

Table of Contents

Mandates, Vision, Mission, Principles, and Approaches.....	2
Organization and Function Chart of the Insurance Board/Commission	4
Executive Summary	5
Overview of the Insurance Industry.....	8
Regular Insurance Companies:	8
A. Insurers:.....	8
B. Intermediaries:	9
Major activities of the Board in FY11	12
Appendix A: Financial Performance of the General Insurance Industry	13
Appendix B: Overview of the Board’s FY11 Budget.....	16

Mandates, Vision, Mission, Principles, and Approaches

Our Mandates are per Section 204 of 37 FSMC:

- To regulate insurance business;
- To undertake the licensing and supervision of insurers, insurance agents, insurance brokers, and insurance solicitors;
- To protect the interests of policyholders; and
- To promote the soundness, stability and development of the insurance system in the FSM.

Our Vision is a stable, sound and healthy FSM insurance market system that is fair, effective and efficient for the insuring public, insurer and intermediary.

Our Mission is to equitably, effectively and efficiently administer and implement the FSM Insurance Act of 2006 or 37 FSM Code. In respect to our regulatory functions, the Board is committed to develop and set into place practical yet basic key standards to ensure stability, sound, healthy, responsible and progressive insurance industry for the insuring public and regulated. In respect to our supervisory functions, the Board is committed to incorporating a greater understanding of business needs and be more tolerant of business imperatives through insistence on professional competence and integrity.

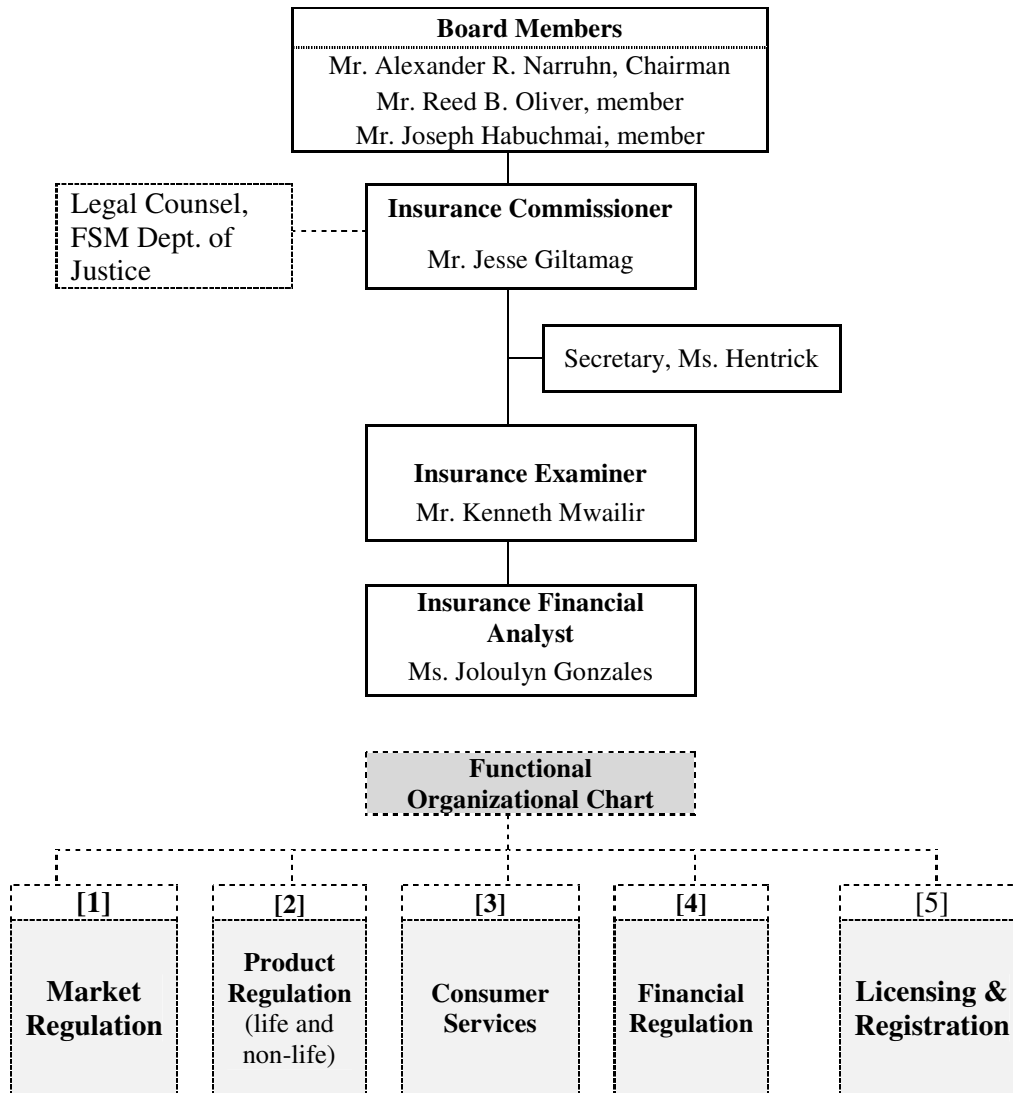
Our Regulatory Principles: Following are regulatory principles that will govern the Board's regulatory approaches:

- Focus more on systematic risk rather than protecting individual customers – our primary responsibility is to ensure confidence and avoidance of disruption in the industry. While protecting policyholder's interests is our primary objective, it is equally important to enable insurance companies to take prudent business risks.
- Regulatory and supervision functions change as the industry matures – the insurance companies should be allowed to assume the risk profiles which they are comfortable with, but within prudential limits.
- A balance mixed between regulation and supervision - appropriate regulatory standards should be applied taking into account that each player in the industry is different. Certain degree of flexibilities should exist to encourage growth and innovation in good companies. Supervision will then afford the Board the opportunity to deal effectively with good and bad companies.
- The need to maintain high standards of integrity and sound financial management – Optimal standards of integrity and sound financial management not be compromised for there should be no contradiction between keeping standards high and creating a more dynamic and vibrant environment.
- All regulations should provide greater transparency – regulations should be as clear as possible and not to treat every company as a culprit until proven otherwise (it is the duty of the Board to be skeptical of human motives but also the responsibility of the Board to differentiate traffic offense from fraud and embezzlement).
- Relying more on market discipline and full information disclosure to protect policyholders – making sure there is transparency and full disclosure so the playing field is level allowing the public to decide which companies are sound and be trusted and which companies should be avoided.
- Close cooperation between the Board and regulated – the relationship between the Board and regulated should be at “arms-length” but not in an adversarial manner so to avoid conflict of interest and being seen as “too friendly” as to be taken advantage of. The regulated is in the best position to help the Board keep abreast of new developments in the industry. Candid, thoughtful feedbacks, including dissenting views are essential to help the Board fine tune policies and avoid mistakes.

Our Regulatory Approach: in our dealings and conducts is to exemplify friendliness, courteous, ethical, and professional behavior in all areas of performance by:

- Providing the best value in services to everyone, domestically and internationally;
- Applying the laws and regulations fairly, impartially and consistently;
- Ensuring our conducts and dealings are in line with the highest professional ethical standards;
- Maintaining an open and accurate communication of information to the public and everyone we exist to serve on a timely basis;
- Contributing toward a dynamic and vibrant market environment;
- Protecting the policyholders through fair, effective and efficient administration, implementation and enforcement of statutory, regulatory and prudential standards yet ensuring institutions and markets function as efficiently and effectively as possible for sustainable development; and
- Constantly evaluating our regulatory and supervisory strategies and approaches by employing the necessary adjustments in response to changes in conditions.

Organization and Function Chart of the Insurance Board/Commission



- 1 To ensure fair and reasonable products and trade practices, rates are not too excessive, processing complaints in respect to trade practices, verification of claim handling, and other market conduct related issues.
- 2 Ensure insurance products are consistent with statutory, regulatory and prudential requirements in respect to contents, terms, standards, forms, and other specifications. Ensure and verify rates, forms and policy substance and conditions are fair and reasonable, etc.
- 3 Process complaints and undertake public education activities so policyholders, public, insurers, and intermediaries are fully informed.
- 4 Compile financial data to ensure the reliability and financial soundness of insurance companies and intermediaries by making sure annual and quarterly financial reports are filed and analyzed on time. Compilation and analysis of key data to determine conditions in respect to capital adequacy, risk based profile, corporate and management quality, reinsurance, loss reserve adequacy, solvency margin, risk based capital, accounting methods, underwriting, etc.
- 5 To ensure applicants and licensees comply with statutory, regulatory and prudential requirements prior to licensure and transaction of insurance business. To monitor license conditions, assess and impose fines, etc.

Executive Summary

This Report is submitted to comply with Section 205 of Title 37 of the FSM Code which requires that “By May 1 each year, the *Board shall transmit to the President and Speaker a report containing a tabulated statement and synopsis of the reports which have been filed with the Board showing the conditions of every person licensed under this Act, the general condition of the insurance business in the FSM, and other matters covering insurance and including the activities of the Insurance Board, for the last fiscal year. This report shall be made available to the general public.*”

The legal mandates of the Board pursuant to Section 204 of 37 FSMC are:

- (1) to regulate insurance business;
- (2) to undertake the licensing and supervision of insurers, insurance agents, insurance solicitor, and insurance broker;
- (3) to protect the interests of policy owners; and
- (4) to promote the soundness, stability, and development of the insurance system in the FSM.

Essentially, the underlying objective is to ensure the insurance system in the country is protected and functioning in an optimal stable, sound and healthy manner for investors, policyholders, and in the case of annuity the depositors. The approaches and mechanisms to achieve the objective are unique and specialize as insurance regulatory and supervision functions are new to the country, thus the Board. The Board is mindful that if it goes too far to protect consumer, setting very high standards and allow insurance companies to take minimum risks, this could potentially create a problem of moral hazard that could threaten institutions and markets to function efficiently and effectively. Conversely, if the Board takes a more “relaxed” attitude in regulating the industry, hoping that the players would self-regulate themselves, then a chance to trigger a systematic failure, even if a small player fails as a result of mismanagement, lapses in control or poor business decision. Finding the right “mix” or balance between the two is at the core of what the Board is charged or mandated to do.

The FSM Insurance Act came into effect in June 2006. Full implementation of the Act is somewhat difficult at the beginning because insurance is a unique and specialize area requiring familiarity with unique and unfamiliar concepts, principles, standards, approaches, etc. Not many people in the FSM have been trained in insurance regulatory and supervisory functions. However, much of the struggles encountered in the early days have been learnt from and staff is beginning to have a grasp on how insurance functions in practice and regulatory and supervisory requirements. In other words, we are learning and making progress, although such progress is slow due to a number of challenges. Given that insurance as a specialized area, our efforts to secure a technical assistance from various sources, including the National Association of Insurance Commissions of the United States America (NAIC) has not been successful. However, the Board is still trying and exploring other options, such as other prospect donors and funding from FSM Government.

It is necessary an insurance expert is hired at the early implementation stage to assist with the review of the legal and regulatory framework, draft the necessary amendments, draft the regular insurance regulations, assist with institutional mechanisms for off-site monitoring and surveillance, on-site prerequisites, while providing the staff capacity buildings. It is envisioned the expert will assist in putting into place all the necessary administrative mechanics, guideline, manuals and procedures to fully undertake the off-site monitoring and surveillance functions, and assist with at least two on-site examinations.

Currently, there is no regular insurance regulation to clarify and operationalize certain provisions of the Act, set certain regulatory standards in order for the Board to fully administer and implement the Act.

The FSM insurance industry comprises of regular or traditional insurance, captive insurance and various insurance intermediaries such as agents, broker, and captive managers. In respect to regular insurance, the classes of insurance businesses transacted in the country are life and non-life by six known foreign insurers. There is currently no domestic insurer in the country. The six foreign insurers transact insurance through three local agents and a broker.

Regular Insurance:

There are six known foreign insurers transacting insurance business in the FSM. Out of the six foreign insurers, four are registered in accordance with Section 307 of the Act, while two have not due to some pending application issues which are anticipated to be resolved in FY12. There have been also queries from other foreign insurers and agents seeking registration and licensing in the FSM, mainly to engage in surety business, two have been provided the registration application packages; however, the applications have not been filed.

The six foreign insurers are:

1. First Net Insurance Company (FNIC),
2. Net Care Insurance Company (NCIC),
3. Dongbu Insurance Company (DIC),
4. Individual Assurance Company (IAC),
5. Pacific Indemnity Insurance Company (PIIC), and
6. Century Insurance Company (CIC).

On intermediary insurance side, there are three (3) regular insurance agents and one broker operating in the FSM. Two of the three agents are licensed: Moylans Insurance Underwriters, Inc. and Actouka Executive Insurance Underwriters. Mr. David Panuelo as the general agent for IAC has not been licensed. IAC needs to be licensed, after all, instead of registered pursuant to the requirement under subsection 5 of Section 301 in respect to premium collection threshold.

Oceania Insurance Company is the licensed broker and, by statutory definition, a broker is a person who acts on behalf of a prospective customer and with the prospective customer’s authority arranges insurance business with insurers, including making proposals and paying premiums. As such, Oceania as a broker cannot represent any insurer.

The table below presents an overview on the status of registration on foreign insurers, licensing of the respective agents and the broker:

Foreign Insurers:			
Name of Insurers:	Registration /License Status in FSM	Local Agent	Place of Incorporation/Registration
First Net Insurance Co.	Registered	Moylans Insurance Underwriters, Inc.	Guam
NetCare Insurance Co.	Registered	Moylans Insurance Underwriters, Inc.	Guam
Dongbu Insurance Co.	Registered	Moylans Insurance Underwriters, Inc.	South Korea/Guam
Pacific indemnity Insurance Co.	Registered	Actouka	Guam
Individual Assurance Com.	Not yet Licensed	Mr. David Panuelo	Kansas
Century Insurance Co.	Not yet Registered	Not Yet Designated	CNMI

Broker:			
Oceania Insurance Company	Licensed	Not applicable	FSM
Agents:			
Agents:	Status:	Insurers:	Incorporation/Registration
Moylans Insurance Underwriters, Inc.	Licensed	FirstNet Insurance Co., NetCare Insurance Co., Dongbu Insurance Co.	FSM
Actouka Executive Insurance Underwriters	Licensed	Pacific Indemnity Insurance Co.	FSM
Mr. David Panuelo	Not yet Licensed	Individual Assurance Co.	FSM

Overall, the regular insurance system (life and non-life combined) gained a net income of \$75,775.48 for the year. In respect to life the overall performance is negative by (\$87,761.47). The amount of premium collected in the FSM is \$3.4 million with \$1.3 million being ceded to the reinsurance industry; however, the claims paid and other expenses amount to \$2.1 million; therefore, resulting in a net loss for the last fiscal year. For non-life, the overall performance is on the positive side by \$163,536.95. The amount of premium collected is \$1.3 million, while claims paid is \$0.35 million. For additional information, please refer to Appendix A.

Captive Insurance:

Currently, there are nine (9) captive insurance licensees; five were licensed on or prior to March 31, 2011. Of the nine (9) licensees, two are designated as Class 1, three as Class 2, and four as Class 3 or MCC. As to captive management firms there are currently eight (8) licensees, four were licensed prior to March 31, 2011. Three (3) of the eight are not currently managing any licensed captives. Moreover, two of the eight are domestically incorporated, while six are foreign incorporated with legal nexus established in the FSM.

The FSM captive insurance system continues to improve with a positive growth in 2011 despite more challenging investment conditions due to natural disasters experienced in some jurisdictions where captives transact reinsurance businesses. The overall earnings performance of the captive system considerably strengthens over the year. The captive insurance system is well capitalized at fiscal year-end. Total capital and surplus is reported at JPY 1.8 billion (US \$21.4 million), an increase of JPY 825.7 million (US \$11.3 million) or 87% from the comparable fiscal period. Existing captive licensees as of March 31, 2011 all have their respective capital and surplus adequately maintained well above the minimum requirement per FSM Captive Insurance Laws and Regulations.

Due to sophistication of captive applications, the Board has retained independent reviewer services.

The Board was allocated a budget of \$237,472 in FY11, of which \$5,713.89 or 2.4% was not used by end of the fiscal year. Out of the appropriate \$237,472, the percentage for Personnel is 27%, Travel at 25%, Contractual Services at 22%, Consumables at 11%, and Fixed Assets at 15%.

Overview of the Insurance Industry

The FSM Insurance Act codified under Title 37 of the FSM Code came into effect in June 2006. The Act has been amended, first in November 2006 by Public Law 14-88 to add Chapter 10 for regulations, supervision and development of Captive Insurance. Subsequent amendments were also necessary to extend the period under the Act for insurers to comply with licensing and registration requirements, to change certain provisions in respect to the functions of the Insurance Board, to reduce penalties, to require auditors and actuaries to make certain disclosures, to change and add provisions regarding winding up, limitation on loans, premium remittance, fraud and claim settlement, and manner and period for which records should be kept, separation of the Insurance Board from the Banking Board, among a few others.

The FSM Insurance Board as the administering and implementing agency of the Act is mandated to:

- Regulate insurance business;
- Undertake the licensing and supervision of insurers, insurance agents, insurance solicitors and insurance brokers;
- Protect the interests of policyholders; and
- Promote the soundness, stability, and development of the insurance system in the FSM.

The Board is responsible for its policy and affairs and shall have the powers conferred upon it by the Act. The Commissioner is appointed to be responsible to the Board for the execution of its policy and the performance of duties and exercise of powers conferred by the Act. Additionally, the Act empowers the Board to promulgate regulations prescribing anything which under the Act may be prescribed and generally for carrying into effect the objectives of the Act.

Section 215 of the Act requires the Board to publish a list of all applications filed for license and registration, all approved licenses, all approved registrations, all disapproved licenses and registrations, all cancellations and suspensions, information relevant to the winding up of any insurance business, and other information that is in the public interest which is not in violation of laws or regulations on confidentiality or privacy.

Chapter 3 of the Act stipulates the general requirements for licensure and registration of insurers and intermediaries, while Chapter 10 stipulates the general requirements for regulations and supervisions of captive insurance and captive managers. Captive insurance companies should be licensed in accordance with Chapter 3 of the Act.

Chapter 4 of the Act stipulates the general statutory requirements in respect to insurance policies and rights of policyholders, while Chapter 6 of the Act stipulates violations and penalties.

The FSM Insurance industry consists of regular insurance, captive insurance and the various insurance intermediaries.

Regular Insurance Companies:

A. Insurers:

Insurers are categorized into two types, domestic insurer and foreign insurer. A foreign insurer is an entity constituted and licensed to conduct insurance business by a jurisdiction other than the FSM that has been registered or licensed under the FSM Insurance Act to carry on insurance business in the FSM. A domestic insurer, on the other hand, is a company that is licensed under the FSM Insurance Act to carry

on an insurance business in the FSM. A company is defined by the Act as a body corporate formed under the laws of and having its head office in the FSM.

As such, a foreign insurer is qualified to become a licensed insurer if it elects to do so. A foreign insurer, however, must become a domestic insurer if the premium collection threshold of \$2 million or more each year for three years is met pursuant to Section 301 of the Act. Otherwise, the foreign insurer can be registered to engage in insurance business in the country through a local licensed agent. Registration requirements are spelled out in Section 307 of the Act. Both domestic and foreign insurer can carry life and non-life policies. However, Subsection 1 of Section 312 stipulates that a licensed insurer who carried on both life insurance business and other business shall conduct the insurance business in a separate company and shall thereby segregate the assets and liabilities of its insurance business from those of its other business.

As of December 31, 2011, six (6) foreign insurers are known to have been transacting insurance business of life and non-life in the Federated States of Micronesia. Among them, four (4) have been registered by the Board pursuant to Section 307 of the Act, while two (2) have not. Out of the six foreign insurers, two are life insurance companies while the rest are non-life.

Due to the statutory requirement pursuant to Section 301 that no insurance shall be transacted in the country unless an insurer is registered or licensed, the Board intends to once again conduct public education sessions throughout the FSM so both insureds and prospective insureds are fully aware of the insurance statutory requirement.

Currently, there is no known domestic insurer in the country.

Section 215 of the Act requires the Board publish a list of all application filed for license and registration, all approved licenses, all approved registrations, all denials of licenses and registrations, all cancellations and suspensions, information relevant to the winding up of any insurance business, and other information that is in the public interest which is not in violation of laws or regulations on confidentiality or privacy. The table below presents the number of registered foreign insurers, foreign insurers that have not been registered, licensed agent, agents that have not been licensed, and licensed broker.

B. Intermediaries:

Agents

Section 102 [3] of Title 37 FSMC defines an agent as “a person with the authority of an insurer to solicit application, receive proposals, receive premiums, deliver policies, and to make contracts of insurance.” The Insurance Act further stipulates that only agents transacting insurance business on behalf of licensed or registered insurer shall be eligible for a license and may conduct business on behalf of more than one insurer; however, the agent must apply for a separate license as an insurance agent for each insurer. As of December 31, 2011, the Insurance Board has licensed two (2) agents who have been in existence and operating as insurance agents in the Federated States of Micronesia for many years. Moylans Insurance Underwriters is the only licensed agent in the country that represents three registered foreign insurers. Actouka Executive Insurance Underwriters represents Pacific Indemnity Insurance Company.

Brokers

Section 102 [5] of Title 37 FSMC defines a broker as “a person who acts on behalf of a prospective customer and with the prospective customer’s authority arranges insurance business with insurers, including making proposals and paying premiums.” Only one known broker exists in the Federated States of Micronesia as at end last Fiscal Year. The broker (Oceania Insurance Company) has been licensed to conduct insurance business in the Federated States of Micronesia. A broker represents and works for the insured or prospective insured, while an agent represents and works for an insurer. The regulatory and

supervisory standards applied to both are slightly different, although in insurance transactions, broker and agent basically perform the same functions as insurance intermediaries.

Solicitors

A solicitor as defined in Section 102 [24] is “an individual who solicits applications for insurance or negotiates insurance business on behalf of an insurer or an agent and earns commissions for each successful sale, but is neither an insurer, or insurance agent, nor an employee of an insurer or agent. As of December 31, 2011, no known solicitor is operating in the Federated States of Micronesia.

The below table presents an overview on licensing and registration:

Foreign Insurers:			
Name of Insurers:	Registration /License Status in FSM	Local Agent	Place of Incorporation/Registration
First Net Insurance Co.	Registered	Moylans Insurance Underwriters, Inc.	Guam
NetCare Insurance Co.	Registered	Moylans Insurance Underwriters, Inc.	Guam
Dongbu Insurance Co.	Registered	Moylans Insurance Underwriters, Inc.	South Korea/Guam
Pacific indemnity Insurance Co.	Registered	Actouka	Guam
Foreign Insurers Not yet Registered or Licensed:			
Individual Assurance Com.	Not yet Registered/Licensed	Mr. David Panuelo	Kansas
Century Insurance Co.	Not yet Registered/Licensed	Not Yet Designated	CNMI
Broker:			
Oceania Insurance Company	Licensed	Not applicable	FSM
Agents:			
Name of Agents:	Status:	Foreign Carrier:	
Moylans Insurance Underwriters, Inc.	Licensed	First Net Insurance Co., NetCare Insurance Co., and Dongbu Insurance Co.	
Actouka Executive Insurance Underwriters	Licensed	Not Applicable	
Mr. David Panuelo	Not yet Licensed	Not Applicable	

The Board has not denied any application for license or registration. The Board has tried to work with each applicant to complete the application process pursuant to statutory requirements. However, the

increasing amount of responsibilities before the Board may at some point in time force the Board to deny applications filed with material incompleteness.

Financial Condition

Only five out of six foreign insurers transacting insurance business in the country have furnished data for the compilation of the Annual Report. It is anticipated that FY12 Annual Report will be more comprehensive as to the classes and lines of insurance business, premium collection, premium retained, premium returned, premium ceded, claim filed and paid, claim filed but not yet paid, capital and surplus base, capital turnover, reserve for claims, among other information.

Overall (life and non-life combined), the general insurance industry yields a positive growth in 2011 of \$75,775.48, life with a net loss of US\$ 87,761.47, while non-life with net profit of US\$163,536.95.

The total gross premiums for both lines total to \$4.7 million, life receiving \$3.4 million while non-life receiving \$1.3 million. The total claims total to \$1.8 million, life getting \$1.4 million and non-life at \$.346 million. It should be noted that the industry also earned an investment income in the country of \$0.108 million.

For non-life, gross premiums collected total to \$1.3 million versus gross claims of \$ \$0.35 million. The predominant line of business of the Gross Premium structure for the year was concentrated in Fire Insurance at US\$ 0.454 million (35%), followed by Automobile Insurance at US\$ 0.356 million (27%), Workmen's Compensation at US\$ 0.220 million (17%) while the rest constitutes less than 10% of the Gross Premium pool. For life, the Gross Premiums collected is \$3.4 million, while gross claim amounts to \$1.4 million. In terms of composition, Group Life dominates the Gross Premium pool accounting for 75%, followed by Ordinary Life at 15% and Annuity and Credit Life both at 5%.

For life the overall performance is a negative of (\$87,761.47). The amount of premium collected in the FSM is \$3.4 million with \$1.3 million being ceded to the reinsurance industry; however, the claims paid and other expenses amount to \$2.1 million; therefore, resulting in a net loss for the last fiscal year. For additional information, please refer to Appendix A.

Major activities of the Board in FY11

Below are general and major activities undertaken by the Board in fiscal year 2011:

- Designing applications for registration of foreign insurer and licensing of domestic insurer.
- Revise application package for intermediary consistently with statutory requirements.
- Processing registration applications filed by foreign insurers.
- Processing licensing applications filed by agents.
- Reviewed and registered four foreign insurers.
- The Board website initiated.
- Technical assistance sought from the National Association of Insurance Commissioners (NAIC) in Washington, DC through Diplomatic Note.
- Arrangement negotiated and agreed with NAIC in respect to staff attending NAIC trainings and on-site examinations.
- Technical assistance initiated with Department of Finance and Administration, UN DP, APRA and others.
- Two staff participated in the APRA sponsored On-Site Training in Fiji.
- Meetings with captive managers, prospect captive managers, captive applicants, prospect captive applicants, and other specialists and experts in the captive industry.
- Presentation at the Captive Seminar in Japan.
- Engagement of captive application reviewers.
- Board meetings held both in physical presence and in electronic settings.
- Engagement of reviewers on two Loss Portfolio Transfer proposals.
- Designed checklist templates for applications, both captive and regular insurance.
- Self-education on insurance matters.
- Capacity building mutually arranged made with International Center for Captive Insurance College in Vermont, USA for on-line education.
- Insurance Financial Analyst and Insurance Examiner hired.

Appendix A: Financial Performance of the General Insurance Industry

Financial Performance Overview:

Overall (life and non-life combined), the general insurance industry yields a positive growth in 2011 of US\$ 75,775.48, life with a net loss of US\$ 87,761.47, while non-life with net profit of US\$ 163,536.95.

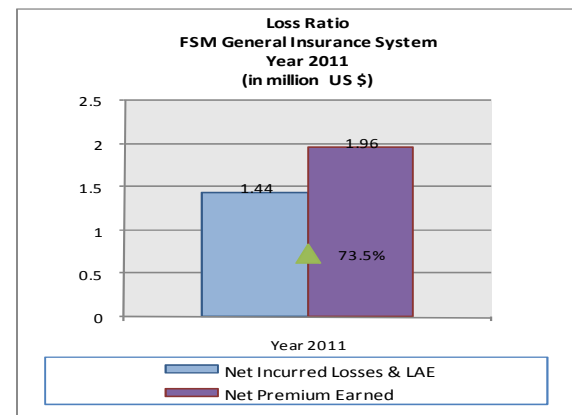
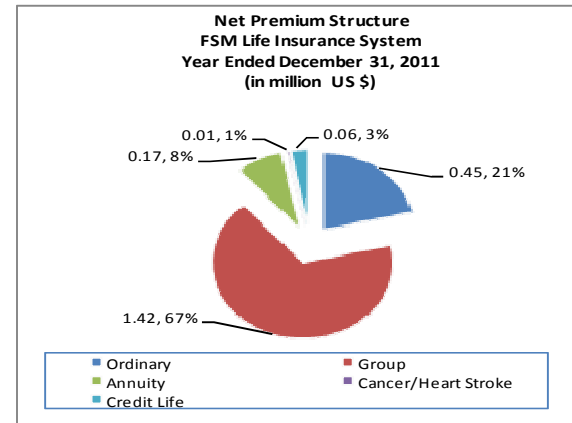
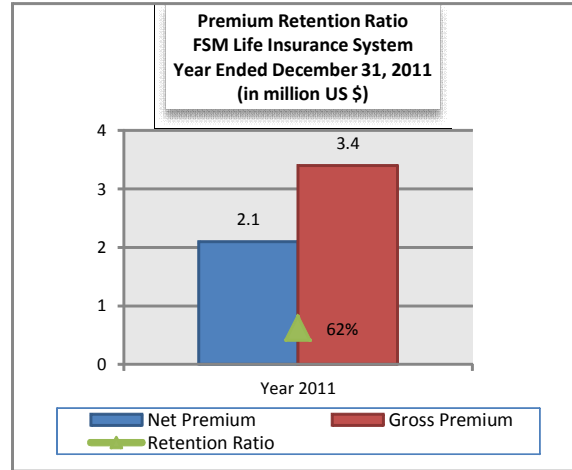
The total gross premiums for both lines total to \$4.7 million, life receiving \$3.4 million while non-life receiving \$1.3 million. The total claims total to \$1.8 million, life getting \$1.4 million and non-life at \$.346 million. It should be noted that the industry also earned an investment income in the country of \$0.108 million.

Life Insurance

The financial performance of the life insurance system in the FSM generated gross premiums of US\$ 3.4 million for the year ended December 31, 2011. The amount of premiums ceded to reinsurers was reported at US\$ 1.3 million, thereby retaining premiums of US\$ 2.1 million, a retention ratio at 62%. In other words, for every dollar of premium written, 62 cents was retained by the insurance system while 38 cents was ceded to the reinsurers based on their respective reinsurance arrangements.

The predominant component of net premium for year 2011 was concentrated in Group at US\$ 1.42 million (67%), followed by Ordinary at US\$ 0.45 million (21%), Annuity at US\$ 0.17 million (8%), Credit Life at US\$ 0.06 million (3%), and Cancer/Heart Stroke with the smallest portion at US\$ 0.01 million.

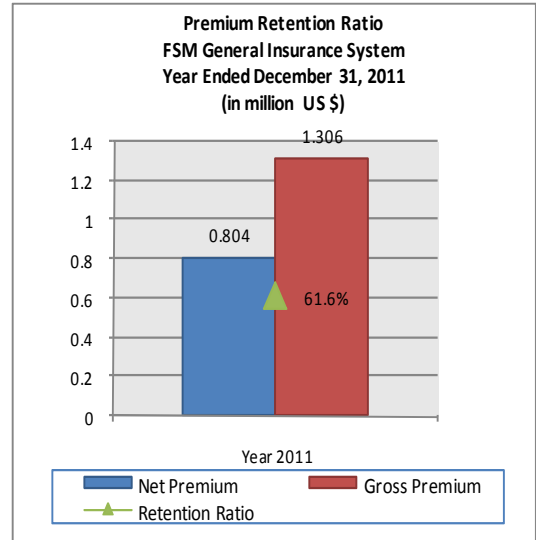
FSM's regular life insurance system's net loss ratio for the year was at 73.5%. Net losses incurred, both paid and reserved, in claims for the period and related loss adjustment expenses was reported at US\$ 1.44 million and net premiums earned for the period was at US\$ 1.96 million. This indicates that claims or losses for the period constituted 73.5% of the total net premiums earned in the same period.



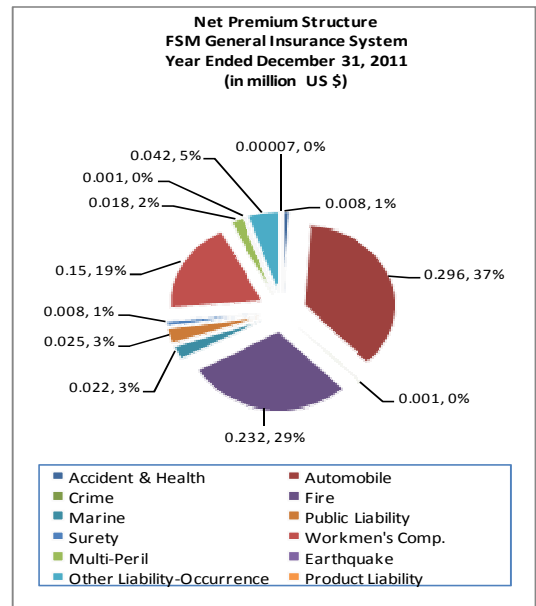
The financial performance of the regular life insurance system in the FSM yielded a net loss of US\$ 0.088 million for the year ended December 31, 2011. Operating expenses were reported at US\$ 0.526 million and commissions at US\$ 0.163 million. The net loss was primarily the result of losses incurred from Ordinary Life at the reported amount of US\$ 0.046 million and Credit Life at US\$ 0.066 million. The other respective lines/segments earned marginal net profits.

General or Non-Life Insurance

The financial performance of the regular general or non-life insurance system in the FSM generated gross premiums at US\$ 1.3 million for the year ended December 31, 2011. Premium amounting to US\$ 0.5 million was ceded to the reinsurers with their reinsurance arrangements in place, while US\$ 0.8 million was retained by the system, thereby resulting in a retention ratio of 61.6%. Thus, for every dollar of premium written, about 38 cents was ceded, while 62 cents was retained by the system.

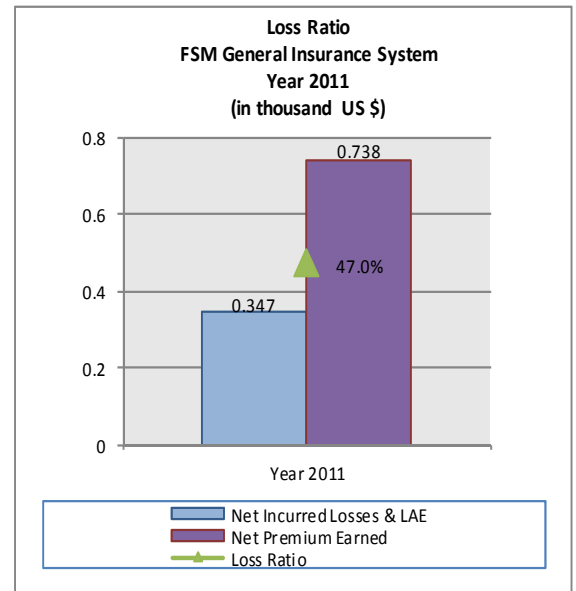


The predominant line of business of the Net Premium structure for the year was concentrated in Automobile Insurance at US\$ 0.296 million (37%), followed by Fire at US\$ 0.232 million (29%), Workmen’s Compensation at US\$ 0.15 million (19%), Other Liability-Occurrence at US\$ 0.042 million (5%), Public Liability at US\$ 0.025 million (3%), Marine at US\$ 0.022 million (3%), Multi-Peril at US\$ 0.018 million (2%) and the least by other lines such as Accident & Health, Surety, Crime, Earthquake, and Product Liability.



The net loss ratio for the general insurance system in the FSM was at 47% for the period. The amount of losses and loss adjustment expenses incurred during the year was reported at US\$ 0.347 million and net premium earned for the same period amounted to US\$ 0.738 million, indicating that losses for the period constituted 47% of the total net premiums earned.

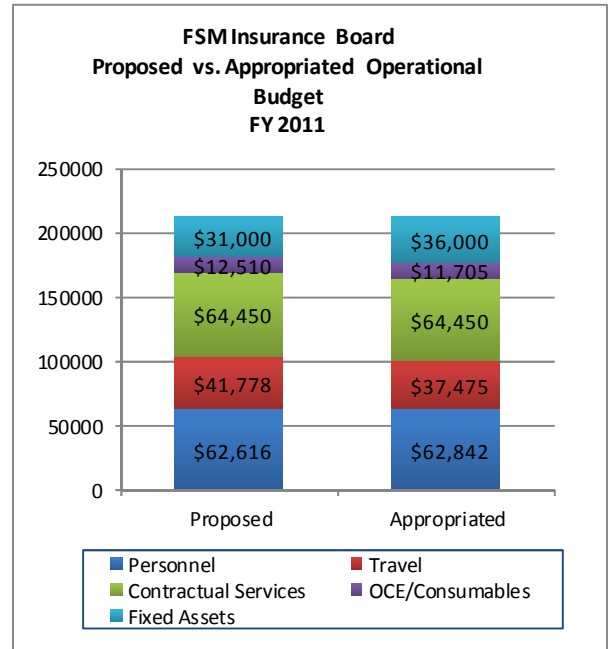
FSM's general or non-life insurance in the FSM yielded a net profit of US\$ 0.16 million for the year ended December 31, 2011. The system incurred commissions and operating expenses at US\$ 0.17 million and US\$ 0.08 million, respectively. Apart from premium, the system also earned income on its investments amounting to US\$ 0.03 million.



Appendix B: Overview of the Board's FY11 Budget

Proposed vs. Appropriated

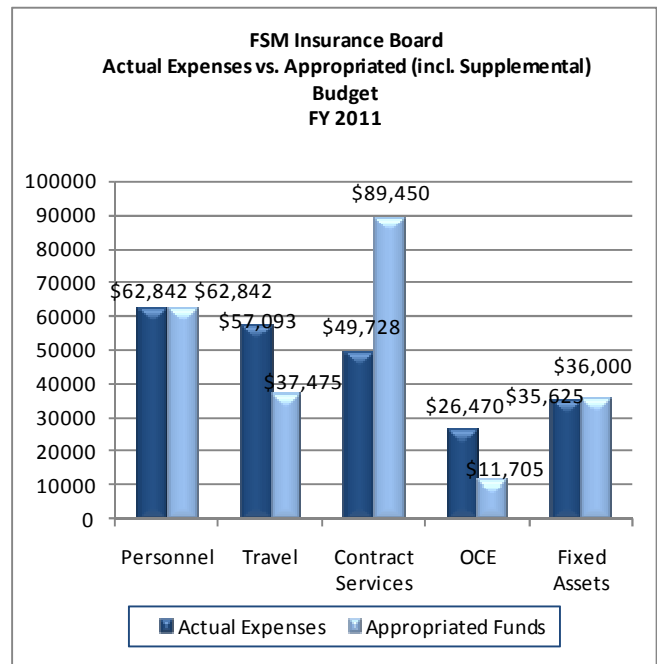
The FSM Insurance Board proposed an amount of \$212,354 as its operational budget for the fiscal year 2011. Contractual Services accounted for the largest composition of the budget at \$64,450 (30%), followed by Personnel at \$62,616, Travel at \$41,778 (20%), Fixed Assets at \$31,000 (15%), and Other Current Expenditures at \$12,510 (6%). The appropriated or approved budget amount was \$212,472, a slight increase of \$118 over the proposed amount of \$212,354. The appropriations per category remained the same for Contractual Services, while there were respective increases in Fixed Assets and Personnel and respective decreases in Travel and Other Current Expenditures as reflected in the chart. Additionally, a Supplemental Budget of \$25,000 was requested as funding for a Financial Analyst under Contractual Services and was subsequently approved by Congress. Therefore, the total amount appropriated for the fiscal year was \$237,472.



Actual vs. Appropriation/Allotment

Reprogramming of funds have been requested and allotted during the fiscal year among Travel, Contractual Services, and Other Current Expenditures. Total funds reprogrammed out of Contractual Services amounted to \$37,000, which was then allotted and apportioned to Travel and Other Current Expenditures at \$22,000 and \$15,000, respectively.

Actual expenditures incurred under Travel amounted to \$57,093.03, which exceeded the appropriation of \$37,475 by \$19,618.03. Reprogrammed fund of \$22,000 out of Contractual Services was allotted to Travel during the fiscal year, thereby increasing allotted funds for Travel to \$59,475 and retaining a surplus balance of \$2,381.97 at fiscal year-end. The appropriated amount of \$89,450 under Contractual Services was inclusive of the Supplemental Budget of \$25,000 appropriated for the Financial Analyst position. Operations incurred actual expenses of \$49,728.39 under Contractual Services, which was lower than the appropriation of \$89,450 by \$39,721.61. However, \$37,000 of the total \$89,450 was reprogrammed and allotted to Travel at \$22,000 and Other Current Expenditures at \$15,000, thereby decreasing its allotted funds to \$52,450. The difference between actual expenses and allotted funds for Contract Services was a savings/surplus of \$2,721.61. Appropriated funds for Other Current Expenditures amounted to \$11,705. However, actual OCE incurred amounted to



\$26,469.70 for the fiscal year. Reprogramming of \$15,000 from Contractual Services was allotted to OCE, thereby increasing its allotted funds to \$26,705 and retaining a surplus of \$235.30. Under Fixed Assets, actual expenses amounted to \$35,624.99 and allotted funds at \$36,000, thereby realizing a savings of \$375.01.

Total actual expenditures incurred by the FSM Insurance Board for the fiscal year 2011 amounted to \$231,758.11 while the total appropriated budget amounted to \$237,472, thereby realizing savings of \$5,713.89 (2.4%) at fiscal year-end.

Line-Items (Actual Expenditures)

Personnel:

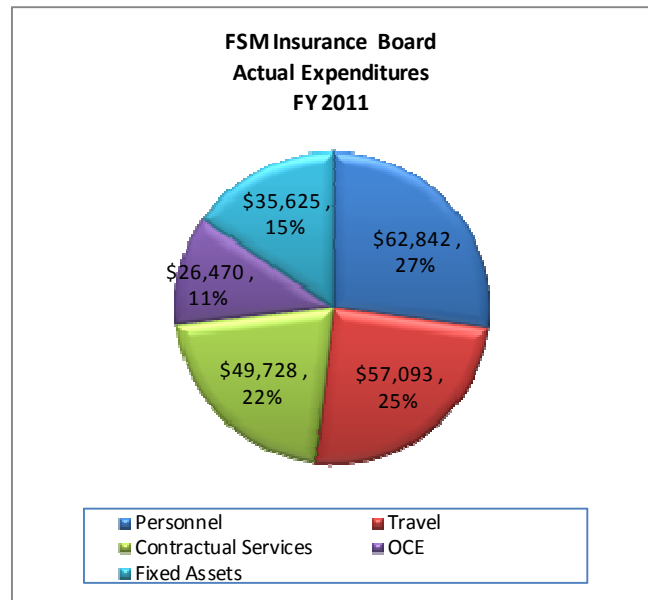
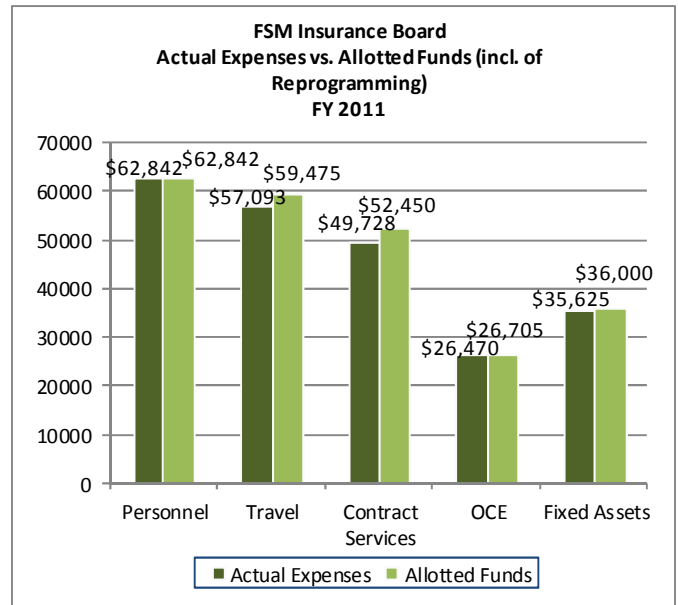
Personnel expenses accounted for the largest component of actual expenditures at \$62,842 (27%) for four (4) FTE positions. Funding for the Financial Analyst position for fiscal year 2011 was appropriated under Contractual Services in the amount of \$25,000. The Insurance Examiner was hired in April 2011, while the Financial Analyst was hired in February 2011. Both are learning but there is still a need for further trainings, just like other staff.

Travel:

Travel expenses accounted for the second largest component at \$57,093.03 (25%). For fiscal year 2011, there were a total of six international travels amounting to \$57,093.03, one of which was taken by two staff members to Fiji to participate in a APRA-sponsored on-site insurance supervision training.

Contractual Services:

Contractual Services accounted for the 3rd largest component at \$49,728.39 (22%). This category is predominantly composed of Professional Services at \$21,269.51 (42.8%), followed by Contract Services at \$18,097 (36.4%), Lease/Rent at \$8,250 (16.6%), Representation Allowance at \$1,696.88 (3.4%), and others at \$415 (0.8%). Professional Services was used to hire captive reviewers or insurance experts for a specified timeframe to review new applications for license and other business arrangements such as Loss-Portfolio Transfer and changes in business plans. The minimum charge or fee for a review is \$4,500 per application for licensing. Contract Services was appropriated at \$25,000 as funding for the Financial Analyst position, in which \$18,097 thereof was expended at fiscal year-end. As for the office lease, the current monthly rent fee is \$750. Representation Allowance was used for board activities and functions covering board meetings, meetings with clients, gifts/handicrafts for new applicants, etc. For fiscal year 2011, there were a total of 10 regular board meetings and other special meetings via electronic due to the time sensitivity of the matter which required the Board’s immediate attention and sanctioning.



Fixed Assets:

Fixed Assets accounted for 15% of total expenditures at \$35,624.99. Necessities for a new office such as an office vehicle, desktop computers, and a photocopy machine were purchased during the fiscal year 2011.

Other Current Expenditures:

Other Current Expenditures (OCE) accounted for 11% of the total expenses for fiscal year 2011 at \$26,469.70. This category is predominantly composed of Communications at \$7,166.35 (27.1%), followed by Expendables (Equipment/Furniture) at \$5,949.39 (22.5%), Office Supplies and Materials at \$5,718.15 (21.6%), Utilities at \$4,800 (18.1%), POL at \$1,610 (6.1%), and others at \$1,225.81 (4.6%). A significant part of consumables was spent on communication expenses given the large volume of transactions or business dealt overseas with foreign clients. A new office also calls for the need of new equipment and furniture such as printers, tables, chairs, bookshelves, fixtures, office supplies and materials, etc., which all justify the rest of the expenses in Consumables or OCE.