancing the IAIS' engagement in financial inclusion issues, especially microinsurance. It was felt that this new Subcommittee could carry forward existing efforts to

coordinate financial inclusion work between subcommittees and create synergy within the Association. IAIS engagement also reflects the addition of financial inclusion in Mexico's priorities under its current G20 leadership.

One of FISc's first activities was to finalise the *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets*, providing examples of how relevant principles and standards can be practically applied.

To improve its governance and efficiency, the Association established an Audit Committee which plays a key role in the oversight of the internal control system of the Association, including monitoring the efficiency and effectiveness of its operations and compliance with applicable laws, regulations and internal rules. As an additional measure for improved internal governance, a Performance and Compensation Committee has been established, reporting to the Executive Committee and charged with the performance evaluation of the Secretary General and the Secretariat at large, and with oversight of the Secretariat compensation policy.

The past year was one of great productivity and progress. As always, the IAIS benefitted from the support of its Members, who contributed in many different ways, from commenting on consultations to participating in, and chairing, Committees and Working Parties. I would like to thank the membership for the strong commitment they have shown. In addition, I would like to thank Observers for their support and for sharing their views on issues in our meetings and dialogues.

The Executive Committee is chaired by Peter Braumüller (Austria). The Vice Chair until July 2012 was Yasuhiro Hayasaki (Japan, FSA).

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*"2012 witnessed many uncertainties within international economic and financial sectors. With guidance from its Executive Committee, the IAIS contributed to global financial stability and vigorously participated in international financial reforms. As a member of the IAIS family, the CIRC will be continuously involved in IAIS activities in fulfilling China's commitments to the development of international insurance supervision."*

Mr. Xiang Junbo, Chair of the China Insurance Regulatory Commission and member of the IAIS Executive Committee

# 3. REPORT FROM THE IAIS SECRETARY GENERAL



**Yoshihiro Kawai**  
IAIS Secretary General

A handwritten signature in black ink, appearing to read 'Y. Kawai', written in a cursive style.

2011 marked the first year of the IAIS' five-year strategic plan. The organisational structure established in 2011 is fully operational and functioning well. The Association has become better and more agile in carrying out important projects simultaneously. In this report, you will read about our achievements over the past year, including:

- release for consultation of the 2012 Draft ComFrame, covering all modules in a concrete and detailed manner
- revision of ICP 9 (Supervisory review and reporting)
- completion of the assessment and pilot peer review of cooperation and exchange of information
- preparation of three ICP assessment reviews - ICP 1 (Objectives, powers and responsibilities of the supervisor), ICP 2 (Supervisor), and ICP 3 (Group-wide supervision)
- addition of signatories to the Multilateral Memorandum of Understanding (MMoU), bringing the total to 30 with many more in process of being evaluated for entry
- development of the *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets*
- drafting of an assessment methodology for the identification of G-SIIs and initial development of policy measures for G-SIIs
- enhancement of macroprudential analysis of insurance markets, including issuance of Global Insurance Reports, Key Risk and Trends, and Market Development Reports.

The IAIS has remained active in external groups, taking regular part in many organisations such as the FSB (14 working parties) and the Joint Forum (5 workstreams).



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## CHALLENGES IN COMING YEARS

In spite of these achievements, the IAIS still faces challenges and it is important that we regularly review whether the work of the IAIS meets the needs of our Members. Here are three basic questions we must ask:

1. Do IAIS standards satisfy our Members' needs? Does the IAIS provide all the international insurance supervisory and regulatory standards that our Members want? Why do Members refer to other insurance supervisory and regulatory standards in addition to, or in place of, IAIS standards?
2. Does the IAIS provide sufficient assistance to Members enabling them to effectively exchange information with other supervisors? Why do Members often fail to exchange critical information, for example at a time of crisis? Why are host supervisors often not obtaining needed information from home supervisors?
3. Do Members have the tools and measures needed to conduct macroprudential supervision? Does the IAIS provide sufficient guidance?

We recognize that, while the ICPs provide a good foundation for insurance supervision and regulation, our Members need more concrete benchmarks and guidelines specifically to cope with globalised and interconnected insurance markets. Timely completion of ComFrame is the first step in filling this gap. Another is the delivery of tools and a methodology for macroprudential surveillance to help Members introduce or enhance macroprudential surveillance in their jurisdictions.

In addition, Members need more effective coordination mechanisms for their interactions with supervisors in different jurisdictions and different sectors. Supervisory colleges provide a platform to exchange information between home and host supervisors, however, there is room for improvement, especially in determining how best to exchange confidential information.

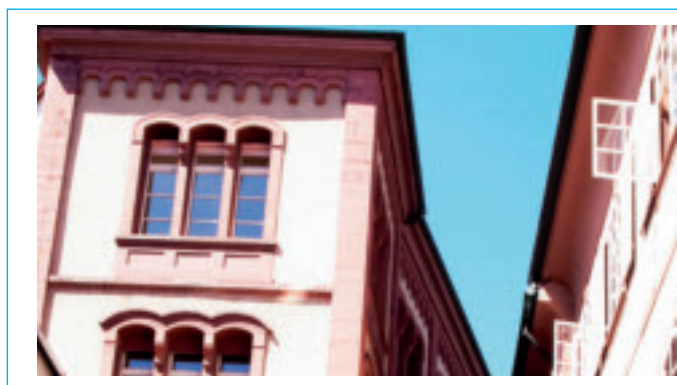
To achieve these tasks the IAIS needs to constantly enhance its efficiency. For example, the Secretariat must be more proactive in its support role to Chairs and Members. The Association needs to fully implement mechanisms allowing for timely decisions. As well, it needs to improve its public communication.

I would like to thank all Members and Observers for your active participation and continuous support. The Secretariat team remains committed to providing you with high quality service and advice, and working with you to meet the challenges ahead.

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*"We are grateful to Yoshi and the IAIS team of professionals for their insight and support. As the U.S. Treasury increases our engagement with the important work of the IAIS, we know that the reliable and informed staff will provide valuable information and assistance."*

Michael T. McRaith, Director, Federal Insurance Office, U.S. Department of the Treasury and member of the IAIS Executive Committee



## 4. REPORT FROM THE CHAIR OF THE TECHNICAL COMMITTEE



Monica Mächler  
Chair, Technical Committee

*M. Mächler*

The Technical Committee steers and oversees the IAIS' standard setting work consistent with strategic guidance from the Executive Committee. The goal of the IAIS standard setting work is to promote effective and transparent supervision of insurance markets through global, sustainable and coherent supervisory principles, standards and guidance, while minimising opportunities for regulatory arbitrage.

Within this context, the Strategic Plan and Financial Outlook 2011–15 sets out the Technical Committee's three main priorities:

- Update the comprehensive set of high-level principles-based supervisory material (principles, standards, guidance)
- Provide adequate IAIS standard setting response to developments in industry structures, financial markets, business practices and policyholder needs
- Establish a common framework (ComFrame) for the supervision of IAIGs.

The Technical Committee also ensures that the IAIS takes advantage of synergies with other international bodies. To facilitate the achievement of its goals and leverage on existing information sources, working parties and the Secretariat are urged to cooperate with partners in advancing IAIS work. Partners include the IMF, World Bank, OECD, Joint Forum, BCBS, IOSCO, IOPS, FATF and IAA.

In 2011, the IAIS reached a major milestone with the revision of the ICPs. All principles, standards and guidance material has been put into one comprehensive package and is accessible through an on-line tool providing the reader with a flexible and easy way to access, search and print the material; it also links to the glossary definitions of terms.

The IAIS principles, standards and guidance material will be completed and updated as relevant. The first revision has already started, with the review of ICP 9 (Supervisory review and reporting). Technical Committee Working Parties have reviewed ICP 9 from their areas of expertise and, as a result, it is now more comprehensive and better structured. It will be put forward for adoption in October 2012.

In 2012, the development of ComFrame attracted the most attention and resources of the Technical Committee, its Working Parties and the Secretariat under the coordination of the ComFrame Oversight Group. The main benefits the IAIS seeks to achieve through ComFrame are:

1. *Customising supervisory requirements and processes.* IAIGs are the largest, most complex insurance entities and, as such, require customised supervisory requirements and supervisory processes.
2. *Fostering convergence.* ComFrame is designed to create more commonality and comparability among supervisory approaches without being rules-based, with the aim of achieving as much consistency as possible.
3. *Reducing complexity.* ComFrame will coordinate supervisory activities and information about IAIGs at the group-wide level and between group-wide and host supervisors, thereby reducing duplication of supervisory efforts and demands on IAIGs.
4. *Enhancing coordination and cooperation.* Supervision is more effective when supervisors work together to understand how IAIGs operate and how they can most efficiently be supervised. ComFrame will result in streamlined supervisory processes and a reduced number of multiple uncoordinated regulatory processes for IAIGs.

In the past year, progress has been made on developing criteria for identifying IAIGs, specifically (re)insurance groups or conglomerates with:

A. International activity

- Premiums are written in not fewer than three jurisdictions, and
- Percentage of gross premiums written outside the home jurisdiction is not less than 10% of the group's total gross written premium; and

B. Size (based on a rolling three-year average)

- Total assets of not less than USD 50 Billion, or
- Gross written premiums of not less than USD 10 Billion.

The intention is that only (re)insurance groups that operate in multiple jurisdictions and are of significant size will be supervised by national supervisors according to ComFrame. The IAIS intends only to establish criteria; Members will apply the criteria to assess whether a particular insurance group or financial conglomerate should be supervised according to ComFrame. At this stage, Members and Observers are being requested to comment on the IAIG identification criteria.

In addition, the structure of ComFrame has been changed to enhance readability by putting requirements for IAIGs and those for supervisors into separate modules. The new structure is:

Module 1: The Scope of ComFrame

Module 2: The IAIG

Module 3: The Supervisors

#### Module 4: Implementation of ComFrame

The Technical and Executive Committees also made directional decisions that are being reflected in the 2012 Draft ComFrame on matters relating to the capital component of the solvency assessment and the supervisory process. These decisions establish the strategic direction for future work.

Other standard setting activities are set out in the reports of the Working Parties that follow. In particular, initiatives were pursued in the areas of solvency, group supervision and supervisory colleges, accounting and valuation, and cross-border cooperation on crisis management and resolution, with the overarching aim of improving the resilience of the global insurance sector.

To minimise opportunities for regulatory arbitrage, cross-sectoral work is crucial. In that respect, the IAIS has been contributing actively to the Joint Forum's review of the Principles on Supervision of Financial Conglomerates. The IAIS assesses developments in prudential frameworks for capital adequacy in sister organisations analysing the potential impact on the insurance sector and cross-sectoral interdependencies, and determining how it could impact our work. Where particular products cause risk on a cross-sectoral basis, the IAIS is committed to working with others to promote cross-sectoral coordination and find appropriate solutions at microprudential and macroprudential levels.

Using jurisdictional observations and assessments of emerging issues, the IAIS regularly identifies and analyses pressure points and key risks in the global insurance sector. It then evaluates the adequacy of its initiatives and identifies whether additional standard setting steps are needed. The IAIS will continue to update its own internal assessments to ensure that its supervisory material remains comprehensive and reflects current industry and market realities.

The Technical Committee is chaired by Monica Mächler (Switzerland, FINMA). The Vice Chair is David Oakden (Canada, OSFI).

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*"The IAIS is increasingly shaping the global insurance regulatory debate. Its influence on national and international rules is evident. For this reason, Lloyd's, like many other international (re)insurers, follows its work closely and seeks to contribute to its thinking."*

Sean McGovern, General Counsel, Lloyd's

# 5. REPORTS FROM THE TECHNICAL COMMITTEE SUBCOMMITTEES

## ACCOUNTING AND AUDITING ISSUES SUBCOMMITTEE

The Accounting and Auditing Issues Subcommittee (AAISC) is responsible for the IAIS' external relationships with accounting and auditing bodies. It monitors accounting developments related to insurers and insurance supervision and responds on behalf of the IAIS where appropriate, including by providing input to the IASB. The AAISC also provides input to the International Federation of Accountants on auditing standards developed by its standard setting board, as well as the International Auditing and Assurance Standards Board, and liaises with other organisations dealing with matters of mutual interest.

Over the year, the AAISC sent three letters on behalf of the IAIS to the IASB:

- comment letter on investment entities (7 December 2011)
- letter on agenda consultation (24 November 2011)
- response on mandatory effective date of IFRS 9 (11 October 2011).

The Subcommittee contributed to the development of the 2012 Draft ComFrame, furthering the work on Module 2, Element 7, Valuation, and Module 2, Element 9, Reporting and Disclosure. With respect to Valuation, it worked closely with the Solvency and Actuarial Issues Subcommittee to develop principles for the application of prudential filters, outlining considerations supervisors should take into account in deciding whether to modify or reject accounting-based values of assets and liabilities for solvency purposes.

In 2012-13, the AAISC intends to identify areas in which the IAIS should consider developing standards and guidance on auditing issues.

The Accounting and Auditing Issues Subcommittee is chaired by Richard Thorpe (United Kingdom, FSA). The Vice Chair is Rob Esson (USA, NAIC).

## GOVERNANCE AND COMPLIANCE SUBCOMMITTEE

The Governance and Compliance Subcommittee (GCS) was established to assist the Technical Committee in developing a framework for high level corporate governance principles, standards

and guidance applicable to the insurance industry and in insurance supervision. The GCS follows developments and liaises with other (international) bodies on developments with respect to corporate governance, for example in standard setting and drafting of assessment material.

In 2011-12, the GCS contributed to the 2012 Draft ComFrame by developing policy standards, parameters and specifications for the qualitative governance and risk management requirements in Module 2: The IAIG and provided input to Module 1: Scope of ComFrame. The qualitative requirements capture corporate governance issues and suitability requirements as well as overarching requirements relating to processes for risk management, internal controls, actuarial, internal audit and other key controls functions.

The GCS actively participated in the drafting of the revised ICP 9 (Supervisory review and reporting) and commented on the *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets*.

Going forward the GCS, in consultation with the Implementation Committee and the Education Subcommittee, will be developing training material on corporate governance for insurance supervisors. In addition, it will provide expert input to the Standards Observance Subcommittee on self-assessments and peer reviews on the assessment topic of "Risk Governance" (relating to ICP 4 (Licensing), ICP 5 (Suitability of persons), ICP 7 (Corporate governance), and ICP 8 (Risk management and internal controls)).

The Governance and Compliance Subcommittee is chaired by Dhammika Amukotuwa (UAE, Dubai FSA). The Vice Chair is Ann Nee Kee (Singapore, MAS).

## INSURANCE GROUPS AND CROSS-SECTORAL ISSUES SUBCOMMITTEE

The Insurance Groups and Cross-sectoral Issues Subcommittee (IGSC) develops supervisory material on group-wide supervision, and is responsible for coordinating Joint Forum issues within the IAIS. It contributed significantly to the drafting of ComFrame, more

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specifically in regards to the identification of groups that will be subject to ComFrame requirements and the supervisory process.

The IGSC used the 2011 *Issues Paper on Resolution of Cross-border Insurance Legal Entities and Groups* as a basis for the IAIS' input to FSB work. It is reviewing the applicability of the FSB's Key Attributes for the resolution of systemically important financial institutions in general, as well as for insurers in particular.

The IGSC is working on an *Issues Paper on Supervision of Cross-Border Operations through Branches* using results from a survey conducted in the first quarter of 2012. The paper is due to be completed in 2013. It has also started preparing possible guidance in respect to financial conglomerates. This work follows the recent revision of the Principles for the Supervision of Financial Conglomerates undertaken by the Joint Forum.

The IGSC organised roundtables to both share and gather information on supervisory colleges. This has served as the foundation to a report provided to the FSB assisting in its review of supervisory college practices.

Petra Faber-Graw (Germany, BaFin) assumed the role of Chair of the Insurance Groups and Cross-Sectoral Issues Subcommittee in late 2011, following the resignation of Craig Swan (Bermuda, BMA). The position of Vice Chair has been taken up jointly by Urs Halbeisen (Switzerland, FINMA) and Shinya Kobayashi (Japan, FSA).

#### Joint Forum

As mentioned, the IGSC is responsible for coordinating Joint Forum issues within the IAIS. In 2011, the Joint Forum followed up on recommendations raised in its 2010 report on the differentiated nature and scope of financial regulation.<sup>1</sup> In particular, work is being done in the areas of longevity risk, mortgage insurance and point of sale disclosures. Draft reports on these issues are due for completion in late 2012 and, after consultation, most are expected to be published in 2013.

The Joint Forum has also finalised its review of the Principles for

the Supervision of Financial Conglomerates. It is now assessing the alignment of the preconditions of the principles between the standard setting bodies.

The Chair of the Joint Forum rotates among the IAIS, BCBS and IOSCO and is currently held by the IAIS, who elected as its representative Terri Vaughan (USA, NAIC).

#### MARKET CONDUCT SUBCOMMITTEE

The Market Conduct Subcommittee (MCS) is charged with developing supervisory and supporting material related to insurers' and intermediaries' behaviour when dealing with customers. Having fulfilled its initial work assignments, the Technical Committee updated the Subcommittee's mandate to provide a more concrete and comprehensive articulation of its remit.

During the year the Subcommittee contributed to the revision of ICP 9 (Supervisory review and reporting), undertook work on an *Issues Paper on Policyholder Protection Schemes* (due for completion in 2013) and started to plan work on an *Application Paper on Approaches to Conduct of Business Supervision*. It also monitored developments and contributed to the work of other organisations in the area of consumer protection, notably at the OECD.

The MCS oversees the work of the Financial Crime Working Group (formerly referred to as the Insurance Fraud Working Group). The Working Group is updating the *Guidance Paper on Anti-money Laundering and the Financing of Terrorism* as an Application Paper, with a planned completion date of 2013. It liaises with other international bodies addressing issues of financial crime in insurance, in particular the Financial Action Task Force.

The Market Conduct Subcommittee is chaired by Julien Reid (Québec, Canada, AMF). The Vice Chair is Adel Moneer Rabeih (Egypt, EFSA).

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<sup>1</sup> *The Joint Forum, Review of the Differentiated Nature and Scope of Financial Regulation: Key Issues and Recommendations [Online] (January 2010)*  
[http://www.iaisweb.org/\\_temp/Review\\_of\\_the\\_Differentiated\\_Nature\\_and\\_Scope\\_of\\_Financial\\_Regulation\\_\\_January\\_2010.pdf](http://www.iaisweb.org/_temp/Review_of_the_Differentiated_Nature_and_Scope_of_Financial_Regulation__January_2010.pdf)

### PENSION COORDINATION GROUP

The Pension Coordination Group (PCG) is mandated to prepare the most integrated approach possible towards pension and insurance supervision. Based on the working agreement between the IAIS and IOPS, the PCG reviews and provides feedback on IOPS supervisory material, monitoring the consistency of the standard setting work and publications. The PCG also keeps an eye on developments of other international bodies involved in pension supervision, especially the OECD Working Party on Private Pensions.

The PCG finalised an IAIS strategy regarding pension supervision and is active in its implementation. The PCG facilitates information transfer on pensions between the IAIS and IOPS and plays a key role as an advisor on pension issues within the IAIS. In order to strengthen the IAIS-IOPS cooperation framework and to promote consistency of principles and standards on pension regulation and supervision, in May 2012 the IAIS and IOPS held a joint seminar in Macedonia on the possible implications of the revised ICPs on pension supervisors. The seminar focused on four areas of common interest: investment, risk management, market conduct and governance. The event gathered around 20 experts from the Balkan and Transcaucasian regions. The PCG is revising the working agreement with IOPS to clarify and stress specific functions of the agreement. In addition, the PCG held a joint meeting with IOPS to discuss a workplan and general priorities for the following years.

The PCG plans to hold a joint symposium on pension supervision and regulation with the World Bank in October 2012 back-to-back with the IAIS Annual Conference and to organise joint seminars with IOPS on a continuous basis. The PCG is also discussing a collaborative project with IOPS to tackle issues of mutual interest and to maintain interactive relations with IOPS for further cooperation and achievements

The Pension Coordination Group is chaired by Julia Cillikova (Slovakia, NBS). The Vice Chair is Nigel Woodroffe (Jersey, JSFA).

### REINSURANCE AND OTHER FORMS OF RISK TRANSFER SUBCOMMITTEE

In 2012, the Reinsurance and Other Forms of Risk Transfer Subcommittee (RSC) worked on issues related to stability and resilience of the reinsurance market, including:

- a policy paper on *Reinsurance and Financial Stability* in July 2012 in response to FSB requests
- the IAIS *Global Insurance Market Report*, which provides specific insights into natural catastrophes and related bonds, insurance captives and the overall reinsurance market
- identifying supervisory considerations arising from reinsurance-related monitoring exercises and data analysis, including from presentations by Members and Observers, with a focus on the impact of natural catastrophes.

The Subcommittee's standard setting activities included contributing to the *Application Paper on Insurance Captives* and to ComFrame with a focus on group internal risk transfer. It participated in joint sessions with solvency and insurance groups experts within the IAIS. The RSC Members shared their practical experiences and insights and benefitted from detailed presentations by experts from leading (re) insurance groups.

The RSC is also preparing IAIS tutoring material on reinsurance and other forms of risk transfer, including teaching notes, case studies and a set of slides that can be used by RSC representatives at regional meetings. Both RSC Members and Observers contribute their expertise in preparing these materials.

Members agreed to further strengthen the role of the RSC in addressing reinsurance-related issues. This will include identifying supervisory and regulatory considerations in light of (re)insured catastrophes, especially under already stressed conditions. Such work will continue to aim at serving supervisors in individual jurisdictions and at joint efforts with other IAIS working parties, including the Macroprudential Policy and Surveillance Working Group (MPSWG) and the Supervisory Forum. The RSC liaises with, and leverages on work of, other relevant international bodies engaged in the assessment and mitigation of catastrophes.

The Reinsurance and Other Forms of Risk Transfer Subcommittee is chaired by Ryan Couch (USA, NAIC). The Vice Chair is Lutz Oehlenberg (Germany, BaFin).

### SOLVENCY AND ACTUARIAL ISSUES SUBCOMMITTEE

The Solvency and Actuarial Issues Subcommittee is responsible for research into, and analysis of, solvency requirements, solvency

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assessment and risk management of insurance companies. It develops supervisory material on these topics.

In the last 12 months the Subcommittee's priority was on work relating to the ComFrame project. It focused on the solvency-related activities of internationally active insurance groups, and in particular on the capital component of such activities. Other work included a project on the reduced reliance on ratings by credit rating agencies and a focus on capital quality issues for solvency purposes.

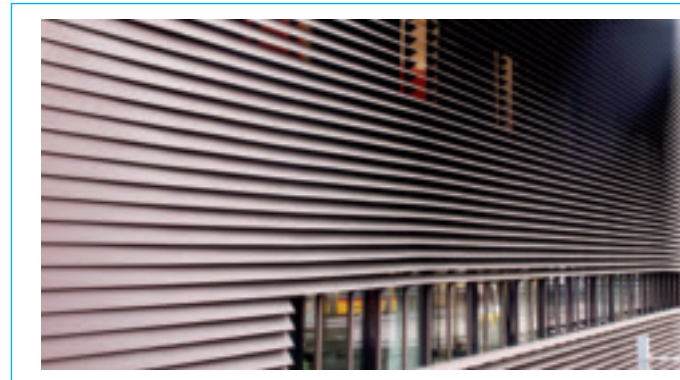
In order to meet its substantially increased workload, the Subcommittee has formed an active ad hoc drafting group. This drafting group has facilitated the exchange of views and information, often at a detailed level. This will help develop a more global view of insurance solvency supervision in future years.

The Chair of the Solvency Subcommittee is Ramon Calderon (USA, NAIC). During the year a new Vice Chair, Jumpei Miwa (Japan, FSA), was appointed.

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*"We appreciate the diligence exhibited by the IAIS as the global standard setter for insurance and their enhanced voice on issues impacting the insurance sector. The IAIS focus on important global initiatives such as systemic risk and ComFrame are critical to Zurich and we look forward to their further development in the coming year."*

**Axel Lehmann, Chief Risk Officer and Regional Chairman of Europe, Zurich Insurance Group**



# 6. STANDARD SETTING ACHIEVEMENTS DURING 2011 – 12

The following material was adopted on 1 October 2011

## INSURANCE CORE PRINCIPLES (ICPs)

ICP 1	Objectives, powers and responsibilities of the supervisor
ICP 2	Supervisor
ICP 3	Information exchange and confidentiality requirements
ICP 4	Licensing
ICP 5	Suitability of persons
ICP 6	Changes in control and portfolio transfers
ICP 7	Corporate governance
ICP 8	Risk management and internal controls
ICP 9	Supervisory review and reporting
ICP 10	Preventive and corrective measures
ICP 11	Enforcement
ICP 12	Winding-up and exit from the market
ICP 13	Reinsurance and other forms of risk transfer
ICP 14	Valuation
ICP 15	Investment
ICP 16	Enterprise Risk Management for solvency purposes
ICP 17	Capital adequacy
ICP 18	Intermediaries
ICP 19	Conduct of business
ICP 20	Public disclosure
ICP 21	Countering fraud in insurance
ICP 22	Anti-money laundering and combating the financing of terrorism
ICP 23	Group-wide supervision
ICP 24	Macroprudential surveillance and insurance supervision
ICP 25	Supervisory cooperation and coordination
ICP 26	Cross-border cooperation and coordination on crisis management



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## APPLICATION PAPER

*Application Paper on Deterring, Preventing, Detecting, Reporting, and Remediating Fraud in Insurance.* This paper provides information on how fraud can occur within the insurance sector, so that risk factors can be identified and fraud reduced. It supplements ICP 21 and replaces the 2007 *Guidance Paper on Preventing, Detecting and Remediating Fraud in Insurance.*

THE FOLLOWING MATERIAL WAS DEVELOPED AFTER OCTOBER 2011 AND IS EXPECTED TO BE ADOPTED IN OCTOBER 2012:

### ICP 9 (Supervisory Review and Reporting)

The substantial revision to ICP 9 was put on hold so as not to delay adoption of the revised ICPs at the 2011 Annual General Meeting. Since then, Technical Committee Working Parties have reviewed ICP 9 and provided expert input. A small drafting group consolidated this input and the revised ICP 9 is expected to be adopted at the General Meeting in Washington, D.C. on 12 October 2012.

### **Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets**

The IAIS Microinsurance Network Joint Working Group (JWG) expanded on the ICPs and standards pertaining to inclusive insurance markets, developing an Application Paper expected to be adopted at the General Meeting in Washington, D.C. on 12 October 2012.

The Microinsurance Network JWG has been reporting to the Governance and Compliance Subcommittee on standard setting matters. Its work will now be carried forward by the new Financial Inclusion Subcommittee, established under the Implementation Committee. The Financial Inclusion Subcommittee will promote the application of the ICPs and other supervisory material to support regulation and supervision of inclusive insurance markets.

## 7. REPORT FROM THE CHAIR OF THE IMPLEMENTATION COMMITTEE



**J Hari Narayan**  
Chair, Implementation Committee

A handwritten signature in black ink, appearing to be 'J Hari Narayan', written in a cursive style.

This past year has seen a burst of growth in the activities of the Implementation Committee and its Working Parties. The effects of the financial crisis on the insurance sector have increased demand for globally consistent approaches to supervision, and for greater cooperation among supervisors, especially with regard to internationally active insurance groups. Increasingly sophisticated products and corporate structures have placed more pressure on supervisors to keep their skills and regulatory tools up-to-date, especially in light of the revisions to the ICPs adopted in October 2011. I am pleased to see Members continuing to address these challenges in their dedicated work on the wide variety of IAIS implementation initiatives.

A fundamental theme emerging from the recent financial turbulence has been the increased importance of regular interaction among insurance supervisors. ComFrame aims not only at enhancing relevant tools available to supervisors, but also at increasing their use. The implementation of IAIS material - and the delivery of tools and training to enrich the capacity of supervisors to do so effectively - are core elements of the Implementation Committee's mandate.

The Supervisory Cooperation Subcommittee (SCS) has made great progress on the IAIS initiative to increase signatories to the MMoU. Relying on a dedicated group of Members in the application review process, the IAIS continues to advance the MMoU - it currently covers jurisdictions which together account for close to 45% of the global insurance market measured in premiums written. As this initiative progresses, Members will increasingly be able to rely on a supervisory authority's status as an MMoU signatory as the basis for cooperation in the supervision of multinational insurers.

The SCS has also launched the IAIS Repository of Supervisory Colleges (IROSC), which serves as a central repository for insurance supervisors to obtain information on insurance supervisory colleges.

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This initiative enhances the effectiveness and functioning of supervisory colleges by identifying supervisors who are participating in supervisory colleges and who would therefore benefit from accession to the MMoU.

The G20 Finance Ministers and heads of state continue to stress the importance of implementing the globally recognized standards of financial supervision. In coordination with the FSB, which oversees this G20 mandate, the IAIS has made progress in designing comprehensive self-assessment surveys of Members' observance of its supervisory material. As part of the mandate of the Standards Observance Subcommittee (SOSc), this initiative draws on the active participation by representatives of the World Bank and IMF ensuring that the IAIS surveys lead to results that meet the objectives of their FSAPs.

The SOSc process also includes a peer review of all survey responses. This impartial analysis relies on the extensive contribution by Members who participate in expert review teams. Peer reviews help the IAIS achieve results that greatly benefit the participating supervisory authorities, while at the same time satisfying demands of the world's political leaders. The SOSc provides aggregated reports on each supervisory theme, as well as confidential reports on individual jurisdictions helping those supervisors focus on areas needing improvement or supervisory re-tooling.

The 2012 *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets* forms a critical link between the comprehensive ICPs and their application in inclusive insurance markets. It discusses how relevant standards and principles can be implemented in practice, taking into account proportionality – the nature, scale and complexity of the insurance risks. With the completion of this work, the Executive Committee agreed to establish the Financial Inclusion Subcommittee and re-position it

under the Implementation Committee. Its work on financial inclusion will encompass microinsurance and other forms of insurance, such as Takaful (Islamic insurance). It will coordinate the IAIS work with partner organisations, such as the Microinsurance Network and the A2ii.

All Implementation Committee work has an educational component – specifically, to determine how the IAIS can best bring to its Members globally-consistent standards for insurance supervision and provide appropriate material and training opportunities to help supervisors across the globe meet these standards. In this regard, the Education Subcommittee (ESC) has been actively refining its work program to align with the Education Strategy approved by the Executive Committee in 2011. The ESC has established working groups focusing on strategic initiatives, including:

- acting as a catalyst in education and training
- developing an induction seminar for new and junior insurance supervisors
- elaborating a Supervisory Guide for Members
- designing a survey tool for pinpointing the tools and education programs that are of the greatest interest and use to the membership.

The Implementation Committee has benefited greatly from the time and effort provided by Members and Observers, particularly those who have served as Chairs and Vice Chairs, and urges more to become involved.

The Implementation Committee is chaired by J Hari Narayan (India, IRDA). The Vice Chair is Nóra Kiss (Hungary).

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*“Over the past ten years of collaboration with the IAIS, the FSI is pleased to have organised more than 100 seminars, disseminating IAIS standards to insurance sector supervisors around the world. In addition, FSI Connect, the web-based learning tool for financial sector supervisors, continues to grow with almost 40 insurance tutorials now available to all IAIS Members. The FSI looks forward to continuing its partnership with the IAIS to build the capacity of insurance supervisors globally.”*

Elizabeth Roberts, Director, Financial Stability Institute

# 8. REPORTS FROM THE IMPLEMENTATION COMMITTEE SUBCOMMITTEES

## EDUCATION SUBCOMMITTEE

The Education Subcommittee (ESC) establishes the IAIS' education strategy supporting the development of supervisors in Member jurisdictions and facilitating an understanding of IAIS supervisory material, such as ICPs. It does this by:

- organising and financially supporting training seminars
- supporting the development of educational materials
- coordinating the translation of IAIS material.

### Training seminars

In collaboration with other organisations, the IAIS arranges regional seminars for insurance supervisors. The seminars put emphasis on specific ICPs or other supervisory issues, depending on the interest and needs of the audience. A list of seminars held in 2011–12 is included in Appendix II. The IAIS also organises a Global Seminar in June each year affording insurance supervisors and industry representatives a unique opportunity to discuss current and globally significant matters impacting the insurance sector, as well as to learn about new international standards. This year's Global Seminar took place in the Cayman Islands. Topics discussed were the revised ICPs, jurisdictional self-assessments and peer reviews, microinsurance, ComFrame, and financial stability. A presentation was also received from the IAA. As a new initiative under the training banner and in keeping with the recently developed education strategy, seminars targeting specific audiences, such as newly recruited supervisors, are being developed.

### Educational material

The IAIS offers the Core Curriculum jointly with the World Bank, which provides comprehensive training in the principal areas of insurance supervision. Also, with the United Nations Conference on Trade and Development, it produced *Supervision of Insurance Operations* - an introductory manual on insurance supervision. In addition, it offers Teaching Notes for presentations on IAIS supervisory material to be used at the seminars. In accordance with its new education strategy, the IAIS aims to regularly update its educational material.

### Translations

The IAIS recognises the need for its documents to be translated into different languages so that they can be better understood and widely implemented. The translation of top priority Core Curriculum modules and selected supervisory papers into French is completed, and translation into Arabic is in progress. Translations of the revised ICPs into Japanese, Spanish and Mandarin Chinese have also been completed and made available on the IAIS website.

The Education Subcommittee is chaired by Walid Genadry (Lebanon, ICC). The Vice Chair is DVS Ramesh (India, IRDA).

## FINANCIAL INCLUSION SUBCOMMITTEE

The Financial Inclusion Subcommittee's (FISc) mandate is to promote the application of the ICPs and other supervisory material to support regulation and supervision of inclusive insurance markets, and for other forms of insurance, particularly in emerging markets and developing economies. Its main activities include:

- developing supervisory and other material concerning financial inclusion and other specific forms of insurance
- promoting work of other standard setting bodies and other third party organisations in work related to specific forms of insurance, such as the Islamic Financial Services Board's work in Takaful (Islamic) insurance
- strengthening the capacity of policymakers, regulators and supervisors seeking to advance insurance market access for low income consumers (for example through leadership and active involvement in the A2ii)
- liaising with other organisations and initiatives involved in financial inclusion, or other specific forms of insurance (for example the Microinsurance Network and G20 initiatives such as the Global Partnership for Financial Inclusion)

In July 2012, FISc released the *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets* for public consultation. It provides application guidance supporting inclusive insurance markets and examples of how relevant principles and standards can be practically applied.

The FISc's workplan for 2013 and 2014 includes:

- preparing a spin-off paper to the *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets* that follows up on the CGAP White Paper and other guidance material, and includes topics such as health insurance and index-linked insurance
- engaging with the A2ii to develop training materials and a toolkit for the Application Paper
- developing an issues paper on market conduct, distribution issues and consumer protection relating to financial inclusion.

The Acting Chair of the Financial Inclusion Subcommittee is Mustapha Lebbar (Morocco, DAPS/MEF).

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### Access to Insurance Initiative (A2ii)

A2ii ([www.access-to-insurance.org](http://www.access-to-insurance.org)) is a global partnership between the IAIS, the German Ministry of Economic Cooperation and Development, CGAP, the International Labour Organisation and the South Africa-based FinMark Trust. Funding comes from supervisors, sponsors and various international and regional development agencies. The United Nations Capital Development Fund and the Asian Development Bank joined as funders in 2010. The Governing Board of A2ii is chaired by Jonathan Dixon (South Africa, FSB) and includes three other IAIS Members and a member of the IAIS Secretariat.

A2ii contributes to sound, effective and proportionate policies, regulation and supervision of insurance markets that facilitate growth of insurance for low-income consumers. It assists in the application of insurance supervisory material in specific circumstances and provides support, in particular to emerging markets, in the implementation of ICPs and standards in microinsurance. In conjunction with G20 financial inclusion work and other initiatives, it helps to develop and maintain sound insurance markets by providing country diagnostics, country coaching and capacity building.

In cooperation with the African Insurance Organisation and Making Finance Work for Africa, A2ii organised a high-level seminar on Microinsurance Regulation for Supervisory Authorities in May 2012 in Khartoum, Sudan. It has a growing brand value both through its partner relationships with supervisors and through its methodologies and activities, and continues to contribute and influence the global expert discussions while promoting the development of microinsurance policy, regulation and supervision in the partner countries.

### The IAIS-Microinsurance Network Joint Working Group

The IAIS–Microinsurance Network Joint Working Group (JWG), operating for almost a decade, includes representatives from the Microinsurance Network (MIN), CGAP, donors and other development agencies, as well as insurance and financial development experts. Members are either IAIS Members or MIN members.

The JWG supports the development of regulatory and supervisory frameworks focused on policies conducive to protecting policyholders and supporting inclusive insurance markets especially for the low-income segments. The JWG's workplan contributes to strengthening the insurance financial system and fosters financial inclusion to promote economic growth. The JWG assisted in drafting the *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets*.

### STANDARDS OBSERVANCE SUBCOMMITTEE

The Standards Observance Subcommittee (SOSc) was created in 2010 to contribute to enhanced observance of the revised ICPs. It develops assessment mechanisms and oversees the conduct of thematic self-assessments and peer reviews.

The self-assessment and peer review process and methodology take into account the wide membership of the IAIS, including regulators and supervisors from over 140 countries spanning developed nations to emerging markets and developing economies. Jurisdictions are asked to respond to detailed questionnaires designed to assess the extent to which both their legal framework and supervisory practices are in observance with the ICPs. The responses are then reviewed by an independent expert team that assigns a rating.

The Subcommittee then prepares a confidential report for each responding jurisdiction, provides feedback to the IAIS' standard-setting activities and prepares a final public aggregate report summarising regional and sub-regional assessment results (but not disclosing those of individual jurisdictions).

The SOSc plans to assess all 26 ICPs in the next 4 years. The first ICPs to be assessed were based on the recommendations emanating from the FSB's Intensity and Effectiveness of SIFI Supervision paper, namely: ICP 1 (Objectives, powers and responsibilities of the supervisor), ICP 2 (Supervisor) and ICP 23 (Group-wide supervision). Later in 2012 the IAIS will conduct assessments and peer reviews on ICP 4 (Licensing), ICP 5 (Suitability of persons), ICP 7 (Corporate governance) and ICP 8 (Risk management and internal controls).

Over 80 jurisdictions participated in the first self-assessments and the results were reviewed by expert teams made up of specialists from the IAIS Membership, World Bank and IMF. All participating jurisdictions have been asked to provide corrective action plans aimed at achieving full observance of the assessed ICPs.

The Subcommittee's activities help strengthen the observance and understanding of the ICPs and assist participating members in identifying potential areas of improvement. As such, the self-assessment and peer review process is already proving to be an important strategic initiative, both for the individual jurisdictions as well as the wider IAIS effort, furthering global convergence.

The Subcommittee is chaired by Jonathan Dixon (South Africa, FSB). The Vice Chair is Ekrem Sarper (USA, NAIC).

#### SUPERVISORY COOPERATION SUBCOMMITTEE

The Supervisory Cooperation Subcommittee's (SCS) mandate is to strengthen cooperation and the exchange of information among IAIS Members. It coordinates with the MMoU Signatories Working Group (SWG) to promote accession and help improve the functioning and effectiveness of cooperation and information exchange both under the MMoU and outside the MMoU.

The SCS acts as the implementation arm for some of the Insurance Groups and Cross-sectoral Issues Subcommittee's (IGSC) standard setting work, enhancing feedback between implementation and standard setting within the IAIS. In particular, after presenting findings from its survey on the use of supervisory colleges, the IGSC asked the SCS to take responsibility for IROSC and determine how it could be used in the future.

IROSC serves as a central repository for insurance supervisors on

insurance supervisory colleges and as a basis for input to other bodies, such as the FSB. It is available on the IAIS Members' website<sup>2</sup>. Members are encouraged to add more insurance groups and colleges to the IROSC. The SCS is considering expanding IROSC into a web-based platform for cooperation between supervisory colleges. It could also be used to identify supervisors who would benefit from accession to the MMoU.

During the year, the SCS discussed revisions to the MMoU proposed by the SWG. This initiative was undertaken to:

- accommodate cooperation among supervisors in a supervisory college
- clarify the confidentiality provisions in the annex
- remove any language suggesting that the template for information requests included in the annex is compulsory
- change the provision on amendment of the MMoU.

In addition, the SCS discussed the results of the IGSC's survey on supervisory colleges conducted in November 2011 and key lessons from three roundtables held focusing on specific aspects of supervisory colleges: usefulness, obstacles to effectiveness, and operational logistics. The SCS is considering guidance for supervisory colleges as part of its workplan for 2013 and beyond.

As reported above, a self-assessment and peer review on Supervisory Cooperation and Information Exchange was undertaken at the beginning of 2012. The SCS examined the findings and recommendations in the report and has decided to develop guidance on effective information exchange, including on confidentiality issues, in 2013 and 2014.

Also to assess how effective and well used existing arrangements

<sup>2</sup> <https://extranet.iaisweb.org/index.cfm?pageID=881>

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for supervisory cooperation and information sharing are, the SCS has developed a survey to assess the frequency and efficiency with which insurance supervisors use both the IAIS MMoU and other formal arrangements for cooperating and sharing information with each other.

#### Signatories Working Group

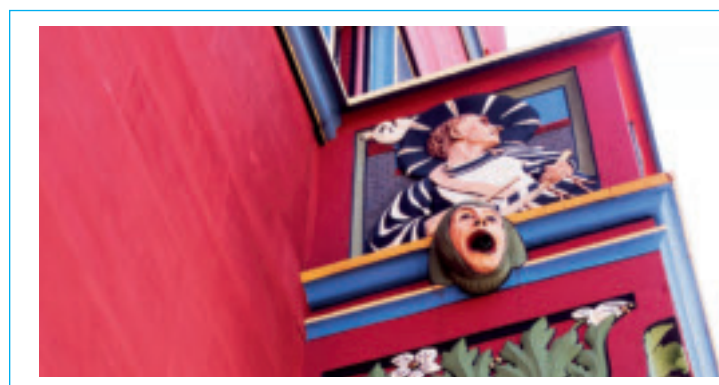
The SWG is responsible for monitoring the validation of applications to the MMoU received from interested IAIS Members, commenting on validation reports and recommending new signatories.

After a successful call for more validators by the Chair of the Executive Committee, more jurisdictions were assessed and the IAIS is happy to welcome the following new signatories in this reporting period:

- Autoridade Monetaria de Macau, Macau
- Banque Nationale de Belgique / Nationale Bank van België, Belgium
- Connecticut Department of Insurance, Connecticut, USA
- Office of the Commissioner of Insurance, China Hong Kong
- Superintendencia de Valores y Seguros, Chile
- Qatar Financial Centre Regulatory Authority, Qatar
- Financial Services Authority, United Kingdom
- Isle of Man Insurance and Pensions Authority, Isle of Man
- Commissariat aux Assurances, Luxembourg
- Office of the Superintendent of Financial Institutions, Canada
- Financial Supervisory Authority, Poland.

In addition, during the year the SWG revised the Administration and Accession Procedures and Frequently Asked Questions documents.

The Supervisory Cooperation Subcommittee and Signatories Working Group are chaired by Richard Walker (Guernsey, GFSA).



# 9. REPORT FROM THE CHAIR OF THE FINANCIAL STABILITY COMMITTEE

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**Peter Braumüller**

Chair, Financial Stability Committee

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During the year, the Financial Stability Committee (FSC) and its group of specialists focussed on developing the methodology to identify G-SIIs and determining policy measures that should apply to G-SIIs. G20 leaders had earlier called upon national authorities to reduce moral hazard risk associated with systemically important financial institutions (including G-SIIs) by:

- improving the ability to wind-up a problem institution in an orderly manner so as not to destabilise the financial system and expose taxpayers to the risk of loss
- requiring higher loss absorbency
- supervising these institutions more intensively and in a more coordinated manner.

The FSC collected and analysed data from 48 insurers who:

- held at least USD 60 billion in group total assets and had a non-domestic premium share larger than 5%, or
- held at least USD 200 billion in assets, or
- were added based on supervisory judgment.

It then developed an indicator-based assessment approach to allow the FSB, together with national authorities, to identify which ones were G-SIIs. The approach is similar to that used by the BCBS for global systemically important banks (G-SIBs), but reflects particularities of the insurance business. The methodology contains 18 indicators under 5 categories. The categories are:

- size
- global activity
- interconnectedness
- non-traditional insurance and non-insurance activities
- substitutability.

Supervisory judgment and validation would also be used to determine if an insurer is globally significant. This includes discussions with selected supervisors of each G-SII candidate. These discussions would enhance the understanding of the data flowing into the indicators, revealing extenuating circumstances that cannot easily be quantified and provide more information on the systemic relevance of semi- and non-traditional insurance activities.

In evaluating G-SII candidates, the business portfolios of insurance groups would be segmented into traditional insurance, semi- and non-traditional insurance activities and non-insurance financial and non-insurance industrial activities. The systemic importance of these business activities range from marginal (in traditional insurance) to potentially significant (in non-insurance financial activities such as banking).



Data definitions, comparability, quality and completeness continue to be challenges as this is the first project for which global data collection of such information from insurers has been conducted. Confidentiality also remains a sensitive issue and, accordingly, a robust legal framework has been established.

The FSC is currently developing policy measures for G-SIIs based on the ICPs, FSB's Supervisory Intensity and Effectiveness recommendations and FSB's Key Attributes for Effective Resolution Regimes. Policy measures will address the structure of G-SIIs, how higher loss absorbency can be applied and what activities could be restricted. The interaction of G-SII policy measures with other IAIS initiatives is shown in Figure 2 below.

The FSB and national authorities, in consultation with the IAIS, are expected to identify the first G-SIIs by early 2013. Once that process is

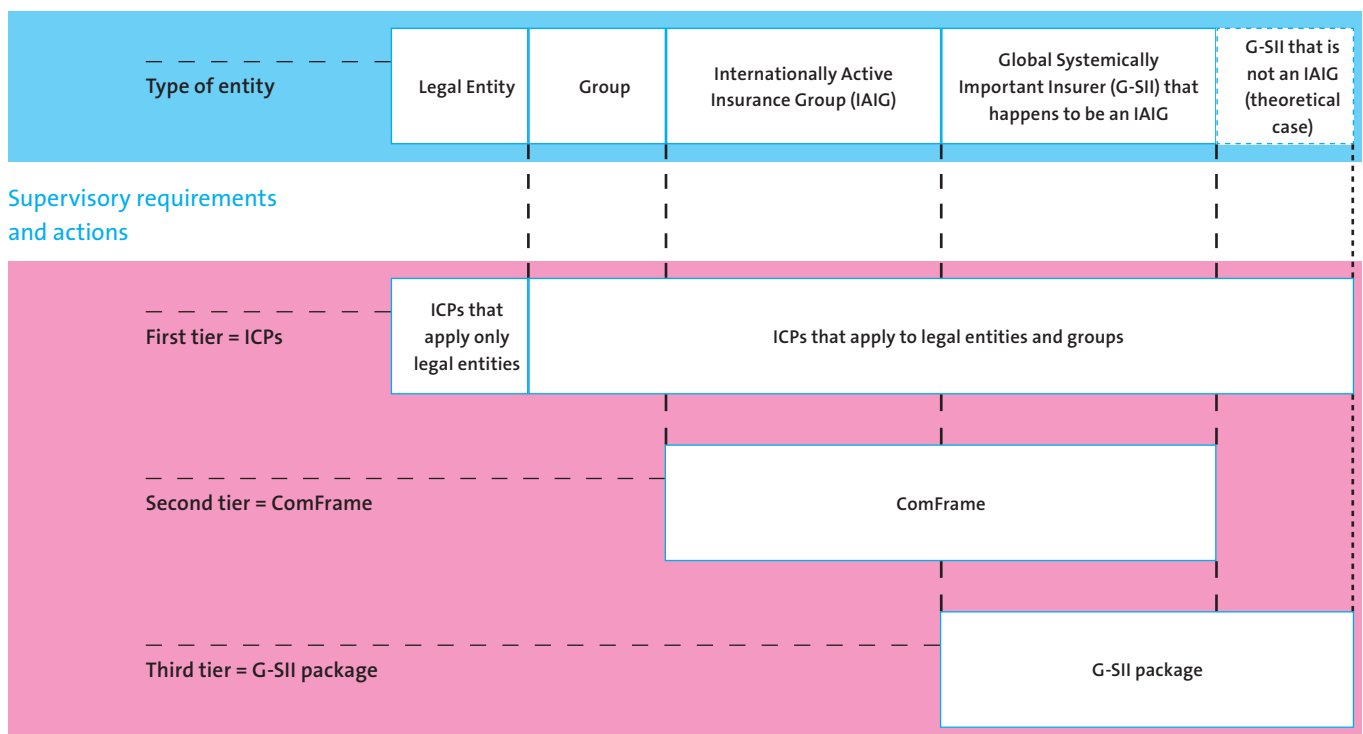
complete, the FSC will consider how potential domestic systemically important insurers should be identified.

In addition, during the past year the FSC closely monitored other key FSB and BCBS developments, including the proposed resolution assessment methodology, shadow banking workstreams, proposed extension of the G-SIB framework to domestic banks, reforms to capital and liquidity requirements for banks, reforms to over-the-counter (OTC) derivatives, the introduction of a legal entity identifier and related implementation monitoring via self assessments and peer reviews.

The FSC is chaired by Peter Braumüller (Austria, FMA). The Vice Chair is Elise Liebers (USA, NAIC).

Fig. 2: Architecture of IAIS standard setting activities

**How IAIS supervisory requirements and actions are proposed to apply to different types of entities**



# 10. REPORT FROM THE FINANCIAL STABILITY COMMITTEE SUBCOMMITTEE

## MACROPRUDENTIAL POLICY AND SURVEILLANCE WORKING GROUP (MPSWG)

The Macroprudential Policy and Surveillance Working Group (MPSWG) started the year with a resource-conscious review of its planned activities. Members agreed to strengthen the MPSWG's role as a macroprudential intelligence hub servicing IAIS Committees and supervisors in individual jurisdictions. To carry out this task effectively, the group liaises with, and leverages on the work of, several other multilateral institutions engaged in the macroprudential analysis of the financial sector. This service function is illustrated in Figure 3.

In 2012, the MPSWG began drafting a *Progress Report on Macroprudential Policy and Surveillance in Insurance* that focuses on key elements contained in the second and third financial stability strategy pillars developed by the FSC. It addresses:

- integration of macroprudential surveillance in insurance supervision
- development of supervisory capacity to assess and mitigate risks and vulnerabilities both arising within the global insurance sector and originating from other sectors.

The report summarises and unifies key concepts and assumptions related to the design, implementation, and outcome of macroprudential surveillance. It reviews existing best practices in other sectors and examines their relevance for insurance. The report also previews key concepts and assumptions related to the objective, scope of analysis, set of powers and instruments and governance of

macroprudential surveillance in insurance.

Starting in early 2013, the MPSWG will address the specifications of a macroprudential framework – and the design of suitable policy instruments. The proposed framework will build on work undertaken to identify potential G-SIIs.

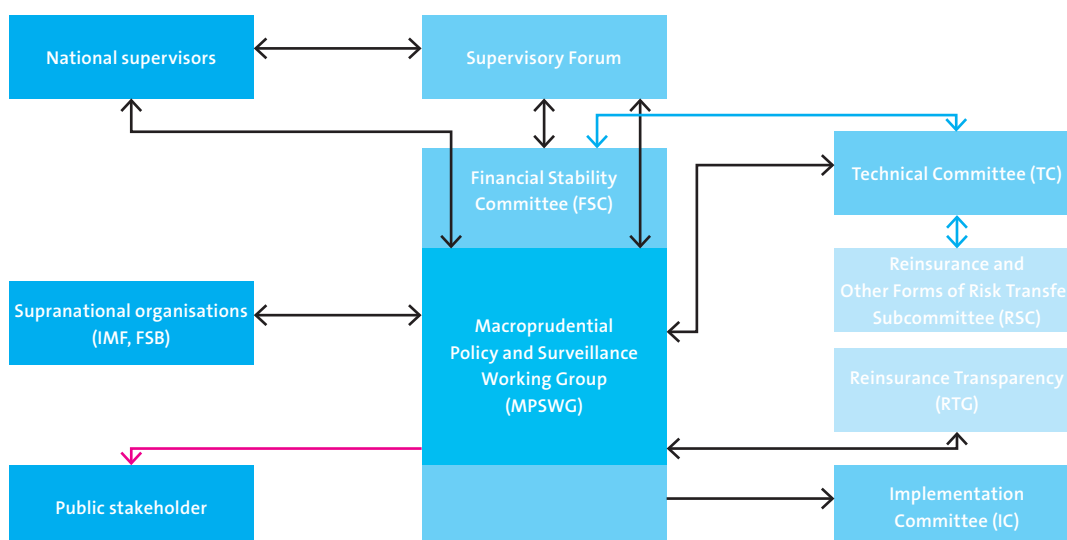
The MPSWG's third project involves the development of a practical *Toolkit for Supervisors* and a template of risk mitigation measures. These will serve as input to macroprudential stress testing. In particular, the work will identify potential leading indicators of risks (i.e. vulnerabilities) for the insurance sector during financial cycles that could materialise into systemic distress. In this context, the MPSWG plans to provide concrete guidance on the practical application of the principles, standards and guidance in ICP 24.

In parallel to this work, the IAIS Secretariat, under the guidance of the Working Group:

- monitors the macroeconomic and capital market environment impacting the insurance sector
- conducts periodic surveys of key insurance risks and trends
- monitors and reports on broad developments in the global (re) insurance market.

The MPSWG is chaired Mary Frances Monroe (Bermuda, BMA). The Vice Chair is Marc Radice (Switzerland, FINMA).

Fig. 3: The service function of the MPSWG within the IAIS Committee system



# 11. REPORT FROM THE CHAIR OF THE SUPERVISORY FORUM



**Jos Heuvelman**  
Chair, Supervisory Forum

A handwritten signature in black ink, appearing to read 'JH', written in a cursive style.

The Executive Committee established the Supervisory Forum in 2011 to provide expert input from a supervisory practice perspective into IAIS activities, thus helping to strengthen the effectiveness of supervision and foster convergence of supervisory practices. Forum members are senior practitioners involved in the supervision of internationally active insurance groups who are committed to participating actively in regular meetings and, by doing so, have created an environment of trust where information and experiences can be easily shared.

The Forum meets face-to-face four times a year, with discussions focusing on two key topics of current interest agreed to in advance of the meeting. Topics discussed over the last year include aspects of supervisory cooperation and supervisory colleges, stress testing, the supervision of governance, longevity risk, resolution and crisis management, and the supervision of outsourcing. The group also routinely considers emerging risks and trends, and discusses matters which are referred to it for input by other IAIS working parties. The Forum has benefitted from representatives of relevant IAIS working parties attending its meetings to discuss specific topics. In addition, members have involved experts from their respective jurisdictions to participate in presentations and discussions on particular topics.

Realising that IAIS Members who are not part of the group may be interested in its activities, the Forum now makes available a high-level note on its main discussion points. Moving forward it is considering other ways in which it can engage with, and provide value to, the broader IAIS Membership.

The Supervisory Forum is chaired by Jos Heuvelman (Netherlands, DNB). The position of Vice Chair has been jointly taken up by Jörg Krause (Germany, BaFin) and Douglas Slape (USA, Texas).

*"The voice of prudential supervisors is critical in the public debate on accounting, financial stability, and general economic conditions. IAIS' commitment to participating and speaking in these broader debates is vitally important to the companies you regulate and to a better understanding of the role insurance plays in the economy."*

Morag Fullilove, The Fullilove Consulting Group

## 12. REPORT FROM THE CHAIR OF THE BUDGET COMMITTEE

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**Victor Rod**  
Chair, Budget Committee

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A handwritten signature in black ink, consisting of a stylized 'V' and 'R' followed by a long horizontal stroke.

The 2011 IAIS financial statements were prepared in accordance with Swiss law and, where possible, International Financial Reporting Standards have been applied. They were audited by Deloitte AG for the fourth consecutive year and the auditors raised no management issues. The audited financial statements show a surplus of CHF 260,228 compared with an approved budgeted net expenditure of CHF 584,345.

The surplus was due mainly to savings in certain key areas. While new staff were recruited in 2011 – in accordance with the Strategic Plan and Financial Outlook 2011-15 - they joined, on average, later than expected. Also, individual circumstances and benefit entitlements resulted in salaries, benefits and relocation costs being lower than anticipated. Less was spent on training seminars, and savings were achieved in a number of other areas. A surplus from the 2011 Annual Conference also contributed to the result. The 2011 surplus will serve to further strengthen reserves and our funding base.

The IAIS continues to maintain its conservative investment policy. Funds are invested primarily in bank current and savings accounts,

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and fixed-term deposits, as well as in certain investments with capital protection. These provide a high degree of capital security.

In 2012, expenditures are budgeted to exceed revenue by CHF 684,300. This is consistent with the financial forecast for 2012 (included in the Financial Outlook 2011-15). It reflects the strengthening of Secretariat staff resources that took place in 2011.

These are challenging times. The IAIS' profile and activities continue to increase, especially as it moves ahead with ComFrame and engages with, and responds to, external bodies such as the FSB. This puts pressure on our resources. For example, the number of meetings that require IAIS staff has considerably increased over the last couple of years. Nevertheless, we have taken measures to mitigate costs and I hope that, overall, expenses for 2012 will turn out to be lower than anticipated. Also, a number of new Observers have joined us in 2012 and this will have a positive impact on our revenue base.

The IAIS continues to receive support from certain Members and third parties in the form of grants or support in-kind, such as secondments

of staff to the Secretariat. The IAIS is grateful to these parties for their contributions and would like to acknowledge the special support provided during 2011-12 by the BIS, the Bermuda Monetary Authority, the Financial Supervisory Commission (Chinese Taipei), the Financial Services Agency (Japan), the Financial Supervisory Service (Republic of Korea) and the China Insurance Regulatory Commission.

The Budget Committee is chaired by Victor Rod (Luxembourg). The Vice Chair is David Oakden (Canada, OSFI).



# 13. AUDITOR'S REPORT

**Deloitte.**

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## Independent Auditor's Report

To the Members of the  
**INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS), BASEL**

### Report on the financial statements

At your request, we have audited the accompanying financial statements of the International Association of Insurance Supervisors (the "IAIS") which comprise the Statement of Financial Position as at 31 December 2011, the Statement of Activities, Statement of Cash Flows and the Notes for the year then ended.

#### Management's Responsibility

The Management of the IAIS is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the by-laws of the association. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Management of the IAIS is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the existence and effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements for the year ended 31 December 2011 comply with relevant Swiss law and the by-laws of the IAIS.

Deloitte AG



Tobias Pfeiffer  
Partner



Marius Dieler  
Manager

Basel, 15 May 2012  
TPF/MDB/ac

#### Enclosures:

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

Wirtschaftsprüfung, Steuerberatung, Consulting, Corporate Finance.  
Member of Deloitte Touche Tohmatsu Limited

# 14. FINANCIAL STATEMENTS

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2011  
(IN SWISS FRANCS)

	Note	2011	2010
<b>ASSETS</b>			
Cash and cash equivalents	6	6,147,231	3,927,063
Investments held to maturity	7	3,000,000	4,001,625
Accounts receivable	8	899	648,262
Prepayments and accrued interest		26,421	4,984
<b>Total assets</b>		<b>9,174,551</b>	<b>8,581,934</b>
<b>LIABILITIES</b>			
Accounts payable	9	1,338,048	1,229,295
Deferred revenue	10	1,096,342	835,500
Advances received	4	2,202	2,202
Provision for standard implementation activities	14	691,484	728,690
<b>Total liabilities</b>		<b>3,128,076</b>	<b>2,795,687</b>
<b>UNRESTRICTED NET ASSETS</b>			
Balance brought forward from previous year		5,786,247	5,226,823
Net result from activities		260,228	559,424
<b>Total unrestricted net assets</b>		<b>6,046,475</b>	<b>5,786,247</b>
<b>Total liabilities and unrestricted net assets</b>		<b>9,174,551</b>	<b>8,581,934</b>

There were no movements in equity during the year other than those included in the Statement of Activities.  
The accompanying notes form part of these financial statements.

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED 31 DECEMBER 2011  
 (IN SWISS FRANCS)

	Note	2011	2010
<b>OPERATING REVENUE</b>			
Membership fees		3,407,500	2,667,000
Observership fees		2,079,000	1,827,000
Annual conference income	12	1,012,944	618,692
<b>Total operating revenue</b>		<b>6,499,444</b>	<b>5,112,692</b>
<b>OPERATING EXPENSES</b>			
Administration	11	28,708	32,511
Annual conference expenses	12	968,093	605,006
Audit		8,178	7,060
Editing		2,336	14,867
Implementation activities		177,215	255,907
Information services		4,051	-
Meetings		72,005	32,457
Provision for bad debts	8	103,776	26,500
Relocation		148,146	87,000
Salaries		4,116,098	2,851,379
Training		13,214	8,333
Travel		537,724	453,686
Website & IT		87,308	183,107
<b>Total operating expenses</b>		<b>6,266,852</b>	<b>4,557,813</b>
<b>Net result from activities before investment income and exchange rate movements</b>		<b>232,592</b>	<b>554,879</b>
Investment income	13	30,402	16,825
Net foreign exchange loss	15	(2,766)	(12,280)
<b>Net result from activities</b>		<b>260,228</b>	<b>559,424</b>

The accompanying notes form part of these financial statements.



INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED 31 DECEMBER 2011  
 (IN SWISS FRANCS)

	Note	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net results from activities		260,228	559,424
Adjustments for:			
Investment income		(30,402)	(16,825)
Net foreign exchange loss		2,766	12,280
		<b>232,592</b>	<b>554,879</b>
Decrease in accounts receivable		647,363	1,082,056
(Increase)/decrease in prepayments		(20,331)	7,281
Increase/(decrease) in accounts payable		108,752	(1,312,365)
Increase in deferred revenue		260,842	23,769
(Decrease) in provision for standard implementation activities		(37,206)	-
<b>Net cash from operating activities</b>		<b>1,192,012</b>	<b>355,620</b>
<b>CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>			
Proceeds from maturity of time deposit		2,000,000	-
Proceeds from maturity of bond, including interest		-	3,104,517
Investment in floating rate note		(1,000,000)	-
Investment in time deposits		-	(4,000,000)
Interest received		30,922	11,695
Tax on purchase of time deposits		-	(7,800)
<b>Net cash from / (used in) investing activities</b>		<b>1,030,922</b>	<b>(891,588)</b>
Effects of exchange rate changes on cash and cash equivalents		(2,766)	(12,280)
Net increase (decrease) in cash and cash equivalents		2,220,168	(548,248)
Cash and cash equivalents at beginning of year	6	3,927,063	4,475,311
<b>Cash and cash equivalents at end of year</b>	<b>6</b>	<b>6,147,231</b>	<b>3,927,063</b>

The accompanying notes form part of these financial statements.

## 1. NATURE OF ORGANISATION

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

The IAIS provides an independent forum for insurance supervisors to promote cooperation among its members in carrying out their responsibilities and to enhance their ability to protect insurance policyholders and promote secure and efficient insurance markets.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### a. *Statement of compliance*

The financial statements have been prepared in accordance with Swiss law. Where possible, International Financial Reporting Standards are considered in the preparation of the financial statements.

### b. *Basis of preparation*

The financial statements have been prepared on the historical cost basis, and income and expense items are recorded on the accruals basis. The principal accounting policies are set out below.

### c. *Scope of financial statements*

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

### d. *Functional and presentation currency*

The functional and presentation currency is the Swiss franc.

As a result of its international activities the Association is exposed to various other currencies. All transactions are recorded in Swiss francs at the exchange rates ruling at the date of the transaction.

Exchange differences arising from the retranslation of monetary assets and liabilities are included as net foreign exchange gains or losses in the Income Statement.

### e. *Cash and cash equivalents*

Cash and cash equivalents comprise bank current and deposit accounts which are highly liquid and readily convertible to cash.

### f. *Investments*

Investments in time deposits, fixed term structured products, bonds and treasury notes are held to maturity and are accounted for at amortised cost using the effective interest method.

Returns from investments are accounted for in interest income.

### g. *Receivables and Accounts payable*

Receivables and accounts payable are principally short-term amounts relating to the settlement of transactions as a result of the Association's activities. They are included in the Statement of Financial Position at amortised cost.

### h. *Provision for bad debts*

Provisions are recognised as a charge to the Income Statement if the Association has concern over the recovery of outstanding receivables. The policy of the Association is to write off membership fees that remain unpaid for two consecutive years, or upon confirmation of non recovery if earlier.

### i. *Withholding taxes*

Interest income is reported net of withholding taxes and included as part of investment income.

### j. *Provision for standard implementation activities*

With effect from 2010, the costs of standard implementation activities are expensed in the year incurred. The previous treatment was for unspent budgeted amounts to be accrued in a provision for standard implementation activities. The balance on the provision is being utilised to fund expenditure on specified implementation initiatives, which are in addition to ongoing annual expenditure. Movements on the provision are set out in Note 14.

### 3. BENEFITS RECEIVED

The IAIS is hosted by the Bank for International Settlements (BIS) and benefits from administration, accounting, office space and other advisory services which are provided by the BIS. The BIS also administers a staff pension scheme of which a number of IAIS staff are entitled to membership.

The pension obligations lie with the BIS and the IAIS has no legal commitment for the payment of pension amounts to staff.

The Association also benefits from Members' secondment of staff to its Secretariat. The total amount of these benefits has not been determined.

### 4. THIRD PARTY CONTRIBUTIONS

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

#### DNB Dutch Contribution

USD 50,000 was contributed in October 2002. The balance as at 31 December 2011 was CHF 2,202.

Funds are recorded in the Statement of Financial Position as advances received.

#### FSA Japan Grant

Funds are contributed annually and are held in a separate CHF-denominated bank account, on which there was a balance of CHF 405,803 as at 31 December 2011. All transactions are financially independent from the IAIS and the financial records are independently audited.

#### IAIS Education Fund

The balance on the fund as at 31 December 2011 was equivalent to CHF 130,225. All transactions are financially independent from the IAIS and the financial records are independently audited.

### 5. INCOME TAXES

The Association is exempt from income tax.

### 6. CASH AND CASH EQUIVALENTS

	2011	2010
USD Current accounts	16,541	92,240
CHF Current accounts	6,130,690	3,822,951
EUR Current accounts	-	11,872
	<b>6,147,231</b>	<b>3,927,063</b>

	2011	2010
<b>7. INVESTMENTS</b>		
Investments held to maturity		
Time deposits	2,000,000	4,001,625
Floating rate note	1,000,000	-
	<b>3,000,000</b>	<b>4,001,625</b>

In December 2011 a time deposit of CHF 2,000,000 matured, leaving a balance of CHF 2,000,000 held in time deposits as at 31 December 2011. The amounts held in time deposits mature in December 2013 (CHF 1,000,000) and December 2014 (CHF 1,000,000).

During the year CHF 1,000,000 was invested in a floating rate note. This is a structured product with full capital protection and a five year term. Capital will be repaid on maturity in December 2016; interest is variable, based on CHF LIBOR and subject to a minimum (floor) and maximum (cap).

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31 DECEMBER 2011  
 (IN SWISS FRANCS)

	2011	2010
<b>8. ACCOUNTS RECEIVABLE</b>		
Annual conference (Note 12)	-	618,692
Membership fees receivable	44,157	11,626
Other	49,742	17,944
	<b>93,899</b>	<b>648,262</b>
Less: provision for bad debts	(93,000)	-
	<b>899</b>	<b>648,262</b>

	2011	2010
<b>MOVEMENT IN PROVISION FOR BAD DEBTS:</b>		
Charge to operating expenses:		
Provision made during the year	106,500	26,500
Recovery of amounts written off in prior year	(2,724)	-
Charge to operating expenses	<b>103,776</b>	<b>26,500</b>
Movement in provision:		
Opening balance	-	115,300
Provision made during the year	106,500	26,500
Provisions written off in year	(13,500)	(141,800)
Closing balance	<b>93,000</b>	-

	2011	2010
<b>9. ACCOUNTS PAYABLE</b>		
Annual conference expenses (Note 12)	-	603,670
Audit	8,000	8,000
Bank for International Settlements	908,624	267,715
Seminars	45,159	46,847
Website & IT	65,938	131,820
Relocation	1,100	23,000
Translations	64,905	-
Other	244,322	148,243
	<b>1,338,048</b>	<b>1,299,295</b>

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

	2011	2010
<b>10. DEFERRED REVENUE</b>		
Membership fees	526,756	460,500
Observership fees	569,586	375,000
	<b>1,096,342</b>	<b>835,500</b>

As at 31 December 2011 some members and observers had paid fees in advance for the year 2012. These amounts will be reflected as income in the Statement of Activities for 2012.

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31 DECEMBER 2011  
 (IN SWISS FRANCS)

	2011	2010
<b>11. ADMINISTRATION</b>		
Bank charges	647	2,734
Copies & postage	208	3,130
Printing & documentation	9,112	12,762
Telephone & fax	18,741	12,484
Miscellaneous	-	1,401
	<b>28,708</b>	<b>32,511</b>

	2011	2010
<b>12. ANNUAL CONFERENCE</b>		
<b>Income</b>		
Conference fee and sponsorship income	<b>1,012,944</b>	<b>618,692</b>
<b>Expenditure</b>		
Conference expenditure incurred by host	945,434	603,670
Other conference expenditure paid	22,659	1,450
Conference expenditure relating to prior years	-	(114)
	<b>968,093</b>	<b>605,006</b>

Conference fee and sponsorship income were received, and the majority of conference expenditure incurred, by the conference host on behalf of the IAIS. Such transactions were recorded in a designated account maintained by the host, independent from the host's books and records. The net balance due to the IAIS was settled prior to the year end. See also Note 15.

	2011	2010
<b>13. INVESTMENT INCOME</b>		
<b>Interest on:</b>		
Bank accounts	7,856	11,695
Time deposits	22,172	1,625
	<b>30,028</b>	<b>13,320</b>
Floating rate note	374	-
Interest on bonds	-	(23,365)
Tax on purchase of time deposits	-	(7,800)
Gain on sale of bond	-	34,670
	<b>30,402</b>	<b>16,825</b>

The Association presents interest net of withholding tax. See also Note 2.

#### 14. PROVISION FOR STANDARD IMPLEMENTATION ACTIVITIES

In 2008 and 2009, budgeted amounts earmarked for standard implementation activities that were not incurred were set up as a provision for standard implementation activities, resulting in a provision at the start of 2010 of CHF 728,690. In 2010, there was a change in accounting policy and unspent budgeted amounts are no longer accrued. The balance on the provision is being utilised to fund expenditure on specified implementation initiatives, which is in addition to ongoing annual expenditure. Movements on the provision are as follows:

	2011	2010
Opening balance	728,690	728,690
Expenditure charged against provision during year	(37,206)	-
<b>Closing balance</b>	<b>691,484</b>	<b>728,690</b>

#### 15. INVESTMENT POLICY AND RISK MANAGEMENT

The Budget Committee meets three times a year and assesses the financial risks that could have an impact on the Association. The Secretariat monitors the day-to-day activities of the Association and provides regular reports to the Budget Committee.

The Association derives income primarily from membership fees. As a non-profit making organisation, it invests surplus income to fund future operations. Security of capital, represented by unrestricted reserves, has the highest priority within the investment policy, to ensure that the Association can continue as a going concern to support its activities for the foreseeable future.

Consistent with the investment policy, as at 31 December 2011 the IAIS's investments in financial assets other than cash comprised of investments in bank time deposits and in a structured product with full capital protection (see Note 6 above), minimising exposure to credit risk and market risk.

##### *Liquidity risk*

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

##### *Foreign currency risk*

The revenue and expenditure of the Association are predominantly received and paid in Swiss francs. To minimise the exposure of investments to foreign currency risk, investments were held in Swiss franc-denominated financial assets as at 31 December 2011. The Association holds the majority of its cash balances in Swiss francs (CHF) and a small balance is held in US dollars (USD). The year end exchange rate used to convert monetary assets and liabilities was 1 USD : 0.93765 CHF (2010: 0.93695 CHF).

The IAIS holds an annual conference which takes place in a different member jurisdiction each year. The majority of expenditure is incurred in the local currency of the host; conference income is received in a currency other than the Swiss franc, and sometimes one which also differs from the local currency.

The 2011 annual conference was held in Seoul, Republic of Korea. Conference income was receivable, and the majority of conference expenditure incurred, in Korean Won. The financial statements for the conference were prepared in Korean Won and the conference income and expenditure were converted at a rate of 1,237 KRW : 1 CHF for inclusion in the financial statements. The net surplus arising from the conference was transferred to the IAIS prior to the year end. See also Note 12 above.

##### *Credit Risk*

The major source of funding for the Association is Member and Observers fees. Members represent insurance regulators and supervisors from over 190 jurisdictions in some 140 countries and Observers represent more than 120 insurance professionals, insurers, reinsurers and trade associations. Due to the nature of the Association's activities, credit risk is low.

# EXECUTIVE COMMITTEE MEMBERS

## AUGUST 2012

### APPENDIX I



**Peter Braumüller**  
Austria  
Financial Market Authority  
**Chair**



**Ian Laughlin**  
Australia  
Australian Prudential  
Regulation Authority



**Nader Al Mandeel**  
Bahrain  
Central Bank of Bahrain



**Gaetano Geretto**  
Canada  
Office of the Superintendent of  
Financial Institutions; replaced  
Jim Doherty, Canada, Office of  
the Superintendent of Financial  
Institutions, June 2012



**Gordon Rowell**  
Cayman Islands  
Cayman Islands Monetary  
Authority; replaced Jeremy Cox,  
Bermuda, Bermuda Monetary  
Authority, Oct. 2011



**Fernando Coloma**  
Chile  
Superintendencia de  
Valores y Seguros



**Junbo Xiang**  
China  
China Insurance Regulatory  
Commission; replaced Dingfu Wu,  
China, China Insurance Regulatory  
Commission, Jan. 2012



**Gabriel Bernardino**  
EIOPA  
European Insurance and  
Occupational Pensions Authority



**Thomas Schmitz-Lippert**  
Germany  
Bundesanstalt für  
Finanzdienstleistungsaufsicht



**Michael Oliver**  
Gibraltar  
Financial Services Commission

APPENDIX I  
EXECUTIVE COMMITTEE MEMBERS



**J. Hari Narayan**  
India  
Insurance Regulatory and  
Development Authority  
[Chair of Implementation Committee](#)



**Matthew Elderfield**  
Ireland  
Central Bank & Financial Services  
Authority of Ireland



**Naruki Mori**  
Japan  
Financial Services Agency; replaced  
Yasuhiro Hayasaki, Japan,  
Financial Services Agency, Aug. 2012



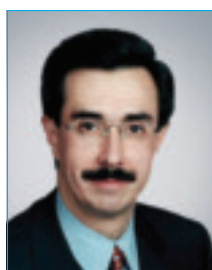
**Jong Wook Lee**  
Korea (Republic of)  
Financial Supervisory Service;  
replaced In Seok Seong, Korea  
(Republic of), Financial Supervisory  
Service, June 2012



**Walid Genadry**  
Lebanon  
Ministry of Economy and Trade,  
Insurance Control Commission;  
replaced Adel Mounir, Egypt,  
Egyptian Financial Supervisory  
Authority, Oct. 2011



**Victor Rod**  
Luxembourg  
Commissariat aux Assurances  
[Chair of Budget Committee \\*](#)



**Manuel Aguilera-Verduzco**  
Mexico  
Comisión Nacional  
de Seguros y Fianzas

**Daniel Schydrowsky**  
Peru  
Superintendencia de Banca, Seguros  
y Administradoras Privadas de Fon-  
dos de Pensiones del Peru; replaced  
Felipe Tam, Peru, Superintendencia  
de Banca, Seguros y Administradoras  
Privadas de Fondos de Pensiones del  
Peru, Sept. 2011





**Luz Foo**  
Singapore  
Monetary Authority of Singapore



**Julia Cillikova**  
Slovakia  
National Bank of Slovakia



**Jonathan Dixon**  
South Africa  
Financial Services Board



**Monica Mächler**  
Switzerland  
Swiss Financial Market  
Supervisory Authority  
[Chair of Technical Committee](#)



**Michael McRaith**  
USA, FIO  
Federal Insurance Office, United  
States Department of Treasury;  
replaced Christina Urias, USA,  
Arizona, Feb. 2012



**Kevin McCarty**  
USA, Florida  
Florida Office of  
Insurance Regulation



**Terri Vaughan**  
USA, NAIC  
National Association  
of Insurance Commissioners

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

# 2011 – 2012 REGIONAL TRAINING SEMINARS

## APPENDIX II

The IAIS sponsored and organised the following training seminars for insurance supervisors during the period October 2011 to September 2012.

DATE	LOCATION	ORGANISER(S)	MAIN TOPICS
November 2011	The Bahamas	Insurance Commission of the Bahamas, Offshore Group of Insurance Supervisors (OGIS), IAIS	Overview of insurance; Management; Statutory and IFRS/GAAP accounting; Regulatory and investor perspective; Assessing risks impact on insurers
November 2011	Ebene, Mauritius	Financial Services Commission Mauritius, Financial Stability Institute (FSI), IAIS	Macroprudential surveillance and the role of the regulator and supervisor; Supervisory intervention levels and tools; Policyholder protection schemes; Supervision of internationally active insurance groups including the assessment of group-wide solvency; Risk management; Stress and scenario testing; Regulation and supervision of captive insurers and reinsurers
November 2011	Buenos Aires, Argentina	Superintendencia de Seguros de la Nación Argentina, Asociación de Supervisores de Seguros de América Latina (ASSAL), IAIS	Corporate governance; Quantitative and qualitative approaches to risk assessment and management; Risk-based frameworks for solvency supervision; Supervision of insurance groups and the use of supervisory colleges; Risk mitigation and reinsurance; Anti-money laundering and combating the financing of terrorism in the insurance market and consumer protection
April 2012	Bangkok, Thailand	Office of Insurance Commission Thailand, ASEAN Insurance Training & Research Institute (AITRI), Toronto Centre, IAIS	Off-site monitoring & analysis; On-site inspection and examination process; Supervisory interventions and dealing with troubled companies; Internal controls; Enterprise Risk Management; Stress testing; Insurance crisis simulation; Corporate governance; Asset & liability

DATE	LOCATION	ORGANISER(S)	MAIN TOPICS
April 2012	Beirut, Lebanon	Insurance Control Commission Lebanon, FSI, IAIS	Supervisory review and reporting using risk-based approaches; Monitoring the quality and relevance of reinsurance arrangements; Assessing the financial strength of insurers; Early detection of problems and supervisory intervention
April 2012	Guayaquil, Ecuador	Superintendencia de Bancos Ecuador, ASSAL, IAIS	Solvency supervision models and new trends; Quantitative solvency requirements: Technical and capital provisions; Corporate governance, risk management and internal controls; Transparency, disclosure and market discipline; New ICPs; Workshop on group supervision; Workshop on macroprudential insurance supervision
May 2012	Skopje, Macedonia	Insurance Supervision Agency Macedonia, FSI, IAIS	Group-wide supervision; Supervisory cooperation in colleges; Financial stability and macroprudential surveillance; Early detection and remedy of problems in insurers
May 2012	Gibraltar	Financial Services Commission Gibraltar, OGIS, IAIS	Implementing a risk-based solvency regime; Covering ERM for solvency purposes and capital adequacy; Specific consideration of solvency capital and risk management; Corporate governance requirements for captives

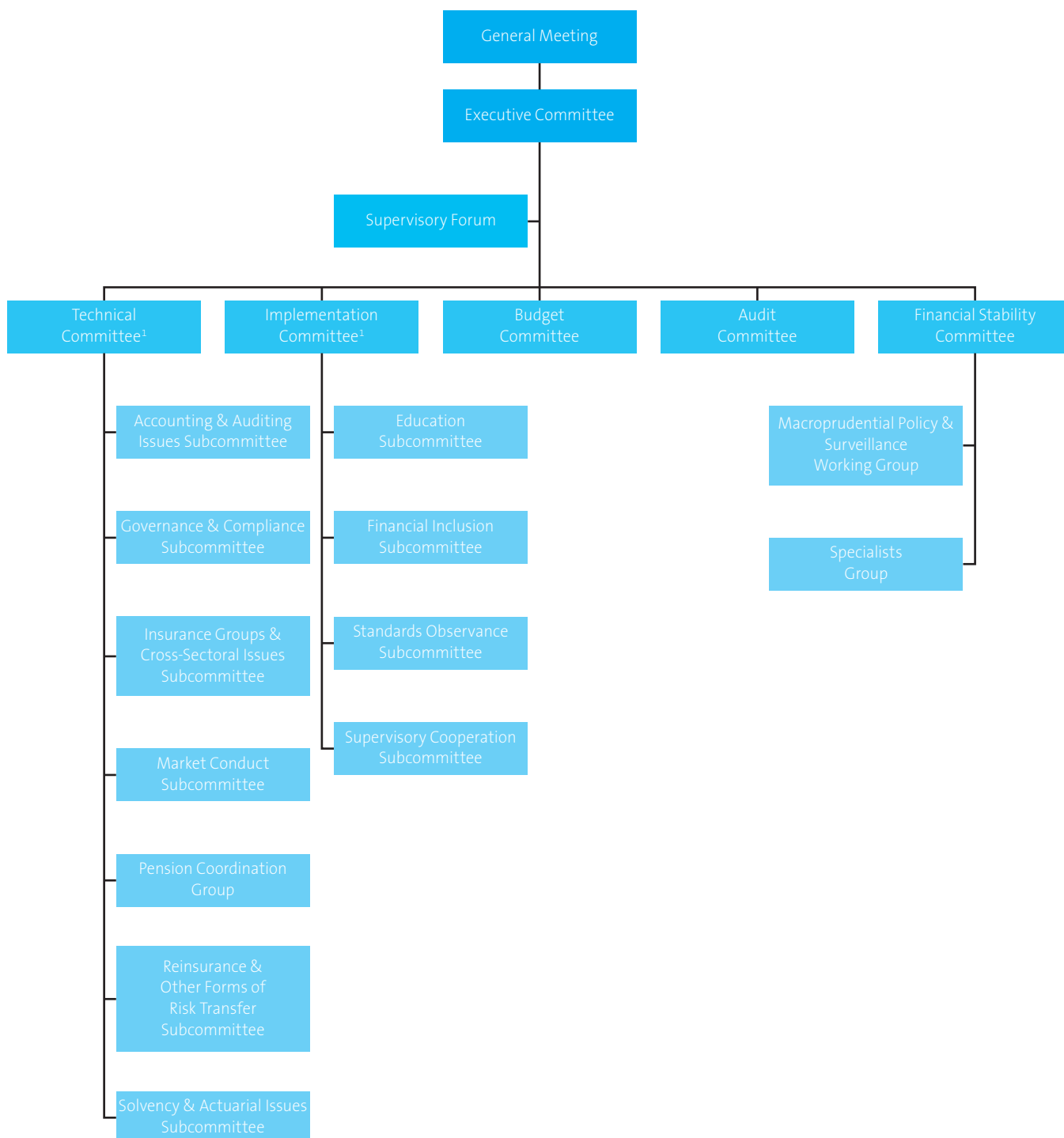
## APPENDIX II

### 2011 – 2012 REGIONAL TRAINING SEMINARS

DATE	LOCATION	ORGANISER(S)	MAIN TOPICS
June 2012	Paro, Bhutan	Royal Monetary Authority of Bhutan, IAIS	Conditions for effective insurance supervision and supervisory objective; Supervisory process and licensing; Suitability of persons; Reporting to supervisors and off-site monitoring; On-site inspection; Preventive and corrective measures; Capital adequacy and solvency; Investments and liabilities
September 2012	Mexico City, Mexico	Comision Nacional de Seguros y Fianzas Mexico, ASSAL, FSI, IAIS	Modelling and aggregating risks, using internal models; Stress and scenario testing; Calibration of regulatory capital requirements, using a standardised approach, and target and minimum capital levels, and corresponding supervisory action
September 2012	Da Nang, Vietnam	Ministry of Finance Insurance Department of Vietnam, AITRI, FSI, IAIS	ICPs, international standards and financial stability; Group-wide supervision; Risk-based supervision of legal entities and groups; Group supervision and cooperation in college in a regional context; Enterprise Risk Management for solvency purposes and risk mitigation; Early supervisory intervention, sanctions and resolution; Corporate governance, risk management and internal controls

# IAIS ORGANISATIONAL STRUCTURE AUGUST 2012

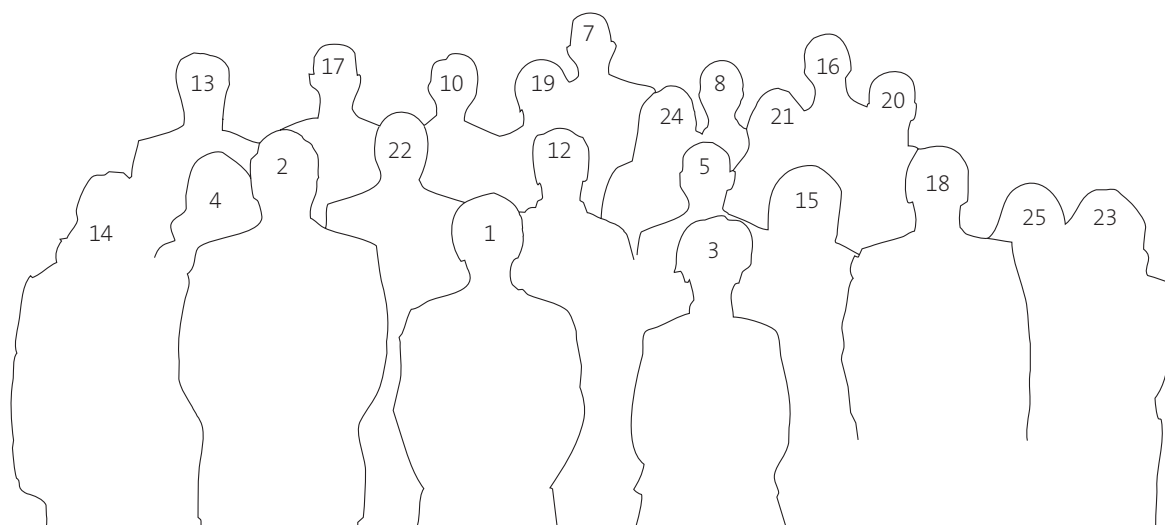
## APPENDIX III



<sup>1</sup> Subgroups of Working Parties are not shown

# STAFF OF THE IAIS SECRETARIAT AUGUST 2012

APPENDIX IV



The staff of the IAIS Secretariat play a key role in supporting the Association. Secretariat members from October 2011 to September 2012 were:

1. Yoshihiro Kawai Secretary General	13. John Maroney Member of the Secretariat	Simone Amiet until May 2012 Former Member of the Secretariat
2. George Brady Deputy Secretary General	14. Nina Moss Member of the Secretariat	Vashun Blanchette* (Bermuda Monetary Authority) until June 2012 Former Member of the Secretariat
3. Catherine Lezon Deputy Secretary General	15. Mala Nag Member of the Secretariat	
4. Melinda Chung* (Financial Supervisory Commission, Chinese Taipei) from December 2011 Member of the Secretariat	16. Andrew R. Stolfi from February 2012 Member of the Secretariat and Communication Officer	Hong Qiang Huo* (China Insurance Regulatory Commission) until March 2012 Former Member of the Secretariat
5. Peter Cooke Member of the Secretariat	17. Peter Van den Broeke Member of the Secretariat	Frank Lin* (Financial Supervisory Commission, Chinese Taipei) until January 2012 Former Member of the Secretariat
6. Conor Donaldson from July 2012 Member of the Secretariat	18. Sebastian Von Dahlen Member of the Secretariat	
7. Dave Finnis Member of the Secretariat	19. Yoshitaka Wada* (Financial Services Agency Japan) Member of the Secretariat	Staff are financed by the IAIS unless indicated by an asterisk (*)
8. Yasa Fujioka* (Financial Services Agency, Japan) Member of the Secretariat	20. Peter Windsor Member of the Secretariat	
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Design by Layerit

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