

Annual Report

covering activities between October 2002 and September 2003
including the financial report for 2002

International Association of
Insurance Supervisors



INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Contributing to world-wide financial stability

The member insurance supervisors of the IAIS, drawn from over 100 jurisdictions, resolve to:

- cooperate together to ensure improved supervision of the insurance industry on the domestic as well as on an international level in order to maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders;
- unite their efforts to develop practical standards for supervision of insurance that members may choose to apply;
- liaise or cooperate with other relevant international entities;
- provide mutual assistance to safeguard the integrity of markets; and
- exchange information on their respective experiences in order to promote the development of domestic insurance markets.

☞ Taken from the Preamble of IAIS By-laws ☞

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Foreword

The International Association of Insurance Supervisors (IAIS) was established in 1994 to promote cooperation among insurance regulators and with regulators in other financial sectors. Currently insurance supervisory authorities from over 100 jurisdictions are members. In addition, almost 70 organisations and individuals are observers. They represent professional associations, insurance and reinsurance companies, international financial institutions, consultants and other professionals. The IAIS is led by an Executive Committee, with 15 members from different regions of the globe. It is supported by a Secretariat located at the Bank for International Settlements in Basel, Switzerland.

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

The IAIS is active in promoting the implementation of its supervisory standards through training activities. It works closely with international organisations, regional groups and supervisory authorities to accomplish this mission. The IAIS also develops textbooks and case studies on supervisory issues.

The IAIS contributes to assessments of jurisdictions' observance of standards in close collaboration with the IMF and World Bank. The Insurance Core Principles, methodology and self-assessment questionnaire are used for this purpose and by any jurisdiction wishing to improve its supervisory laws and practices. In this regard the IAIS maintains a list of qualified insurance experts able to conduct assessments.

The IAIS collaborates closely with other international regulatory organisations. In particular, the IAIS is one of the constituting bodies of the Joint Forum and participates in all of its working groups. It is represented on the Financial Stability Forum. The IAIS has provided input to the International Accounting Standards Board's work in establishing standards for insurance accounting and has a member on their Standards Advisory Council. It also has observer status on the Financial Action Task Force.

Each year the IAIS hosts an Annual Conference to encourage multilateral discussions on topical issues for insurance supervisors and other insurance professionals. The Ninth Annual Conference was held in Santiago on 9-11 October 2002; this year's will be held in Singapore on 1-3 October 2003.

Chairman's report

This year the IAIS is hosting its Tenth Annual Conference. Over these ten years - since the first conference in 1994 - there have been numerous changes in the economy and insurance sector, and to supervisory practices. Let me highlight a few.

First, the contrast in the economic situation is dramatic. We have gone from times of spectacular performance and growth worldwide to deceleration and in some cases recession. This has been reflected by the steady fall in stock market prices over the past three years. Contrary to traditional theory, the low interest rates (at their minimum in decades) have not turned the economic situation around. This environment has been coupled with some significant corporate failures that have resulted in defaults on bonds and loans. These factors adversely affect life insurers in particular as they hold large investment portfolios.

Second, risk scenarios have changed. The insurance sector used to believe that natural catastrophes were its worst enemy - the 1994 Northridge Earthquake or the 1999 European wind storms, for example. 11 September 2001 events, however, taught us the impact of a terrorist-caused disaster and forced us to question traditional threat scenarios. Besides the high frequency of catastrophic events during the last years, the growing litigious environment combined with high court awards has made many lines of business unprofitable.

Third, the growing similarity of financial products and inter-relationships between sectors has resulted in insurance supervisors collaborating more with other financial supervisors and developing formal and informal mechanisms for coordination both domestically and internationally. The need for strong supervisory practices is now widely recognised and encouraged, due in part to the Financial Sector Assessment Program introduced by the International Monetary Fund and the World Bank in 1999.

The IAIS has also changed over the last years. It has grown from a loosely organised group to a well-established association with broad membership from regulatory and supervisory bodies and, with the introduction of observer status in 1999, with participation from a range of insurance professionals. Over the years, it has moved from under the wing of the National Association of Insurance Commissioners (NAIC) to having its own Secretariat. The Secretariat has grown from the original two to ten full and part-time staff members.

In 1996 the IAIS adopted its role as a standard setter. Since then, it has developed core principles for insurance supervision, as well as many ancillary principles, standards and guidance papers. In October 2003 a revised set of core principles will be tabled at the General Meeting, along with seven other standard setting documents.

Throughout, IAIS members have been concerned with helping build strong supervisory regimes with particular emphasis on developing countries. This year the IAIS co-sponsored 13 training programmes. In this regard, the Financial Stability Institute provided considerable assistance. In addition, the IAIS has decided to partner with the World Bank to develop a core curriculum of training programmes for supervisors at all levels.

The IAIS has also maintained its commitment to participate in cross-sectoral activities and ensure the representation of the insurance sector in international organisations. Since 1996, the IAIS has been an active participant in the Joint Forum, along with the Basel Committee on Banking Supervision and the International Organization of Securities Commissions. The Joint Forum's work encompasses issues related to financial conglomerates, as well as issues that are of common interest to the three parent committees. This year it prepared two reports - one on risk aggregation and the other on operational risk.

As chairman of the IAIS' Executive Committee, I currently chair the Coordination Group, which in addition to the IAIS brings together the Chairs and Secretaries General from the Basel Committee on Banking Supervision, the International Organisation of Securities Commissions and the Joint Forum. In a similar status I, along with the Secretary General, represent the IAIS on the Financial Stability Forum (FSF) – a group that was set up to share views and policy concerns from the perspective of treasury offices, central banks and supervisory bodies in selected countries. In March 2003 the IAIS submitted a report to the FSF on credit risk transfers, in response to concerns related with the transparency of the reinsurance sector. We are currently pursuing additional work in this area.

Looking back on our achievements is one thing we do in this report, however looking forward is also of the utmost importance. In this sense, the IAIS' Medium Term Working Plan was presented at the General Meeting in Santiago de Chile in October 2002. All members and observers were encouraged to review and comment on it. Based on the feedback a framework has been set – both in a financial and policy sense – for how the IAIS will develop in the next years. You will see the specific plans set out in the reports on standard setting, standard implementation and administrative activities. Our goal is to create a focused organisation that can respond effectively to new challenges arising from the need to protect policyholders.

Over the year, there have been many changes in the Association. Yoshi Kawai is the new Secretary General and Catherine Lezon succeeds him as Deputy Secretary General. Tom Karp, Australia, now chairs the Technical Committee and Thomas Steffen, Germany, chairs the Budget Committee. New chairs have also been appointed to the Enhanced Disclosure, Insurance Fraud, and Solvency Subcommittees – Lars Østergaard, Peter van den Broeke, and Wil Dullemond. I am pleased to have the opportunity to work with so many enthusiastic people as we look forward to the next decade.

I also want to express my gratitude to the organisations that have provided support and additional contributions to the IAIS's secretariat: Bank for International Settlements, Financial Services Agency (Japan), Pension & Verzekeringkamer (Netherlands), and Bundesamt für Privatversicherungen (Switzerland).

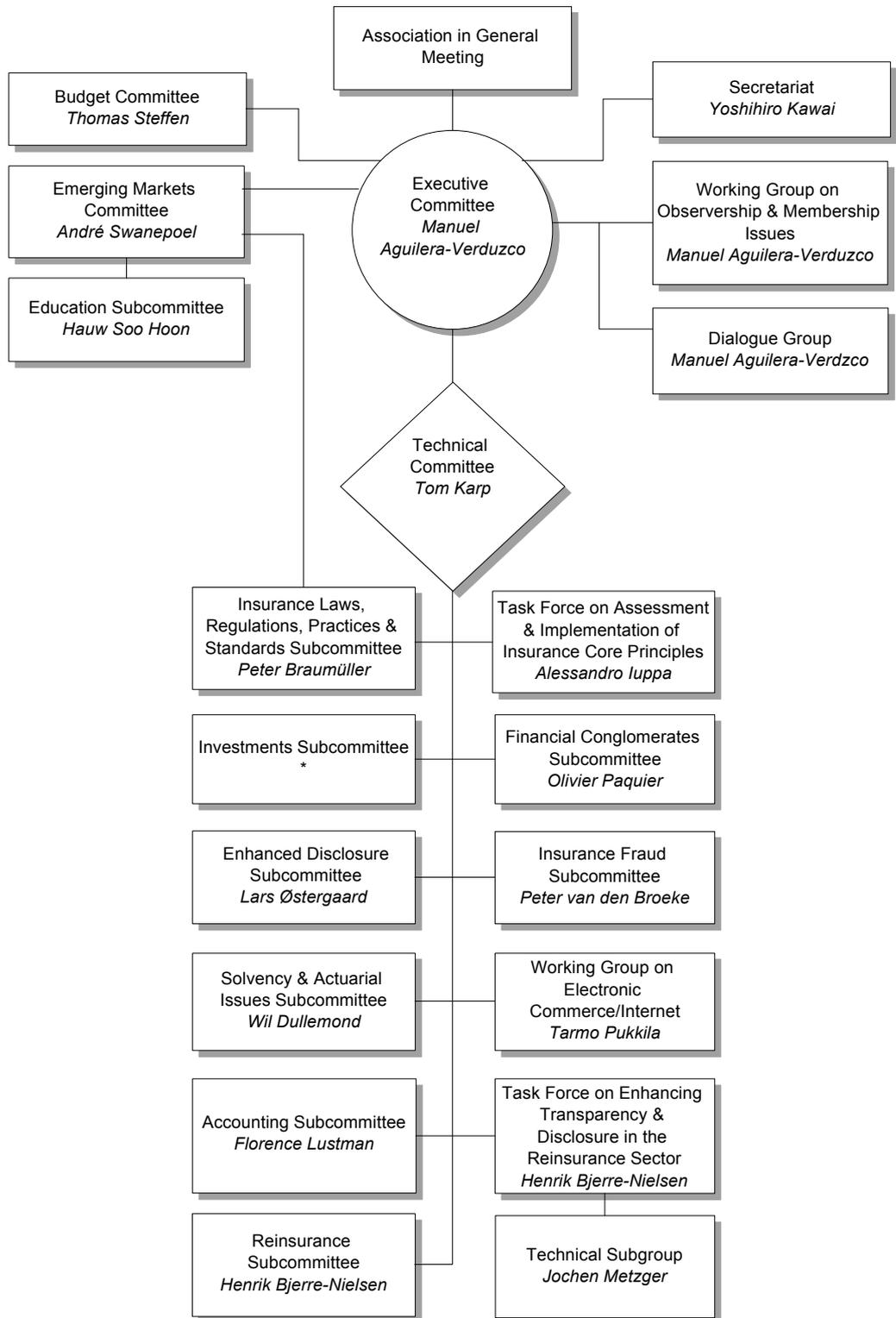
Finally, on behalf of the IAIS, I would like to thank those of you who participated so actively in our activities – either by serving on a working party, commenting on the consultation documents, making presentations or attending meetings and training seminars. The IAIS has moved forward because of your support and will surely succeed in meeting the challenges ahead.

Manuel Aguilera-Verduzco

Executive Committee members

- Mr Manuel Aguilera-Verduzco, *Chairman*
Comision Nacional de Seguros y Fianzas, Mexico
- Mr Alessandro Iuppa, *Vice-Chairman* (Vice-Chairman from 27 March 2003)
National Association of Insurance Commissioners (NAIC)
- Mr Tom Karp
Australian Prudential Regulation Authority (APRA), Australia
- Mr Michael Hafeman (until 13 June 2003)
Office of the Superintendent of Financial Institutions, Canada
- Mr Carl Hiralal (from 19 July 2003)
Office of the Superintendent of Financial Institutions, Canada
- Ms Mónica Cáceres Ubilla
Superintendencia de Valores y Seguros, Chile
- Mr Peter Neville (from 11 October 2002)
Guernsey Financial Services Commission, Guernsey
- Mr Nambi Rangachary (from 11 October 2002 until 30 June 2003)
Insurance Regulatory and Development Authority, India
- Mr Makoto Hosomi (from 11 October 2002)
Financial Services Agency, Japan
- Mr Bassel Hindawi
Insurance Regulatory Commission, Jordan
- Mr Victor Rod (from 11 October 2002)
Commissariat aux Assurances, Luxembourg
- Mr Bjørn Skogstad Aamo (from 11 October 2002)
Kredittilsynet, Norway
- Mr Jan Monkiewicz
Insurance and Pension Funds Supervisory Commission, Poland
- Mrs Hauw Soo Hoon
Monetary Authority of Singapore, Singapore
- Mr André Swanepoel
Financial Services Board, South Africa
- Mr José Carlos García de Quevedo Ruiz (from 19 July 2003)
Dirección General de Seguros y Fondos de Pensiones, Spain
- Mr Martin Roberts (until 28 March 2003)
Financial Services Authority, United Kingdom

IAIS organisation chart



* led on a temporary basis by Corinne Kaufman, Jos Kleverlaan & Ted Price

Report on standard setting activities

The IAIS is the recognised international standard setter for insurance supervision. The Technical Committee oversees this work. It is chaired by Tom Karp, Australia (formerly Martin Roberts, UK).

It has been a particularly busy year for the working parties of the Technical Committee. Eight papers will be presented at the General Meeting in Singapore (see table 1).

Table 1: 2003 standard setting achievements

<p>Revisions to <i>Insurance core principles and methodology</i></p>	<p>Takes into account</p> <ul style="list-style-type: none"> • members' experience in completing the self-assessment programme • the experience of members and international financial institutions in undertaking the Financial Sector Assessment Program reviews • the report of the Joint Forum's working group comparing the core principles in the three financial sectors • comments by members and observers <p>Results in</p> <ul style="list-style-type: none"> • the conversion of "preconditions" into principles to emphasise their fundamental importance to the conduct of effective supervision • the inclusion of new principles and the further elaboration of others • the inclusion of explanatory notes and criteria to support each principle
<p>Standard on <i>Supervision of reinsurers</i></p>	<p>Elaborates on Principle 1 of <i>Minimum requirements for the supervision of reinsurers (October 2002)</i> and focusing on</p> <ul style="list-style-type: none"> • technical provisions • investments and liquidity • economic capital requirements • corporate governance • exchange of information <p>Possibly becoming a building block in the eventual development of an accreditation system.</p>
<p>Discussion paper on <i>Quantifying and assessing insurance liabilities</i></p>	<p>Focuses on technical provisions - a unique and often the most significant element on an insurer's balance sheet.</p> <p>Presents current practices in the quantification of provisions for life and non-life insurers, as well as the treatment of reinsurance.</p>
<p>Guidance paper on <i>The use of actuaries as part of a supervisory model</i></p>	<p>Draws conclusions from a survey of current practice and other related material.</p> <p>Discusses the role of actuaries in insurance and in supervision, with particular focus on the responsible actuary model.</p>
<p>Guidance paper on <i>Solvency control levels</i></p>	<p>Addresses</p> <ul style="list-style-type: none"> • what control levels are • why it is important to set control levels • what factors to take into account in setting the levels • what to do if the levels are breached?

Guidance paper on <i>Stress testing by insurance companies</i>	Discusses the role stress tests play <ul style="list-style-type: none"> • for insurers in their risk management framework • for supervisors in assessing risks and prudential strength <p>Outlines factors that must be considered in designing and undertaking stress tests.</p>
Issues paper on <i>Life insurance securitisations and Non-life insurance securitisations</i>	Provides overviews of typical life and non-life insurance securitisations using actual cases for illustration. <p>Discusses component parts of the transactions.</p>

Plans for future work in the area of standard-setting include:

2004

Revisions:	<i>Principles on the supervision of insurance activities on the internet</i>
Revisions:	<i>Self-assessment template</i>
Standard:	<i>Suitable forms of capital</i>
Standard:	<i>Disclosures concerning technical performance and risks for non-life insurers and reinsurers</i>
Framework:	<i>Solvency</i>
Summary report:	<i>Analysis of insurance laws, regulations and practices in member jurisdictions</i>
Statistics:	<i>Global reinsurance</i>

2005

Revisions:	<i>Anti-money laundering guidance notes</i>
Standard:	<i>Fit and proper testing</i>
Standard:	<i>Disclosure of investment performance for non-life and life insurers</i>
Guidance paper:	<i>Form of capital adequacy requirements (pillar 1)</i>
Guidance paper:	<i>Levels of security for liabilities and for capital adequacy (statutory solvency) requirements</i>
Survey:	<i>Use of the internet and e-commerce by insurers</i>

Priorities

In 2001 the Technical Committee agreed that its key priorities should be capital adequacy/solvency, reinsurance, accounting standards, and electronic commerce. Last year it added anti-money laundering and combating the financing of terrorism to the priority list. Addressing these priorities over the past year:

- the Solvency Subcommittee finalised three papers and received a report from the International Actuarial Association (IAA), *Risk-based solvency and capital structure*
- the Reinsurance Subcommittee, in drafting its standard on the supervision of reinsurers, took an initial step towards the establishment of an accreditation system for the global supervision
- the Chair of the Accounting Subcommittee joined the Standards Advisory Council of the International Accounting Standards Board (IASB) and participated in its round table meetings and on its insurance advisory committee
- the Chair of the Working Group on E-commerce/internet participated in a meeting of the Financial Stability Forum's Contact Group on E-commerce
- the IAIS was granted observer status in the Financial Action Task Force and the Chair of the Insurance Fraud Subcommittee participated in its meetings discussing revisions to the *Forty Recommendations* and will provide input to their

“typology” session in November 2003 where cases of money laundering using insurance vehicles will be discussed.

In addition the Technical Committee had two time-limited task forces: one to revise the insurance core principles and the other to consider means of enhancing disclosure and transparency in the reinsurance sector. Progress made by these groups is reported below.

Work in progress

Accounting Subcommittee

The Accounting Subcommittee closely follows the work of the International Actuarial Association's accounting and standards subcommittees and International Accounting Standards Board (IASB) developments that are relevant to the insurance sector. It has prepared comments regarding the IASB's insurance contracts project - a project of particular interest to the Subcommittee - as well as on IAS 39, IAS 32, and the IASB's improvements project.

The IASB intends to move forward with its insurance work in two phases. Phase 1 will have major impact on the valuation of assets, the valuation of "saving contracts liabilities", and disclosure. For this latter topic, the Accounting Subcommittee has worked closely with the Enhanced Disclosure Subcommittee (see below) in providing relevant input to the IASB. Phase 2 of the project will provide guidelines and principles for fair value accounting of insurance contracts and an Exposure Draft is expected in the spring of 2004. The Accounting Subcommittee is chaired by Florence Lustman, France.

Enhanced Disclosure Subcommittee

The Enhanced Disclosure Subcommittee is drafting a standard, *Disclosures concerning technical performance and risks of non-life insurers and reinsurers*, in addition to providing comments for the IASB on insurance disclosures. This is the first in a series of standards it intends to prepare. The next will address investment disclosures for both life and non-life insurers. Some members of this Subcommittee are actively involved in the Joint Forum working group on disclosure of financial risks. The Enhanced Disclosure Subcommittee is chaired by Lars Østergaard, Denmark.

Working Group on Electronic Commerce / Internet

The Working Group began drafting a paper on how to manage risks associated with internet operations. It has decided to update *Principles on the supervision of insurance activities on the internet (October 2000)* to incorporate risk management principles and relevant issues coming from the revisions to the *Insurance Core Principles*. The Electronic Commerce / Internet Working Group is chaired by Tarmo Pukkila, Finland.

Financial Conglomerates Subcommittee

The Financial Conglomerates Subcommittee provides a link between the IAIS and the work of the Joint Forum. In 2002 the IAIS chaired a group looking into the cross-sectoral implications of extreme exogenous shocks. Its report was completed in December. The current work program focuses on risk aggregation across multiple businesses and risk categories; operational and credit risk management and the transfer of these risks; and the disclosure of financial risks (following-up on the work of the Fisher Report). The IAIS draws on its broader membership to provide insurance representation in the working groups. The Financial Conglomerates Subcommittee is chaired by Olivier Paquier, France.

Insurance Fraud Subcommittee

In addition to its work with the FATF described above and its participation in other international initiatives relating to anti-money laundering and combating the financing of terrorism, the Insurance Fraud Subcommittee analysed the results of the questionnaire on bankruptcies and liquidations. This was presented at the seminar on insolvencies in July in Guernsey. Subcommittee members helped organise and participated in the Tripartite Conference on fraud issues that was held in January following the committee meetings in New Delhi. The Insurance Fraud Subcommittee is chaired by Peter van den Broeke, Netherlands (formerly Steve Butterworth, Guernsey).

The Insurance Laws Subcommittee launched the insurance laws and reinsurers databases in the last quarter of 2002. Most of its subsequent work focused on discussing issues related to the databases - such as how to ensure the quality and security of the input. It will draft a summary report on insurance laws, regulations and practices in IAIS member jurisdictions and consider what additional kinds of analysis are required. The Insurance Laws, Regulations, Practices and Standards Subcommittee is chaired by Peter Braumüller, Austria.

Insurance Laws, Regulations, Practices and Standards Subcommittee

The Investments Subcommittee finalised its paper on credit risk transfers between insurance, banking and other financial sectors. It is currently drafting a guidance paper, *Investment Risk Management*. The Investments Subcommittee was chaired by Sue Kean, UK, who stepped down in March 2003. Three Subcommittee members - Corinne Kaufman, UK, Jos Kleverlaan, Netherlands, and Ted Price, Canada - will lead the Subcommittee until it completes the guidance paper. At that time any future work on assets and investments will be taken care of by the Solvency Subcommittee.

Investments Subcommittee

The Reinsurance Subcommittee drafted a standard describing best practices for the supervision of reinsurers (see Table 1). It continued to monitor the impact of the events of 11 September on the insurance and reinsurance sectors.

Reinsurance Subcommittee

In 2000 the Reinsurance Subcommittee established the Securitisation Subgroup to follow developments and provide information to members on alternative risk transfer products. It has drafted two issues papers on life and non-life insurance securitisation (see Table 1).

The Reinsurance Subcommittee is chaired by Henrik Bjerre-Nielsen, Denmark, and the Securitisation Subgroup is chaired by Ernst Csizar, USA. They will be merged beginning October 2003 and be called the Reinsurance and other forms of risk transfer Subcommittee.

The Solvency Subcommittee completed four papers - *Quantifying and assessing insurance liabilities*, *The use of actuaries as part of the supervisory model*, *Solvency control levels and Stress testing by insurance companies* (see Table 1). It prepared presentational material for three of the papers that can be used in training seminars. It has also begun work on three other papers: *Suitable forms of capital*, *Form of a capital adequacy requirement* and *Solvency framework*.

Solvency and Actuarial Issues Subcommittee

The Chair made several presentations to the Technical Committee setting forth the Subcommittee's vision for international convergence in solvency assessment. Under its proposal the IAIS would move towards a more consistent approach to assessing solvency. However, this would fall short of a fully harmonised and detailed framework - recognising that insurance markets and products, and their stages of development can differ significantly. The approach would be similar in general terms to that taken by the Basel Committee on Banking Supervision. In particular, guidance would be developed with respect to risk based supervision, solvency assessment and disclosure. It expects that the International Actuarial Association's report, *Risk-Based Solvency and Capital Structure*, will be useful in this work. The Solvency Subcommittee is chaired by Wil Dullemond, Netherlands (formerly Michael Hafeman, Canada).

The Task Force on the Assessment and Implementation of Insurance Core Principles held meetings to share members' experiences with the Financial Sector Assessment Program. It intends to launch a new self-assessment program in 2004 based on the revised *Insurance core principles and methodology* and has begun work on a new assessment template. The Task Force on the Assessment and Implementation of Insurance Core Principles is chaired by Alessandro Luppa, USA.

Task Force on the Assessment and Implementation of Insurance Core Principles

The Task Force on the Revisions to the Insurance Core Principles and Methodology consulted IAIS members and observers on proposed changes to the existing principles, encouraging in particular developing countries to present their views. The work, required coordination with several IAIS working parties. The Task Force on the Revisions of the Insurance Core Principles and Methodology was chaired by Giovanni Manghetti, Italy. Having fulfilled its mandate, the Task Force was disbanded.

Task Force on the Revisions to the Insurance Core Principles and Methodology

*Task Force on
Enhancing
Disclosure and
Transparency in
the Reinsurance
Sector*

The Task Force on Enhancing Disclosure and Transparency in the Reinsurance Sector was established in October 2002 to take forward work identified by the Financial Stability Forum. Over the year the Task Force has worked on a proposal to obtain information from around 50 internationally active reinsurers and four major bond reinsurers. These statistics would be a source of standardised information and analytical reports on the reinsurance industry's resiliency and soundness and the scope and nature of its risk taking. Practical work will start before the end of the year. The Task Force on Enhancing Disclosure and Transparency in the Reinsurance Sector is chaired by Henrik Bjerre-Nielsen, Denmark,

Observers' involvement

This year the Technical Committee working parties continued to receive substantial support from IAIS observers. They have been generous in providing input and comments on a range of issues when requested and respectful of supervisory concerns. Each working party has developed a unique relationship with the observer community that suits both its needs and operating style. This partnership has been productive and improved the quality and relevance of the output.

Report on standard implementation activities

The Emerging Markets Committee and Education Subcommittee coordinate IAIS activities aimed at developing insurance supervisory frameworks and capacity in emerging market jurisdictions. They are chaired by André Swanepoel, South Africa, and Hauw Soo Hoon, Singapore, respectively. Work in standard implementation logically follows the standard setting work of the Technical Committee and its working parties.

The core activities include:

- encouraging the development of self-learning courses, material for training manuals, case studies and distance-learning courses
- (co-)sponsoring regional and risk management seminars in as many regions as resources permit
- helping members arrange for and share translations of IAIS principles, standards, training manuals, case studies and other documents
- maintaining a list of international seminars and meetings for insurance supervisors and a list of available experts on insurance supervision
- facilitating on-the-job training and assignment of advisors
- providing or arranging for on-site advice for emerging markets
- liaising with other international organisations such as IMF, World Bank, OECD, FSI, IIF
- encouraging the establishment of a virtual insurance library where members can find relevant information on insurance supervision and regulation

Training manuals and case studies

Noting that there was a lack of sufficient training material on insurance supervision, the World Bank Institute and the Financial Sector Vice-Presidency of the World Bank Group decided to fund a project to develop a core curriculum. Representatives of IAIS, along with the World Bank and Financial Stability Institute (FSI), make up the Advisory Group that is steering the work. The goal of the project is to develop training material and delivery mechanisms that will be accessible to insurance supervisors anywhere in the world and who range in skills from entry level to advanced.

This year the IAIS and the World Bank collaborated in a distance-learning programme for insurance supervisors in eastern Europe. Likely next year these offerings will be expanded so that more regions can participate.

It is hoped that the training materials will be made available in several languages and that a by-product of the project will be the establishment of a library of reference materials on insurance-related and supervisory issues.

Translations

The IAIS encourages the translation of its training manuals and case studies to ensure their maximum use. In addition, translations prepared by members of IAIS principles, standards and guidance notes in Arabic, French, German and Spanish are available on www.iaisweb.org (see Table 2, following page, for a list of translated papers).

Seminars and experts

The IAIS, in collaboration with the FSI, maintains and publishes a list of training seminars for insurance supervisors. This enables emerging market supervisors to plan and budget for relevant events. A list of experts is also available giving supervisors the names and skills of people who can provide on-site advice, particularly in helping them address specific issues noted by the IMF and World Bank during their Financial Sector Assessment Program reviews.

Table 2: IAIS translated papers

	Arabic	French	German	Spanish
<i>Insurance core principles</i>	X	X	X	X
<i>Insurance core principles methodology</i>				X
<i>Supervisory standard on licensing</i>			X	X
<i>Supervisory standard on on-site inspections</i>			X	X
<i>Supervisory standard on derivatives</i>			X	X
<i>Supervisory standard on asset management</i>			X	X
<i>Supervisory standard on group coordination</i>			X	
<i>Guidance on insurance regulation and supervision for emerging market economies</i>				X
<i>Guidance paper for fit and proper principles and their application</i>			X	
<i>Anti-money laundering guidance notes for insurance supervisors and insurance entities</i>				X

The IAIS and FSI, sometimes in collaboration with other international or local organisations, assist jurisdictions in planning and organising training seminars. A guideline describing how to effectively arrange such seminars and allocate resources was drafted during the year. By and large seminars use the *Insurance core principles* as a departure point and focus on particular principles depending on the interest and needs of the audience. (See Table 3, opposite page, for a list of training seminars held between September 2002 and August 2003.)

Regional training seminars

The continued cooperation that exists with other international organisations like the Financial Stability Institute, the World Bank, IMF, OECD, Toronto Leadership Centre, International Insurance Foundation and UNCTAD has helped enormously in ensuring that emerging markets have access to assistance and training in insurance supervision. Increasingly many developed countries are organising and participating in training seminars for emerging markets. Regional training institutes are being established under the auspices of local governing bodies. These initiatives will assist in enlarging the knowledge base on insurance and insurance supervision.

Cooperation with external organisations

Table 3: Training seminars for insurance supervisors (September 2002 - September 2003)

	Location	Organiser(s)	For whom
September	Vienna, Austria	Joint Vienna Institute, FSI, IAIS	Insurance supervisors from economies in transition
	Amman, Jordan	Insurance Commission (Jordan), FSI, IAIS	Middle East and North African region
January	New Delhi, India	Insurance Regulatory Authority of India, IAIS	Insurance supervisors
	New Delhi, India	Insurance Regulatory Authority of India, Institute of Insurance & Risk Management, Malaysian Insurance Institute, Insurance Institute of India, FSI, OECD, UNCATD, IAIS	Asian insurance supervisors and industry
March	Casablanca, Morocco	Ministry of Finance and Privatisation (Morocco), FSI, IAIS	French speaking African insurance supervisors
	Basel, Switzerland	FSI, IAIS	IAIS members
May	Punta Cana, Dominican Republic	OECD, ASSAL, IAIS	Latin American insurance supervisors
	Vienna, Austria	Joint Vienna Institute, FSI, IAIS	Insurance supervisors from economies in transition
	Ljubljana, Slovenia	Slovenian Insurance Supervision Agency, Federal Office of Private Insurance of Switzerland, OECD, IAIS	European insurance supervisors
June	Wroclaw, Poland	Insurance and Pension Funds Supervisory Commission (Poland), IAIS	Central and eastern European jurisdictions
July	Guernsey	Financial Services Commission (Guernsey), FSI	IAIS members and observers
	Belize	Caribbean Association of Insurance Regulators	Caribbean insurance supervisors
August	Beatenberg, Switzerland	FSI	Insurance supervisors
	Pretoria, South Africa	Financial Services Board, FSI, IAIS	English speaking African insurance supervisors
September	Amman, Jordan	Insurance Commission (Jordan), FSI, IAIS	Middle East and North African region

Management and administration

Executive Committee The Executive Committee, with the help of the Secretariat, is responsible for the overall operation of the IAIS. It sets the broad direction of the Association on advice of members and observers and oversees its functioning.

Annual Conference A major responsibility of the Executive Committee is to ensure the sound organisation of the Annual Conference. Almost 300 participants attended the Ninth Annual Conference in Santiago. At that meeting the applications of four new members and seven new observers were approved. The Secretariat has received new applications for membership and observership. These will be put forward at the General Meeting in Singapore.

Dialogue Group A Dialogue Group meeting was held during the Annual Conference in Santiago. The Group serves as a forum to seek feedback and answer questions from observers. All members and observers can participate.

Over the year several steps have been taken to improve communication with observers and facilitate their involvement in both the IAIS's standard setting and standard implementation activities. For example, their opinions are actively sought when new principles and standards are being developed either by inviting observers to attend working party meetings or asking for written feedback on draft papers. In addition, they are made aware of upcoming training seminars and where appropriate invited to participate. Each month the IAIS posts a short summary of the proceedings of the working parties that met and final minutes are now made available to observers as well as members. The quarterly newsletter provides regular information on IAIS activities, including its participation in other international groups.

Another Dialogue Group meeting is planned for 3 October in Singapore. The Executive Committee and Dialogue Group are chaired by Manuel Aguilera-Verduzco, Mexico.

Finances The 2002 Financial Statements show revenues exceeding expenses by US\$ 76,331. This was mainly due to higher than expected fee income, a surplus from the IAIS Annual Conference in Santiago and lower than expected administrative costs and spending on training activities.

Budget This favourable financial situation cannot be sustained without an increase in fees. In addition to general cost increases, interest income has declined considerably over the past year. Fees have been at the same level since 1997. A proposal to increase fees has been circulated to members and observers and is expected to be adopted at the General Meeting in Singapore. This new fee schedule will better reflect the size of the insurance market and state of development of the economy in each jurisdiction.

The Budget Committee is chaired by Thomas Steffen, Germany (formerly Peter Pfund, Switzerland).

Secretariat The announcement that Yoshi Kawai would succeed Knut Hohlfeld as Secretary General was made at the General Meeting in Santiago. This appointment took effect on 1 June 2003. Catherine Lezon was chosen to be Deputy Secretary General. Both have experience in the IAIS and are well placed to ensure the effective operation of the Secretariat.

While the number of staff has remained the same, there have been some changes in personnel. Two new Principal Administrators have been hired - Lonny McPherson and Luc Cardinal, both from Canada. They replace Catherine Lezon and Jane Lamb, who is leaving the Secretariat in October. The Secretariat has three part-time and full-time administrative officers - Choon-Choon Blanchard, Kate Herden and Cecilia Müller-Chen.

The Japanese government has shown continued commitment and extended the term of Makoto Okubo. He works primarily on standard implementation matters. The Swiss insurance office allocates a part-time staff member, Nina Arquint, to manage the IAIS insurance laws and reinsurance databases and help out on the website. With money received from the Dutch supervisory authority the Secretariat was able to hire Lone Mørup on a three month secondment. Finally Nils Kößler - a law student - worked in the Secretariat from January to April 2003 under an internship programme funded by the German government.



Assurance

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Report of the Statutory Auditors to the Honorable Members of the
International Association of Insurance Supervisors, Basel

We have audited the accompanying balance sheets and the related statements of activities of International Association of Insurance Supervisors (the "IAIS") for the year ended December 31, 2002.

These financial statements are the responsibility of the IAIS's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the balance sheets and statements of activities comply with Swiss law and the company's articles of incorporation.

KPMG Fides Peat

Armin Bühler
Swiss Certified Accountant

Stefan Inderbinen
Swiss Certified Accountant

Basle, February 18, 2003

Enclosure:

Financial statements (statements of financial position, statements of activities and notes)



KPMG Fides Peat, a subsidiary of KPMG Huber, the Swiss member firm of KPMG network of Swiss member firms.

Member of the Swiss Institute of Certified Accountants and Tax Consultants

Enclosure I

Statements of Financial Position as per December 31,

2002

2001

	USD	USD
ASSETS		
Cash and banks	181,332	108,249
Fiduciary Investment	0	410,801
Money market investment	1,523,898	1,089,707
Accounts receivable, net	195,061	200,888
	<hr/>	<hr/>
Total	1,900,291	1,809,645
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, net	299,819	345,504
Prepaid Subscriptions	20,000	10,000
Prepayment PVK Grant	50,000	0
	<hr/>	<hr/>
	369,819	355,504
	<hr/>	<hr/>
Unrestricted Net assets		
Retained earnings	1,454,141	1,171,030
Profit for the year	76,331	283,111
	<hr/>	<hr/>
	1,530,472	1,454,141
	<hr/>	<hr/>
Total	1,900,291	1,809,645
	<hr/> <hr/>	<hr/> <hr/>

Enclosure II

Statements of Activities for the years ended December 31,

2002**2001**

USD

USD

CHANGES IN UNRESTRICTED NET ASSETS**Revenues and gains**

Membership fees	620,000	605,000
Observer fees	330,000	310,000
Annual conference registration fees	133,186	166,119
Interest income	21,599	64,270
Miscellaneous income	0	100

Total unrestricted revenues and gains

1,104,785

1,145,489

Expenses

Annual conference expenses	120,342	138,337
Salary and benefits	662,170	392,775
Relocation expenses	5,958	5,518
Training	9,298	3,836
Fax and telephone	2,589	3,316
Travel and transportation	114,905	77,462
Postage and office supplies	4,185	5,616
Professional services	2,893	2,500
Printing	0	184
Entertainment	10,308	10,408
Website	11,530	117,643
Education	50,072	77,146
Provision for bad debts	0	15,000
Miscellaneous expenses	34,204	12,637

Total expenses

1,028,454

862,378

Increase in unrestricted net assets

76,331

283,111

Enclosure III

Notes to the Financial Statements ended December 31, 2002

1 NATURE OF ORGANIZATION

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

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

2 INCOME TAXES

The Association is exempt from income tax following its move to Switzerland in 1998.

3 CONTRIBUTIONS RECEIVABLE

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

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

At December 31, 1999, all contributions due to IAIS had been received.

4 BENEFITS RECEIVED

Since its move to Switzerland in 1998, IAIS benefits from administration, accounting and other advisory services provided by the Bank for International Settlements, Basle; the total amount of these benefits has not been determined.

IAIS Members

Albania	Albanian Insurance Supervisory Commission
Argentina	Superintendencia de Seguros de la Nacion Argentina
Aruba	Centrale Bank van Aruba
Australia	Australian Prudential Regulation Authority (APRA) Motor Accidents Authority of NSW Private Health Insurance Administration Council (PHIAC)
Austria	Financial Market Authority (FMA)
Bahamas	Office of the Registrar of Insurance Companies, Ministry of Economic Development
Bahrain	Bahrain Monetary Agency
Barbados	Ministry of Finance and Economic Affairs
Belgium	Office de Contrôle des Assurances
Belize	Office of the Supervisor of Insurance
Bermuda	Bermuda Monetary Authority
Bolivia	Superintendencia de Pensiones, Valores y Seguros
Botswana	Ministry of Finance & Development Planning
Brazil	Superintendencia de Seguros Privados (SUSEP)
British Virgin Islands	Financial Services Commission (FSC)
Bulgaria	Financial Supervision Commission
Canada	Office of the Superintendent of Financial Institutions Financial Services Commission of Ontario Inspecteur General des Institutions Financieres, Québec
Cayman Islands, BWI	Cayman Islands Monetary Authority
Chile	Superintendencia de Valores y Seguros
China	China Insurance Regulatory Commission
Chinese Taipei	Department of Insurance
Croatia	Insurance Supervisory Authority
Cyprus	Ministry of Finance - Insurance Companies Control Service
Czech Republic	Office of the State Supervision for Insurance and Pension Funds
Denmark	Finanstilsynet (Danish Financial Supervisory Authority)
Ecuador	Superintendencia de Bancos
Egypt	Egyptian Insurance Supervisory Authority
El Salvador	Superintendencia del Sistema Financiero
Estonia	Estonian Financial Supervision Authority
European Commission	European Commission
Fiji	Reserve Bank of Fiji

Finland	Insurance Supervisory Authority Ministry of Social Affairs & Health
France	Commission de Contrôle des Assurances Ministère de l'Economie, des Finances et de l'Industrie
Georgia	Insurance State Supervision Service of Georgia
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht Bundesministerium der Finanzen
Ghana	National Insurance Commission Ghana
Gibraltar	Financial Services Commission
Greece	Direction of Insurance Enterprises and Actuaries
Guatemala	Superintendencia de Bancos
Guernsey	Guernsey Financial Services Commission
Guinea	Direction des Assurances
Honduras	Comision Nacional de Bancos y Seguros
Hong Kong	Office of the Commissioner of Insurance
Hungary	Hungarian Financial Supervisory Authority
Iceland	The Financial Supervisory Authority
India	Insurance Regulatory and Development Authority
Ireland	Irish Insurance Supervisory Authority
Isle of Man	Isle of Man Government, Insurance and Pensions Authority
Israel	Ministry of Finance
Italy	ISVAP
Jamaica	Financial Services Commission
Japan	Financial Services Agency
Jersey	Jersey Financial Services Commission
Jordan	Insurance Commission
Kazakhstan	National Bank of Kazakhstan
Kuwait	Ministry of Commerce & Industry
Labuan, Malaysia	Labuan Offshore Financial Services Authority (LOFSA)
Latvia	The Financial and Capital Market Commission
Lesotho	Central Bank of Lesotho
Liechtenstein	Amt für Volkswirtschaft, Versicherungsaufsicht
Lithuania	State Insurance Supervisory Authority Under the Ministry of Finance
Luxembourg	Commissariat aux Assurances
Macau	Autoridade Monetária e Cambial de Macau
Macedonia	Ministry of Finance
Malaysia	Bank Negara Malaysia
Malta	Malta Financial Services Centre
Mauritius	Financial Services Commission

México	Comision Nacional de Seguros y Fianzas
Nepal	Beema Samiti (Insurance Board)
Netherlands	Pensioen- & Verzekeringskamer Ministerie van Financiën
Netherlands Antilles	Bank van de Nederlandse Antillen
New Zealand	Ministry of Economic Development
Norway	Kredittilsynet
OECD	Organization for Economic Cooperation & Development
Panama	Superintendencia de Panama
Papua New Guinea	Department of Finance & Treasury
Peru	Superintendencia de Banca y Seguros del Peru (SBS)
Philippines	Insurance Commission
Poland	Insurance and Pension Funds Supervisory Commission
Portugal	Instituto de Seguros de Portugal
Republic of Korea	Financial Supervisory Service (FSS) & Financial Supervisory Commission (FSC)
Romania	Insurance Supervisory Commission
Russia	Department of Insurance Supervision
Samoa	International Companies Office
Singapore	Monetary Authority of Singapore
Slovakia	Financial Market Authority
Slovenia	Insurance Supervisory Authority
South Africa	Financial Services Board
Spain	Dirección General de Seguros y Fondos de Pensiones
Sri Lanka	Insurance Board of Sri Lanka
Suriname	Centrale Bank van Suriname
Sweden	Finansinspektionen
Switzerland	Bundesamt für Privatversicherungen
Tanzania	Ministry of Finance
Thailand	Department of Insurance
Trinidad & Tobago	Central Bank of Trinidad & Tobago
Turkey	Prime Ministry, Undersecretariat of Treasury
Turks & Caicos BWI	Financial Services Commission
Uganda	Uganda Insurance Commission
United Kingdom	Financial Services Authority
Uruguay	Superintendencia de Seguros y Reaseguros
USA	National Association of Insurance Commissioners (NAIC)
Vanuatu	Vanuatu Financial Services Commission

Candidates for membership 2003 (applications received by July 2003):

Dominican Republic	Superintendencia de Seguros de la República Dominicana
Lebanon	Insurance Control Commission
Mongolia	Ministry of Finance and Economy
Morocco	Direction des Assurances et de la Prévoyance Sociale
Namibia	Namibia Financial Institutions Supervisory Authority (NAMFISA)

IAIS Observers

International Institutions	<p>Asian Development Bank (ADB)</p> <p>Comité Européen des Assurances (CEA)</p> <p>Federación Interamericana de Empresas de Seguros (FIDES)</p> <p>International Actuarial Association (IAA)</p> <p>International Insurance Foundation (IIF)</p> <p>International Monetary Fund (IMF)</p> <p>World Bank (WB)</p> <p>World Federation of Insurance Intermediaries (WFII)</p>
Australia	Insurance Council of Australia Limited
Brazil	Federação Nacional das Empresas de Seguros Privados e de Capitalização (FENASEG)
Canada	<p>Canadian Life & Health Insurance Association Inc.</p> <p>Insurance Bureau of Canada</p> <p>Lawrie Savage & Associates Inc.</p> <p>The Toronto International Leadership Centre for Financial Sector Supervision</p>
Chinese Taipei	<p>Insurance Institute of the Republic of China</p> <p>The Life Insurance Association of the Republic of China</p> <p>The Non-Life Insurance Association of the Republic of China</p>
Colombia	Federacion de Aseguradores Colombianos, Fasecolda
Finland	Federation of Finnish Insurance Companies
France	<p>Deloitte Touche Tohmatsu</p> <p>Fédération Française des Sociétés d'Assurance</p> <p>SCOR</p>
Germany	<p>Allianz AG</p> <p>Gesamtverband der Deutschen Versicherungswirtschaft</p> <p>KPMG Deutsche Treuhand-Gesellschaft AG</p> <p>Münchener Rückversicherungs-Gesellschaft</p> <p>Tillinghast - Towers Perrin</p>
Israel	Association of Life Insurance Companies Ltd
Italy	Associazione Nazionale fra le Imprese Assicuratrici
Japan	<p>Meiji Life Insurance Company</p> <p>Nippon Life Insurance Company</p> <p>Sumitomo Life Insurance Company, Research Section</p> <p>The Dai-ichi Mutual Life Insurance Company</p> <p>The General Insurance Association of Japan</p> <p>The Life Insurance Association of Japan</p> <p>The Toa Reinsurance Company Ltd.</p>

	The Tokio Marine and Fire Insurance Co. Ltd.
Netherlands	Verbond van Verzekeraars
Poland	Polish Chamber of Insurance
Singapore	General Insurance Association of Singapore
	Life Insurance Association (LIA)
Switzerland	Schweizerischer Versicherungsverband
	Swiss Re
	XL Winterthur International
Turkey	Association of the Insurance and Reinsurance Companies of Turkey
United Kingdom	Association of British Insurers
	Barlow Lyde & Gilbert
	Clifford Chance
	Ernst & Young
	Government Actuary's Department
	International Underwriting Association of London
	Lloyd's
	Pricewaterhouse Coopers
	Royal & Sun Alliance Insurance Group plc
USA	A.M. Best Company
	ACE INA Holdings Inc.
	American Council of Life Insurers
	American Insurance Association
	American International Group Inc.
	Barnert Global Ltd.
	Insurance Services Office Inc.
	Law Office of Carolyn Cobb
	New York Life International
	Reinsurance Association of America
	The Chubb Corporation

Candidates for observership 2003 (applications received by July 2003):

Bermuda	Property Catastrophe Reinsurance & Excess Liability Insurance Association (PC Re-Eli)
Canada	CompCorp
Japan	Nipponkoa Insurance Company Ltd
Portugal	Associação Portuguesa de Seguradores
United Kingdom	Aviva plc