

**INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS**



**SURVEY ON IMPLEMENTATION OF IAIS
DISCLOSURE STANDARDS
REPORT ON RESPONSES
DECEMBER 2008**

Survey on implementation of IAIS Disclosure Standards

Report on responses

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Introduction

Between 2004 and 2006 the IAIS issued the following three standards on disclosures by insurers:

- Disclosures concerning technical performance and risks for non-life insurers and reinsurers (October 2004)
- Disclosures concerning investment risks and performance for insurers and reinsurers (October 2005)
- Disclosures concerning technical risks and performance for life insurers (October 2006)

During the year the Accounting Subcommittee – the IAIS working party responsible for work in the area of public disclosures to the market – conducted a limited, high-level survey on the implementation by Members of the three disclosure standards. The aims in conducting the survey were primarily to obtain information that would:

- provide an indication of the degree of implementation by IAIS Members of these standards, or their plans to do so, and
- inform future standard setting work on public disclosure by the IAIS by identifying implementation difficulties (which might lead to improvements to the current standards) and obtaining feedback on expectations for further output from the IAIS in this area.

45 IAIS Members responded to the survey, including major markets and a good cross-section of others.

Responses were provided by Argentina, Aruba, Australia, Austria, Bahrain, Belgium, Bermuda, Canada (AMF), Canada (OSFI), Chile, Chinese Taipei, Columbia, Czech Republic, Denmark, El Salvador, Fiji, Finland, France, Germany, Guatemala, Hungary, India, Italy, Jamaica, Japan, Kazakhstan, Korea, Kosovo, Macau, Malaysia, Malta, Mexico, Morocco, Netherlands, Poland, Romania, Saudi Arabia, Serbia, Singapore, South Africa, Spain, Switzerland, UK, USA, Uruguay.

I. Responsibility for public disclosures

The survey asked respondents for information on the authority within their jurisdiction for imposing public disclosures. It also sought information on responsibility for publication of such information and for its frequency. The first section of this report summarises Members' responses on these questions.

Is the insurance supervisor empowered to impose public disclosure in your jurisdiction? If not, please indicate the regime responsible for public disclosures. (Q1)

Responses indicated that in around two thirds of cases (31 respondents) the insurance supervisor is empowered to impose public disclosure in their jurisdiction. Two such responses qualified this by noting their reliance upon the accounting standard setter, and three jurisdictions in this category noted limitations in the current disclosures.

A small number of responses commented that responsibility for disclosure requirements is split among different regulators such as the securities regulator, the central bank and the accounting standard setter.

12 responses indicated that the insurance supervisor is not responsible for imposing public disclosures. One such response noted that there is significant consultation with the insurance supervisor prior to requirements being set. Another noted that the insurance supervisor has specific powers to impose accounting standards for insurers, and may publish such information.

In jurisdictions where insurance supervisors are not empowered to impose public disclosure, some responses indicated that this is the responsibility of government ministries (Finance, Justice).

Who publishes the disclosures required (eg the company or the supervisor)? (Q7(a))

The majority of responses (31) indicated that the disclosures are made by the company; as opposed to nine indicating that they are made by the supervisor, and in two cases both publish the information.

Several responses noted that where one party (eg the company) is primarily responsible for publication, the other (eg the supervisor) sometimes also publishes certain information.

What is the frequency of disclosures (eg do any disclosures occur more than once a year)? If so, which? (Q7(b))

Responses indicated that in most cases (34) public disclosures are made once a year.

A number of respondents in this category noted that disclosures are more frequent (generally quarterly) for listed companies. In some cases the annual disclosures are supplemented by semi-annual, quarterly, or monthly, more limited disclosures. In one case additional disclosures which go beyond the annual filings are generally made quarterly. Two of the responses noted that annual disclosures are a minimum requirement with more frequent disclosures permitted. In one major jurisdiction quarterly disclosure is required if there has been a material change since the last annual filing.

In one major jurisdiction the frequency of disclosure is currently semi-annually, with quarterly requirements for listed companies. The quarterly requirements will be extended to all life insurers from 2009.

Eight respondents indicated that disclosures are made on a quarterly basis, in some cases with additional information published on an annual or a contingent basis.

Key messages

- In the majority of cases the insurance supervisor is empowered to impose public disclosure.
- In some cases this power is shared, limited, or there is reliance on other standard-setters (ie accounting) to fulfil this role.
- In around 70% of cases the disclosures are made by the company (rather than the supervisor) and in a few cases both are responsible.
- In around 75% of cases the disclosures are made annually, sometimes with more limited disclosure published on a more frequent (quarterly) basis; in around 20% of cases the full disclosures are published more frequently, generally quarterly.

II. Status of implementation of IAIS disclosure standards

This section of the report focuses on the status of implementation of the IAIS disclosure standards by Members. Where minimum IAIS standards are not already met it seeks to find out in which areas, as well as future plans for implementation.

Are the minimum requirements set out in the IAIS disclosure standards already met? Yes / No (Q2(a))

Responses:

Yes	10
Almost met	3
To the extent that requirements are covered by IFRS	3
No	29

The above results indicate that most (64%) jurisdictions are not fully meeting the requirements. A few jurisdictions mentioned in their responses that the implementation of the EU Solvency II regime would bring about full implementation of the IAIS disclosure standards, in the future.

If the standards are not fully met:

i which sections of the standards have not been implemented, ie disclosure on risk management, business overview, etc. (Q2(bi))

Responses indicated that the sections that are not fully implemented are primarily the following:

- Risk exposures
- Risk management
- Information on asset-liability management
- Sensitivity analysis, stress and scenario testing
- Information on technical provisions (eg methodology, discount rates, assumptions)
- Performance measurement
- Segmented results

On the basis of the responses provided, we are lead to the conclusion that the investment standard is the most fully implemented of the three standards. It seems that the disclosure

on performance measurement and on market risk exposures of assets and the given asset class segregation are mostly meeting the requirements of the investment standard.

However in some cases it is not clear whether the responses refer to both solo entities and groups or only to the requirements for insurance groups (consolidated level).

Several responses (around 10) indicated a low degree of implementation, including in two cases reliance upon the accounting standards to meet disclosure requirements.

ii are there plans and timeframes to do so? If so, what are they? (Q2(bii))

Around ten jurisdictions have plans to improve implementation of the disclosure standards within the next 2-3 years. Six other supervisory authorities will implement the disclosure requirements as part of their implementation of EU Solvency II regime. Nine other jurisdictions have no specific plans for any further implementation work, and these include some jurisdictions which currently have only a low degree of implementation.

Key messages

- Most jurisdictions do not fully meet the requirements.
- The disclosure standard concerning investments risks and performance seems to find better acceptance than the two standards focused on technical performance and risks for life/non-life insurance.
- Many jurisdictions are working towards meeting the requirements, and in some cases this effort is related to the introduction of the Solvency II regime which will result in their meeting the IAIS requirements.
- A number of jurisdictions however seem to have no specific plans to implement the IAIS disclosure standards.

III Quality of current public disclosures

In this section of the report we look at the degree to which Members' public disclosures exceed those of the IAIS standards both by requirement and in practice.

Do the current disclosure requirements in your jurisdiction exceed the IAIS minimum requirements as set out in the three disclosure standards? If so, please elaborate. (Q4)

In over 80% responses indicated that disclosure requirements were equal to or below the minimum disclosure requirements set out in the IAIS standards.

Eight jurisdictions (mainly developed markets) reported that they exceed the requirements, mostly in specific areas. The areas identified were:

- Capital requirements
- Statistical information by insurer
- More detailed information on investments (issuer, timing)
- Discretionary benefits
- Life insurance asset allocation
- Expenses
- Greater segregation of financial and technical items

It was also noted that jurisdictions which implement IFRS as well as the IAIS disclosure standards are likely to exceed IAIS minimum disclosures.

Do the current disclosure practices in your jurisdiction exceed the IAIS minimum requirements as set out in the three disclosure standards? If so, please elaborate. (Q5)

In comparing jurisdictions' disclosure practices with minimum IAIS requirements, responses gave similar results to the above.

In addition the following specific disclosure practices were cited:

- Capital and solvency ratios
- Embedded values

Some Members also highlighted that public companies in their jurisdiction also provide enhanced disclosures for investor relation purposes.

Key messages

- In around 20% of cases disclosure requirements exceed the IAIS minimum requirements, generally in specific areas of disclosures.
- Disclosure practices exceed these requirements, particularly in the case of public companies.

IV. Implementation issues

A number of the questions in the survey asked for feedback on different aspects of implementation: implementation problems, implementation of quantitative capital requirements, materiality, and costs.

Have you experienced problems in implementing the requirements which led to subsequent changes to the IAIS disclosure requirements in your jurisdiction? (Q3)

- Many responding jurisdictions did not express any difficulties in implementing the standards; however in some cases this was because the IAIS standards have not yet been implemented.
- A few jurisdictions expressed identified areas of difficulty, and these included the following:
 - Resistance from industry (actual or anticipated)
 - The existence of a principles-based legal framework: detailed requirements would need to be introduced in the form of additional guidance from the supervisory authority rather than in the legislation
 - Availability of data
 - Industry requests for greater prescription of the information to be disclosed.
- Obstacles to implementation also exist in some jurisdictions because of the costs involved in the process and additional expenses occurring for the reporting companies (see below).
- One jurisdiction questioned whether all the IAIS requirements were relevant in their own market circumstances.
- None of the responses appeared to indicate that the substance of the standards could not be implemented.

Have you implemented quantitative disclosure requirements for capital requirements in your jurisdiction for both life insurers and non-life insurers? (Q6)

- Jurisdictions are divided on this issue. A large group of jurisdictions requires companies to disclose detailed quantifiable information on their capital position and requirements for both Life and Non-Life insurers. In contrast, some jurisdictions require their companies just to report on the available solvency capital.
- Some responses were given within the context of a) current IFRS requirements (ie the requirements are met to the extent that they are fall within IFRS) and b) future Solvency II requirements (ie the requirements will be met when the Solvency II regime is implemented).

How do you apply the principle of materiality? (Q8)

- There were few responses with specific answers to the application of this principle. Some jurisdictions have introduced the principle as part of their local financial reporting standards; some jurisdictions seem to have rules-based disclosure requirements which do not consider the principle of materiality.
- Several jurisdictions, where disclosure requirements are part of the financial reporting framework and closer to IFRS, have all introduced the principle of materiality within that context.
- Other considerations raised in applying the principle of materiality were: the nature of the subject matter, public interest, shareholder interest, costs vs benefits, and the sophistication of the local market.

Please provide any feedback you have received regarding how significant the additional costs are expected to be for the provision of additional disclosures, as required by the IAIS disclosure standards? (Q9)

- Most EU jurisdictions will introduce new disclosure requirements and standards as part of Pillar III of Solvency II. Companies' costs in implementing the standards are expected to be significant.
- Some jurisdictions also mentioned that costs will be significant for the industry in data collection and systems customisation to produce the necessary reports.
- A small number of jurisdictions also pointed out that the expense burdens to adapt to new standards would be acceptable in view of improved transparency and market discipline. However, it would be most advisable to minimise the frequency with which we impose changes to the disclosure requirements.

Key messages

- The majority of jurisdictions are willing and able to implement the IAIS standards' requirements.
- There are different views regarding whether capital requirements should be disclosed in addition to capital available.
- There are mixed practices regarding the principle of materiality; it is generally applied within the context of financial reporting.
- Implementation cost are expected to be high for many jurisdictions; however, in many cases these costs relate to the implementation of Solvency II rather than the IAIS standards per se.
- In view of the cost impact, frequent changes to the standards should be avoided.

V. Suggestions for future IAIS work on public disclosures

The final section of the report sets out the feedback obtained regarding Members' suggestions for improvements to the IAIS disclosure standards and/or other work by the IAIS in the field of public disclosures.

Do you have suggestions for improvement in the requirements of the disclosure standards by the IAIS? (Q10(a))

Around half of the jurisdictions which responded to the survey offered comments or suggestions.

Possible gaps in the standards

A number of suggestions were made to fill potential gaps in the standards. Some of these have been prominent issues within the context of the market turbulence of the last year and in some cases the subject of ongoing work in other forums, such as the IASB. This work may result in recommendations for improved disclosure. These suggestions made were to

- ensure that both on and off-balance sheet risks are included in the standards. The standards do not currently discuss off-balance sheet risks.
- add disclosure requirements of valuation methodology.

Other specific suggestions were to:

- promote a consistent approach to calculating ratios and claims development, to promote better comparison between jurisdictions
- publish management's analysis of performance, to promote better understanding of the technical data provided

General suggestions

Relationship with IFRS

IFRS 7 deals with disclosures in respect of financial instruments. As discussed above, a number of jurisdictions appear to rely on the implementation of IFRS to meet disclosure obligations. IAIS disclosure requirements would therefore only be met to the extent that these are included in IFRS (IFRS 7 in particular).

In responding to this question a number of other jurisdictions have recommended closer alignment of the IAIS disclosure standards with IFRS disclosure requirements. At the same time, it has been pointed out that IFRS currently does not include disclosure requirements addressed specifically to insurance business.

Comment: In taking forward any work to align more closely the IAIS and IFRS disclosure requirements, the IAIS should also to consider the need for its disclosure requirements to go beyond the accounting-type disclosures required by IFRS.

Relationship with Solvency II

A number of jurisdictions have recommended close coordination with Solvency II in making any revisions to the standards.

Consolidate the three standards

It had originally been contemplated within the IAIS that the three disclosure standards would eventually be consolidated into a single standard. This idea has been reiterated in some of the comments, including related suggestions to standardise the standards, and to adopt a single standard covering both non-life and life insurance business.

Comment: Consolidation of the three standards would give the opportunity of ensuring greater consistency in the level of detail and drafting style of the standards.

Points to consider in revising the standards

A number of more general recommendations were made, which might be taken into account in any revisions to the standards:

- The standards could distinguish more clearly the key requirements from guidance, explanations and examples
- The standards should avoid being too prescriptive and provide principles, allowing jurisdictions to implement them taking into account the level of sophistication of their market
- The standard(s) could be subdivided into sections according to their supervisory purpose
- The standard(s) should be sufficiently flexible to be able to be amended to respond to disclosure needs arising from emerging issues.

Timing of any revisions

The comments included a recommendation to avoid major changes to the standards at this point in time in view of the relative newness of the standards and current developments at the IASB and in Solvency II which will result in new disclosure requirements for many insurers.

Other comments

One comment raises the point that standards setting out IAIS public disclosure requirements need to be underpinned by strong fundamental principles in this area. The IAIS is in the process of revising the Insurance Core Principles. The revision should include sufficiently robust principles on public disclosures and transparency toward the market.

What further output would you expect from the IAIS in the area of disclosure requirements? (Q10(b))

Around 70% of jurisdictions which responded to the survey offered comments or suggestions. Some of these reiterated suggestions made under 10(a). This feedback will be useful to the IAIS in considering how to prioritise its future work on public disclosures.

Implementation assistance

Needs relating to implementation/education on the standards were raised as a priority for future work by a few jurisdictions, including in developing markets. This included requests – also from developing jurisdictions – for detailed guidance, or tools, in the following areas: calculating the solvency margin, assessing risk methodologies, performing sensitivity analysis, calculating technical provisions.

One developing jurisdiction raised the issue that market discipline is not easily achieved through disclosure requirements where there is no market for public disclosures (other than from the supervisory authority). The IAIS could consider this situation more closely.

A suggestion was also made that the IAIS provide information to its members on the experiences of developed countries in implementing the disclosure standards, in terms of costs and major concerns.

Relationship with IFRS

There was clear concern that IAIS disclosure requirements should not conflict with IFRS requirements. There was a recommendation to produce a document which coordinates IAIS

and IFRS requirements, as well as to make IAIS disclosure requirements more consistent with those of IFRS.

There were recommendations that the IAIS provide input to the IASB's Insurance Contracts project on presentation and disclosure requirements for insurers. *(Such work falls within the combined mandates of the Accounting and Insurance Contracts Subcommittees.)*

Other recommendations for further work

Review best practice disclosures

A recommendation was made that the IAIS review its disclosure standards within the context of the best practice disclosures set out in April 2008 reports by the Financial Stability Forum and Senior Supervisors Group. Related recommendations were that the IAIS reviews current best practice disclosures by insurers, and that it monitors insurers' public disclosures.

Review disclosures in crisis situations

Within the context of the current market turbulence, a recommendation was made that the IAIS review its disclosure standards to see whether they promote sufficient understanding of an insurer's financial position and risk exposures in crisis situations.

Capital requirements

The IAIS could consider setting requirements to disclose capital requirements and how these are met.

Non-technical risks

The IAIS could consider whether it needs to set any disclosure requirements for non-technical risks.

Other comments and recommendations were as follows:

- The three standards should be consolidated (as discussed in 10a above).
- In undertaking further work the IAIS should take into account Solvency II requirements.
- The IAIS should provide statistics on consultations with policyholders on publicly disclosed information.

Comment: This suggestion could be passed on for consideration by the Market Conduct Subcommittee.

- The IAIS could consider whether universal application of the standards should apply. For example, should similar requirements apply to a foreign branch as to a locally incorporated entity? This comment bears in mind resource constraints.
- Work could be undertaken on reporting requirements to the supervisor.
- A request was made that the IAIS consider disclosure requirements for financial (banking) groups with insurance activities.

Key messages

As priority work on public disclosures the IAIS should:

- Respond to implementation needs, including more detailed guidance in some areas
- Consider whether the standards are sufficiently robust in light of current market turbulence, and review best practices and disclosure implications from results of ongoing initiatives which respond to recent market events
- Work now to identify significant gaps in requirements but do not otherwise amend standards

- Provide input to IASB on insurance-related disclosures, and seek to avoid conflicting requirements with both IFRS and Solvency II

Conclusions

The survey produced 45 responses, including most major jurisdictions and a good cross-section. The response overall can be considered satisfactory and a reasonable basis from which to draw conclusions on the status of implementation of the IAIS disclosure standards.

Responsibility for public disclosures

In around two-thirds of jurisdictions insurance supervisors are empowered to impose public disclosures; in addition, sometimes this responsibility is shared with other regulators. Where not, there may nevertheless be significant consultation with the supervisor in setting disclosure requirements. Responsibility for making public disclosures is with the insurer in around two-thirds of jurisdictions. Otherwise this responsibility lies with the insurance supervisor or it is shared between the two. In the majority of jurisdictions public disclosures are made annually. More frequent disclosures occur generally in the case of listed companies.

Implementation of IAIS disclosure standards

Given that the supervisor is often responsible for imposing public disclosure requirements it is of interest that the majority of jurisdictions do not fully meet the IAIS disclosure requirements. EU jurisdictions to which this applies indicated that the implementation of Solvency II (Pillar III requirements) is expected to result in compliance with the IAIS disclosure requirements. Responses also indicated that a number of jurisdictions rely upon international financial reporting standards to set public disclosure requirements.

Whilst around 20% of jurisdictions expect to improve their disclosure requirements within the foreseeable future, around the same number (which do not currently meet the requirements) have no such plans.

Several jurisdictions reported higher disclosure requirements (and practices) than those of the IAIS standards – mainly in the case of major markets and/or listed companies.

Areas of the standards which have not been fully implemented were various. It appears that the requirements of the investment standard are the most widely implemented of the three – possibly reflecting the existence of IFRS disclosure requirements for the reporting of financial instruments, whilst there is currently no comprehensive accounting standard for insurance contracts.

A number of barriers to implementation were cited, including: costs, industry resistance, a concern for some about over-prescription together with requests from others for more specific guidance, lack of availability of data, and in some less sophisticated jurisdictions the lack of a market for public disclosures. Some jurisdictions requested that frequent changes to the standards are avoided in view of cost, some also pointing out the future demands of implementing Solvency II.

Key messages and priorities for IAIS work on public disclosures

The events of the last year or so have highlighted shortfalls in public disclosures. The Financial Stability Forum and more recently the G20 have asked for improvements in a number of areas. Whilst these questions are addressed primarily to the accounting standard setters, nevertheless certain aspects are particularly relevant to insurance supervisors, including risk management and valuation methodologies.

The status of implementation of the IAIS disclosure standards indicates that priorities should include:

- raising the focus and priority of public disclosure requirements within the IAIS membership, and
- focusing on promoting implementation, including responding to the implementation needs identified from the survey.

In making potential revisions to the standards, the survey indicates that the IAIS should consider whether the standards are sufficiently robust in light of current market turbulence, and review best practices and disclosure implications from results of ongoing initiatives which respond to these market events. Work should be undertaken to identify significant gaps in the IAIS requirements.

The standards should not be revised unnecessarily, particularly as many jurisdictions are or will be faced with the implementation of IFRS and Solvency II disclosure requirements. Future work on the IAIS standards should seek to avoid conflicting requirements with both IFRS and Solvency II. The IAIS should provide input to the IASB on insurance-related disclosures within the context of its insurance contracts project.