



THE INSURANCE BOARD
GOVERNMENT OF THE FEDERATED STATES OF MICRONESIA
VB Building No.1, Suite 2A, Pohn Umpomp Place
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May 1, 2019

His Excellency Peter M. Christian
President
Federated States of Micronesia
Palikir, Pohnpei 96941

and

The Honorable Wesley W. Simina
Speaker, Twentieth Congress
Federated States of Micronesia
Palikir, Pohnpei 96941

Dear President Christian and Speaker Simina:

We are pleased to submit herewith the 2018 Annual Report of the Insurance Board as required by section 205 of Title 37 of the FSM Code (FSMC). This report describes the mandates, work and activities of the Insurance Board (Board) pursuant to applicable laws and regulations. The Board's principal functions are to regulate insurance business; undertake the licensing and supervision of insurance business; protecting the interest of policyholders, and to promote a healthy, sound and stable insurance sector in the Federated States of Micronesia (FSM). Our overall mission is to protect the interest of policyholders by promoting a transparent and stable insurance system that is consistent with acceptable regional and international insurance standards. To accomplish our mission, we take efforts by enforcing applicable insurance laws and regulations, assisting consumers in their dealings with insurers by promoting a more transparent working environment, and by supporting and encouraging a more open dialogue between our office as the regulator, the insurance carriers, agents, brokers, and other licensees.

The insurance market is an important component of our overall financial sector in the FSM. It is regulated and supervised pursuant to Title 37 of the FSMC. The Insurance Board is the sole insurance regulatory authority in the Federated States of Micronesia (FSM), and it is governed by a three-member board. With the approval of the President, the Board appoints a Commissioner to manage the day to day operation of the office.

The FSM Insurance market comprises of: (1) regular or conventional insurance, and (2) captive insurance. The conventional insurance market consists of regular insurers or carriers, insurance agents, insurance brokers, and insurance solicitors. The conventional insurance market sells both life and non-life products. Examples of life are life insurance policies and health insurance policies. Examples of non-life policies are homeowners' policies, automobile policies, fire policies, marine and cargo policies, workers compensation and other lines of coverage. Insurance agents represent and work for insurers while insurance brokers and solicitors in our regulatory perspectives represent and work for the interest of the insured or policyholders.

Regarding conventional insurance, as of Year ended December 2018, there were six (6) registered foreign insurers, three (3) licensed insurance agents, two (2) licensed insurance brokers, and no licensed solicitors. During Calendar Year 2018, license for a domestic insurer

has expired and has resubmitted a request for review and reconsideration. Exhibit 1 in this annual report shows the recap of the conventional insurance market participants, and Exhibit 2 shows the details of commercial insurance market data for 2018.

Captive insurance came into effect in 2006 when Public Law 14-88 was enacted. In essence, it is a type of insurance whereby a specialized insurance company is created for the purpose of insuring only the risk of its parent and affiliated companies. Like conventional insurers, captive insurers are also required by law to have licenses in order to do insurance business in the FSM. At the end of fiscal year ended September 30, 2018, there were a total of twenty five (25) actively licensed captive insurance companies. All of these captive insurance companies are Japanese companies domiciled and incorporated in the FSM. Exhibit 4 in this annual report shows the listing of these companies.

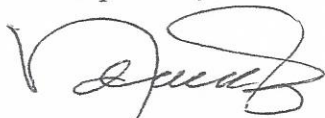
Over the past years, both the conventional and captive insurance markets have been a significant source of local revenues for the national and local governments. Licensed insurers contribute direct corporate income and premium taxes and fees, and their operations also compensate local agents and service providers who in turn incur local and national taxes on their commissions and revenues.

During Year 2018, the board accomplished the following tasks and activities.


- With the licensing and monitoring of captive insurance, a total of more than \$10.5 million in corporate taxes has been collected by the national government from these captive insurance companies;
- On-site examinations of three (3) of the licensed captive insurance companies were initiated;
- In 2018, the office has recruited and hired a captive insurance consultant;
- In 2018, the Insurance Commissioner and Chairman of the Board attended the 2018 Tokyo and MRA Annual Seminar. The Insurance Commissioner had a presentation, and
- In 2018, the board held ten (10) meetings and acted on several important issues and matters.

On behalf of the board and the entire staff, we would like to take this humble opportunity to express our profound appreciation to you and members of congress for the continued support over the years. Your support is greatly appreciated.

Respectfully,



Nakama Sana
Insurance Commissioner



Alexander Narruhn
Chairman, Insurance board

2018 ANNUAL REPORT

As required under Section 205, Title 37, FSM Code



FSM INSURANCE BOARD

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**2018 Annual Report
Of
The Federated States of Micronesia Insurance Board**

We have prepared this annual report (Report) pursuant to Section 205 of Title 37 of the FSM Code (FSMC). Title 37 of FSMC is the FSM Insurance Act of 2006 which has been subsequently amended. This Report contains information and data on the general condition and status of the insurance system in the Federated States of Micronesia, and other matters covering insurance including the activities of the Insurance Board for the fiscal year ended September 30, 2018. The Report is available to the general public and can be downloaded from our website which is www.fsminsuranceboard.com. Hard copies are available at our office which is located in Nett, Pohnpei.

The insurance system is an important component of our overall financial sector in the FSM. Insurance supports a stable economic and social environment by:

1. providing insured individuals, businesses and other organizations with financial protection from potential losses due to unforeseen or unexpected events;
2. employment of local professionals that are necessary to properly service and administer various insurance products, and
3. direct and indirect local taxes and fees generated by insurance companies and their respective service providers.

The FSM Insurance market is comprised of two distinct sectors: (1) regular or conventional insurance, and (2) captive insurance. The conventional insurance market is primarily comprised of insurance companies and their agents and insurance brokers and solicitors. The conventional insurance market sells both life and non-life insurance products. Examples of life are life and/or health insurance policies. Examples of non-life policies are homeowners' policies, automobile policies, fire policies, marine and cargo policies, workers' compensation and other lines of coverage.

Conventional Insurance Market

As of Year, ended December 2018, there were six (6) registered foreign insurers, three (3) licensed insurance agents, two (2) licensed insurance brokers, and no licensed solicitors. During Calendar Year 2018, license for a domestic insurer has expired and has resubmitted a request for review and reconsideration. Exhibit 1 below shows a listing of currently licensed and registered foreign insurers, insurance agents, and insurance brokers.

Exhibit 1
Conventional Insurance Market Participants
Foreign Insurers

| Name of Insure | Registration / License Status | AM Best Rating | Home domicile | Appointed Local Agent |
|---|--------------------------------------|---|----------------------|---|
| DB Insurance Company, Ltd. (Guam) | Active | Financial Strength: A Category: XV (\$2b or greater) | South Korea / Guam | Moylan's Insurance Underwriters (FSM), Inc. |
| First Net Insurance Company | Active | Financial Strength: B++ Category: V(\$10-25m) | Guam | Moylan's Insurance Underwriters (FSM), Inc. |
| Liberty Mutual Insurance Company | Active | Financial Strength: A Category: XV (\$2b or greater) | USA | Moylan's Insurance Underwriters (FSM), Inc. |
| NetCare Life and Health Insurance Company | Active | NOT RATED | Guam | Moylan's Insurance Underwriters (FSM), Inc. |
| Pacific Indemnity Insurance Company | Active | Financial Strength: A- Category: V (\$10-\$25m) | Guam | Actouka Executive Insurance Underwriters |
| Plateau Insurance Company | Active | Financial Strength: A- Category: V(\$10m-\$25m) | USA | Bank of FSM (BFSM) |

Agents

| Name of Agent | License Status | Insurer Appointments |
|---|-----------------------|---|
| Actouka Executive Insurance Underwriters | Active | Pacific Indemnity Insurance Company |
| Bank of the Federated States of Micronesia | Active | Plateau Insurance Company |
| Moylan's Insurance Underwriters (FSM), Inc. | Active | First Net Insurance Co.; NetCare Life and Health Insurance Co.; Liberty Mutual Insurance Company and Dongbu Insurance Co. |

Brokers

| Name of Broker | License Status |
|--|-----------------------|
| Oceania Insurance Company | Active |
| Micronesia Insurance Brokers Company, Ltd. | Active |

Based on submitted and reported data, the conventional insurance sector generated a total gross premium of \$4,196,000 for life and non-life for the year ended 2018. Of the gross generated premium, \$2,406,000 was collected through the three licensed agents, \$1,658,000 through the insurance brokers, and \$132,000 was from the domestic Insurer. A total of 6,560 life and non-life policies were sold, of which 3,278 were sold through agents, 172 by way of placement through brokers, and 3,110 thru the domestic Insurer. Commission earned was \$460,000 by agents and \$193,000 by brokers. Table 2 below shows the data for number of policies sold, number of claims filed and paid, and the amount of premium collected for Life and Non-Life based on submitted and available data.

Exhibit 2
Commercial Insurance Market Data

| Life Insurance (NUMBER OF) | | | | | | |
|-----------------------------------|---------------------------------|------------------------------------|---|----------------------------|---------------------------|----------------------------------|
| Coverage | No. of Policies | | No. of Participants for Group Policies | No. of Claims Filed | No. of Claims Paid | No. of Claims Outstanding |
| | No. of New Policies Sold | Existing Policies in Effect | | | | |
| Annuity | - | - | - | - | - | - |
| Cancer/Heart Stroke | - | - | - | - | - | - |
| Credit Life | 1,694 | 3,581 | - | 1,249 | 1,203 | 49 |
| Group Life | - | 5 | 1,627 | 19 | 12 | 16 |
| Ordinary | - | 275 | - | 4 | 5 | - |
| Others: (specify below) | - | - | - | - | - | - |
| UL (Oceania) | 6 | 29 | - | - | - | - |
| 10YT (Oceania) | 1 | 59 | - | - | - | - |
| NENI (Oceania) | 3 | - | - | - | - | - |
| TOTAL | 1,704 | 3,949 | 1,627 | 1,272 | 1,220 | 65 |

| Life Insurance (\$ AMOUNT) | | | | | |
|-----------------------------------|---|---|----------------------------------|------------------------------|-------------------------------------|
| Coverage | Premiums Collection | | Amount of Claims Incurred | Amount of Claims Paid | Amount of Claims Outstanding |
| | Premiums collected for New Policies Sold | Premiums Collected for Existing Policies | | | |
| Annuity | \$ - | \$ 23,768 | \$ - | \$ - | \$ - |
| Cancer/Heart Stroke | - | - | - | - | - |
| Credit Life | 128,086 | 124,200 | 187,204 | 242,576 | 19,584 |
| Group Life | - | 660,737 | 390,000 | 211,595 | 96,000 |
| Ordinary | - | 110,418 | 77,215 | 100,025 | 18,381 |
| Others: (specify below) | - | - | - | - | - |
| UL (Oceania) | 815 | 5,836 | - | - | - |
| 10YT (Oceania) | 21 | 12,193 | - | - | - |
| NENI (Oceania) | 300 | - | - | - | - |
| TOTAL | \$ 129,222 | \$ 937,152 | \$ 654,419 | \$ 554,196 | \$ 133,965 |

Exhibit 2 (continued)

Non-Life Insurance (Quantity)

| Coverage | No. of New Policies Sold | No. Of Existing Policies in Effect | No. of Claims Filed | No. of Claims Paid | No. of Claims Outstanding |
|---------------------------------------|--------------------------|------------------------------------|---------------------|--------------------|---------------------------|
| Accident & Health | 58 | 50 | 11 | 10 | 1 |
| Automobile | 156 | 187 | 23 | 22 | 12 |
| Aviation | 1 | 5 | - | - | - |
| Building and Content | - | - | - | - | - |
| Burglary | - | 7 | - | - | - |
| Comp. Business Package | - | 19 | 1 | - | - |
| Crime | - | - | - | - | - |
| Earthquake | 1 | 4 | - | - | - |
| Fidelity | - | 1 | - | - | - |
| Fire | 18 | 136 | 2 | 2 | - |
| General Liability | 9 | 42 | - | 1 | - |
| Homeowners | - | 9 | - | - | - |
| Marine Cargo | 3 | 3 | - | - | - |
| Marine Hull | 4 | 6 | - | - | - |
| Miscellaneous | - | - | - | - | - |
| Multi-Peril | - | - | - | - | - |
| Property | - | 1 | - | - | - |
| Special Risk | 1 | 2 | - | - | - |
| Surety | - | 2 | - | - | - |
| Travel | 87 | 1 | - | - | - |
| Worker's Comp | 14 | 68 | 10 | 9 | 5 |
| Others: (specify below) | - | - | - | - | - |
| 1 Typhoon (Allied Lines per Naic Stmt | 3 | 7 | 1 | - | 1 |
| 2 Personal Accident | - | 2 | - | - | - |
| TOTAL | 355 | 552 | 48 | 44 | 19 |

Exhibit 2 (Continued)

| Non-Life Insurance (Amount) | | | | | |
|--|---|---|----------------------------------|------------------------------|-------------------------------------|
| Coverage | Premiums Collected for New Policies Sold | Premiums Collected for Existing Policies | Amount of Claims Incurred | Amount of Claims Paid | Amount of Claims Outstanding |
| Accident & Health | \$ 6,169 | \$ 30,967 | \$ 5,889 | \$ 5,589 | \$ 300 |
| Automobile | 192,707 | 325,949 | 60,027 | 58,707 | 41,645 |
| Aviation | 51,120 | 148,213 | - | - | - |
| Building and Content | - | - | - | - | - |
| Burglary | - | 3,472 | - | - | - |
| Comp. Business Package | - | 128,757 | - | - | - |
| Crime | - | - | - | - | - |
| Earthquake | 344 | 4,189 | - | - | - |
| Fidelity | - | 1,800 | - | - | - |
| Fire | 50,902 | 1,087,090 | - | - | - |
| General Liability | 12,075 | 206,382 | (4,431) | 579 | - |
| Homeowners | - | 2,641 | - | - | - |
| Marine Cargo | 1,942 | 16,279 | - | - | - |
| Marine Hull | 17,645 | 408,332 | - | - | - |
| Miscellaneous | - | - | - | - | - |
| Multi-Peril | - | - | - | - | - |
| Property | - | - | - | - | - |
| Special Risk | 2,358 | 15,625 | - | - | - |
| Surety | - | 10,065 | - | - | - |
| Travel | 3,344 | - | - | - | - |
| Worker's Comp | 23,019 | 313,493 | 18,668 | 30,451 | 12,239 |
| Others: (specify below) | - | - | 242 | 242 | - |
| 1 Typhoon (Allied Lines per Naic Stmt) | 2,932 | 61,787 | 2,500 | - | 2,500 |
| 2 Personal Accident | - | 291 | - | - | - |
| TOTAL | \$ 364,557 | \$ 2,765,332 | \$ 82,895 | \$ 95,568 | \$ 56,684 |

Captive Insurance Market

The captive insurance market continues to dominate the FSM insurance market in terms of the number of domestically licensed insurers, volume of insurance business, and contributions to FSM's local and national economies.

Captive insurance companies are owned by a business or organization, and may only insure the risks of its owners and/or affiliates. As a result, unlike conventional insurers, captives are very specialized insurance companies that are not allowed to provide insurance to the general public or unrelated insureds. The specific design and funding structure of each captive insurance company are unique and proprietary to each captive owner, and treated as confidential pursuant to Section 1004 of Title 37 FSMC. As a result, regulatory oversight requires specific understanding and tailored surveillance and monitoring procedures for each captive licensee.

FSM domiciled captive insurance companies are currently exclusively owned by large profitable Japanese-based companies, of which approximately 60% are registered as publicly traded companies in major stock markets in Japan, United States and other established markets.

Since the enactment of FSM's captive insurance law in 2006, 27 captive insurance licenses have been issued through 2018, and 2 licenses were voluntarily terminated in 2018, bringing the total actively

licensed captives at the end of 2018 to 25. The terminations are the result of changes in the risk financing strategies of the captive's parent company. The decline in net licenses issued in 2018 is consistent with the trend of other captive insurance jurisdictions and is generally due to increased competition from more captive domiciles, and changes in captive owner's tax and/or operating environments that reduce the efficiencies of utilizing a captive insurance program. Table 3 below is a graphical presentation of captive licensing activity through 2018.

Exhibit 3
Historical Recap of Captive Insurance Licensing Activity

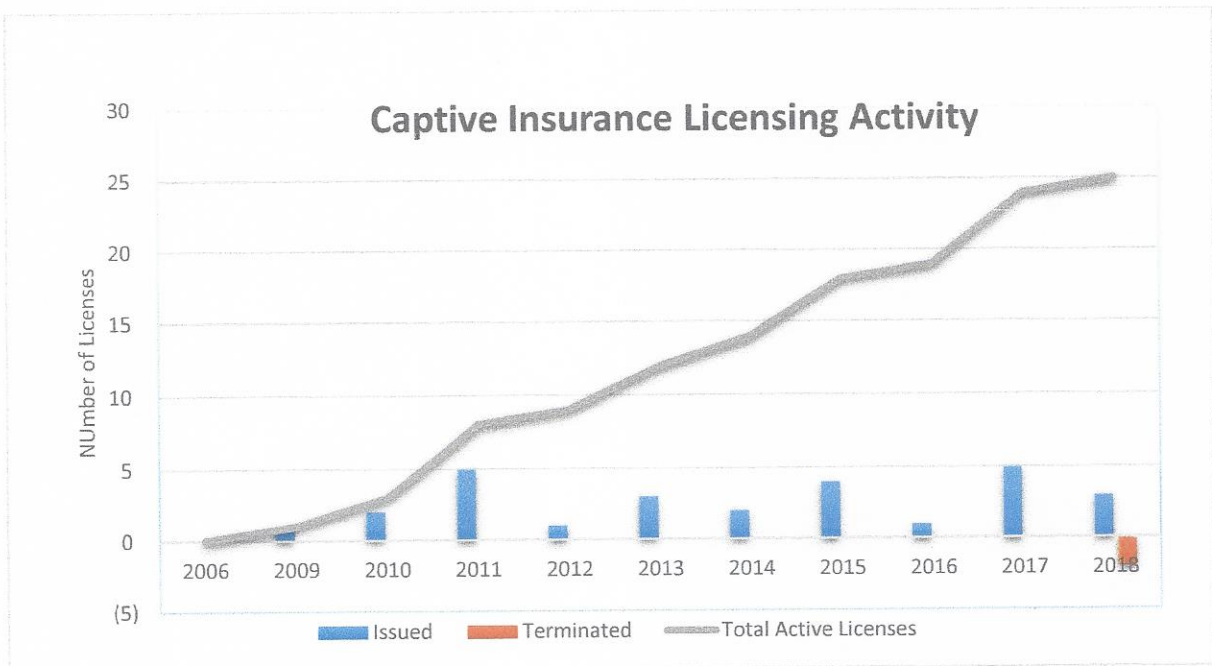


Exhibit 4 shows a recap of the actively licensed captive insurance companies as of September 30, 2018.

Exhibit 4
Domestically Licensed Captive Insurance Companies
As of September 30, 2018

| <u>Captive Insurance Company</u> | <u>License Date</u> |
|--|---------------------|
| ABLE Overseas Reinsurance Company, Ltd. | November 1, 2011 |
| au Reinsurance Corporation | December 23, 2016 |
| Eastern Pacific Insurance, Ltd. | October 29, 2013 |
| Global Micronesia Insurance Corporation | May 29, 2015 |
| Grand Cru Insurance Company Limited | February 20, 2018 |
| Green Sun Insurance, Inc. | March 16, 2015 |
| Hanwa Reinsurance Corporation | December 15, 2017 |
| HS Insurance Co., Ltd. | February 16, 2017 |
| Island Reinsurance Corporation | June 23, 2011 |
| IX Micronesia Reinsurance Corporation | February 1, 2018 |
| Marble Reinsurance Corporation | September 23, 2009 |
| MP Insurance Corporation | June 28, 2013 |
| Mutual Service Aid Guarantee Insurance Corporation | August 22, 2014 |
| Nitto Reinsurance Micronesia Co., Ltd. | July 18, 2017 |
| NRI Reinsurance Micronesia Ltd. | July 27, 2017 |
| Permcore Insurance Co., Ltd. | March 1, 2010 |
| Rainbowseeker Insurance, Inc. | March 29, 2011 |
| SKK Insurance Company Limited | March 13, 2018 |
| Sojitz Reinsurance Company Limited | September 16, 2015 |
| Sumida Insurance Company | December 23, 2015 |
| TamaHome Insurance Co., Ltd. | June 23, 2014 |
| Thanks Insurance Corporation | April 24, 2012 |
| Toyota Tsusho Reinsurance Micronesia Corporation | September 28, 2010 |
| TriFork Reinsurance Corporation | June 25, 2013 |
| Watanabe Reinsurance Micronesia Corporation | October 20, 2017 |

Owners of FSM licensed captive insurance companies operate in a diverse range of domestic and international markets and industries including but not limited to the following categories:

- Trade and Commerce
- Financial Services
- Real Estate and Construction
- Manufacturing
- Transportation
- Information Technology and Communications

The strong financial condition and stable performance of captives continue to dominate the FSM insurance sector. Following is an aggregated summary of the financial highlights of the FSM captive insurance industry as reported by licensees for their respective fiscal years ending in 2017 and 2016. The aggregated 2018 results are not available at this time because some of the captives with fiscal year ends in December 2018 are not required to file their respective audited financial information until June 2019.

Exhibit 5
Aggregate Financial Highlights of Captive Insurance Market as of
December 31,

| | <u>2017</u> | <u>2016</u> |
|------------------------------------|----------------|----------------|
| Combined Cash and Investments | \$ 293,000,000 | \$ 200,000,000 |
| Combined Total Assets | \$ 370,000,000 | \$ 280,000,000 |
| Combined Total Capital and Surplus | \$ 253,000,000 | \$ 186,000,000 |
| Combined Total Premium Earned | \$ 152,000,000 | \$ 84,000,000 |

The captive insurance market is a relatively *clean* industry that provides significant tangible and intangible benefits to the FSM Government and its citizens. Corporate income and premium tax collections represent the most significant benefit with approximately \$10.5 million collected during the fiscal year ended September 30, 2018, and \$14.4 million for fiscal year ended September 30, 2017. The decline in tax collections from 2017 to 2018 was attributable to the issuance and termination of several licensees during 2018 which created a timing difference that is anticipated to reverse itself in subsequent years.

All captives are required by Section 1003 of Title 37 FSMC to maintain a principal local office, designate a local principal representative and physically hold its annual board of directors meeting in the FSM. The local expenditures incurred for these requirements include payments directly made to professional services providers like attorneys, captive managers, as well as, FSM's hospitality industry that include hotels, rental car companies, restaurants, and other related services. These direct expenditures in turn flow into other sectors of the local economy through wages, rents, taxes and other expenses. Quantification of these benefits is not currently available, and is anticipated to be compiled for next year's annual report.

Prudent regulatory oversight of the captive insurance industry and administration of applicable laws require consistent and timely actions by the FSM Insurance Commissioner and his staff. Based on available information for the fiscal year ended September 30, 2018, there were approximately 6 to 10 new requests that were filed with the Insurance Commissioner each month, as well as, mandated annual financial filings and reports made by each licensed captive. Depending on the nature of the request or filing, the Insurance Commissioner and his staff undertakes different kinds of quantitative and qualitative evaluations and activities which include, but are not limited to the following:

- Review and analysis of mandated annual filings made by each captive licensee
- Evaluation of new captive insurance company applications, and voluntary terminations
- Evaluation and approval or disapproval of business plan changes to operations, funding, governance, underwriting criteria, service providers, and any other material changes to the application and business plan that was initially approved by the Insurance Board and Insurance Commissioner.
- Coordination and/or administration of regulatory examinations

Insurance Board Revolving Fund

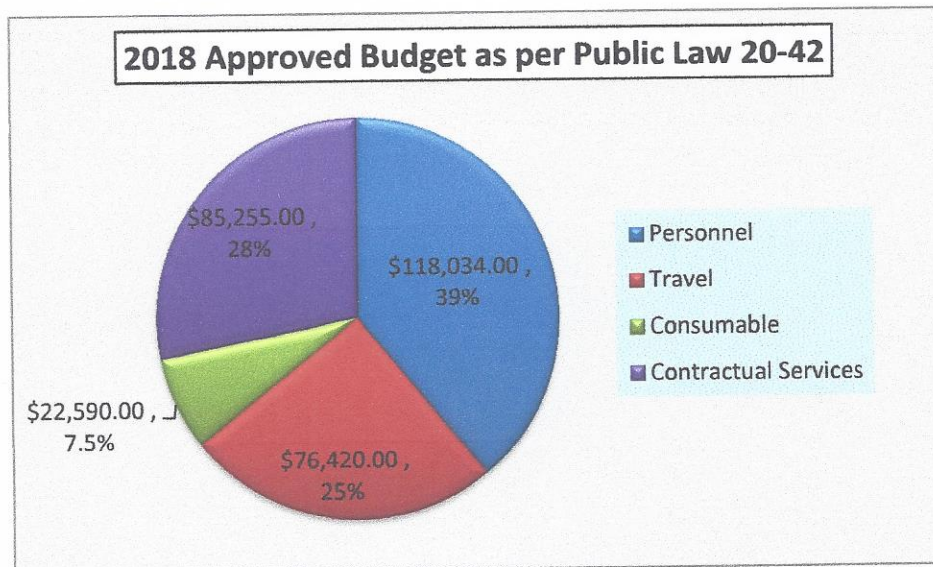
The Insurance Board Revolving Fund (“Revolving Fund”) was created in 2014, and became effective on June 25, 2014 when then President Manny Mori approved Public Law No. 18-71. The Revolving Fund’s mandated purpose is to support the regulation of FSM’s captive insurance companies, and is separate from and supplements the Insurance Board’s General Fund Budget. A complete and comprehensive report on the Revolving Fund is also required to be included in the Insurance Board’s mandated annual report to the President and Speaker.

Annual *deposits* into the Revolving Fund are comprised of: (1) annual licensing fees collected from captive insurance companies, (2) charges collected from captive insurance companies for costs incurred by the Insurance Commissioner for retaining outside legal, financial and examination services, and (3) a General Fund transfer of the greater of \$150,000 or 10% of premium tax collections. At the end of each fiscal year, the Revolving Fund’s balance is required to be capped at \$50,000, and as a result funds in excess of \$50,000 are returned to the General Fund at the end of each fiscal year.

Detailed accountings of the transactions of the Revolving Fund for the current and prior fiscal years are not available at this time. It is estimated that at least \$750,000 has been deposited into the Revolving Fund since its inception in 2014. A comprehensive reconciliation of the Revolving Fund will be conducted and included in the next Annual Report.

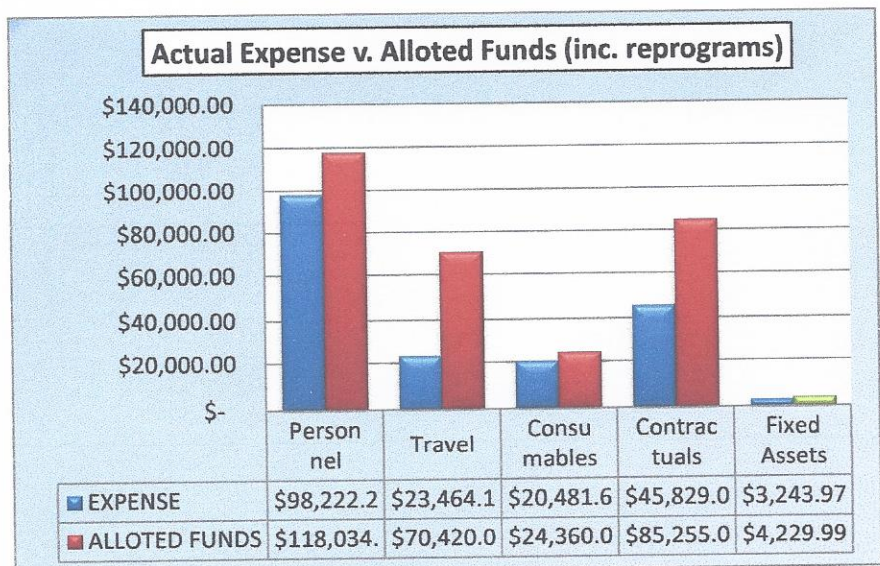
Insurance Board Operating Results for Fiscal Year Ended September 30, 2018

The operation of the Board was funded by Congress appropriation in the amount of \$302,299.00 for FY18. Personnel accounted for the largest composition at \$118,034 (39.0%), followed by Contractual Services at \$85,255 (28.2%), Travel at \$76,420 (25.3%), and Other Current Expenditures (OCE) at \$22,590 (7.5%). The appropriations per category did not change as per the proposed level as reflected in the chart.



Actual vs. Appropriation/Allotment

Reprogramming of funds between Other Current Expenditures (OCE), Travel and Fixed Assets took place to accommodate for operational needs. Funds reprogrammed into Fixed Assets in the amount of \$4,299.99 to purchase office essentials that exceeded \$1,000 per item. \$3,000.00 was then reprogrammed in to OCE to purchase more office supplies and to avoid exceeding the appropriated amount.



The expense under Personnel amounted up to \$98,222.27, with a saving of \$19,811.73; the remaining amount is due to new position being filled in May 2018. Actual expenses incurred under Travel amounted to \$23,464.17(including reprogramming), yielding savings of \$52,955.83 at fiscal year-end. Under Contractual Services, the actual amount expended totaled up to \$45,829.03, leaving us with \$39,425.97 saved. For OCE, a total of 19,131.61 were expended (inclusive of reprogrammed amount), leaving us with \$947.39 remaining.

Total actual expenses incurred by the FSM Insurance Board for the fiscal year ended 2018 amounted to \$191,481.09 (63.34%), versus total appropriated of \$302,299, a saving of \$110,817.91.

Significant accomplishments and activities in 2018

- In June 2018, the Commissioners at Banking Board and Insurance Board have swapped positions per decision of the Board;
- A total of more than \$10 million in corporate taxes has been collected by the national government from these captive insurance companies;
- On-site examinations of three (3) of the licensed captive insurance companies were initiated;
- In 2018, a captive insurance consultant has been recruited and hired;
- In 2018, the Chairman and Commissioner participated in the 2018 Tokyo and MRA Annual Seminar. During the seminar, the Commissioner made a presentation;
- In 2018, the Board held ten (10) meetings and acted on important matters and issues, and
- Since creation of the Board, the FSM Department of Justice continued to provide legal support and assistance.