

# FEDERATED STATES OF MICRONESIA INSURANCE BOARD



## 2021 ANNUAL REPORT



## FSM INSURANCE BOARD

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## EXECUTIVE SUMMARY

The 2021 Annual Report (Report) is prepared by the office of the Federated States of Micronesia Insurance Board (FSMIB) as required by Section 205 of Title 37 of the FSM Code (FSMC). This Report contains information and data on the general condition and status of the insurance system in the FSM, and other important matters including key activities that were performed and accomplished during the year ending December 31, 2021.

In the FSM, there are two (2) distinctive types of insurance sectors that are currently available in the financial market and they are the regular or conventional insurance and the captive insurance. In the following pages, the Report provides an analysis of the information and data submitted to the FSMIB by the regular insurance businesses for period ending December 31, 2021 and by the captive insurance businesses for period ending December 31, 2020.

The Report is available to the general public at [www.fsminsuranceboard.com](http://www.fsminsuranceboard.com) or at the Office of the FSM Insurance Board located at the Varner-Boylan Building, Suite 21A, Pohn Umpomp Place, Nett, Pohnpei State.

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

1. Insured individuals, businesses and other organizations with financial protection from potential losses due to unforeseen or unexpected events;
2. Reliable employment opportunities to 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.

## MANDATES

The mandates of the Board or Commission are specified in Section 204 of Title 37 of the FSMC. They are:

- ❖ 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.

## VISION

To ensure a confident, stable, sound and healthy FSM insurance market system that is consistent with acceptable and prudent principles for the insuring public, insurers and intermediaries.

## MISSION

To equitably and efficiently administer and implement the FSM Insurance Act of 2006 or 37 FSM Code and accompanying regulations keeping in mind our four principal duties. In respect to our regulatory functions, we strive to develop and establish practical and acceptable key

standards to ensure a stable, sound, healthy, responsible and functioning insurance industry for the insuring public, policyholders, insurers, agents and other intermediaries. In respect to our licensing authority, we strive to provide transparent and quality service in helping local, regional and international businesses to understand and meet licensing and reporting requirements by applying the insurance laws and regulations with fairness and integrity to all.

### OFFICE OF THE FSM INSURANCE BOARD – THE BOARD, COMMISSIONER AND STAFF

The FSM Insurance Board is a regulatory agency of the national government with a three-member board of directors, commissioner and five employees, as shown in *Exhibit 1*. The Board implements Title 37 of the FSMC, as indicated briefly in *Exhibit 2*. In 2006, the FSM Insurance Law was amended to include legislation for captive insurance. Pursuant to Title 37 as amended, the Board oversees and regulates two types of insurance - regular or conventional insurance and captive insurance.

EXHIBIT 1: ORGANIZATIONAL CHART OF THE INSURANCE BOARD

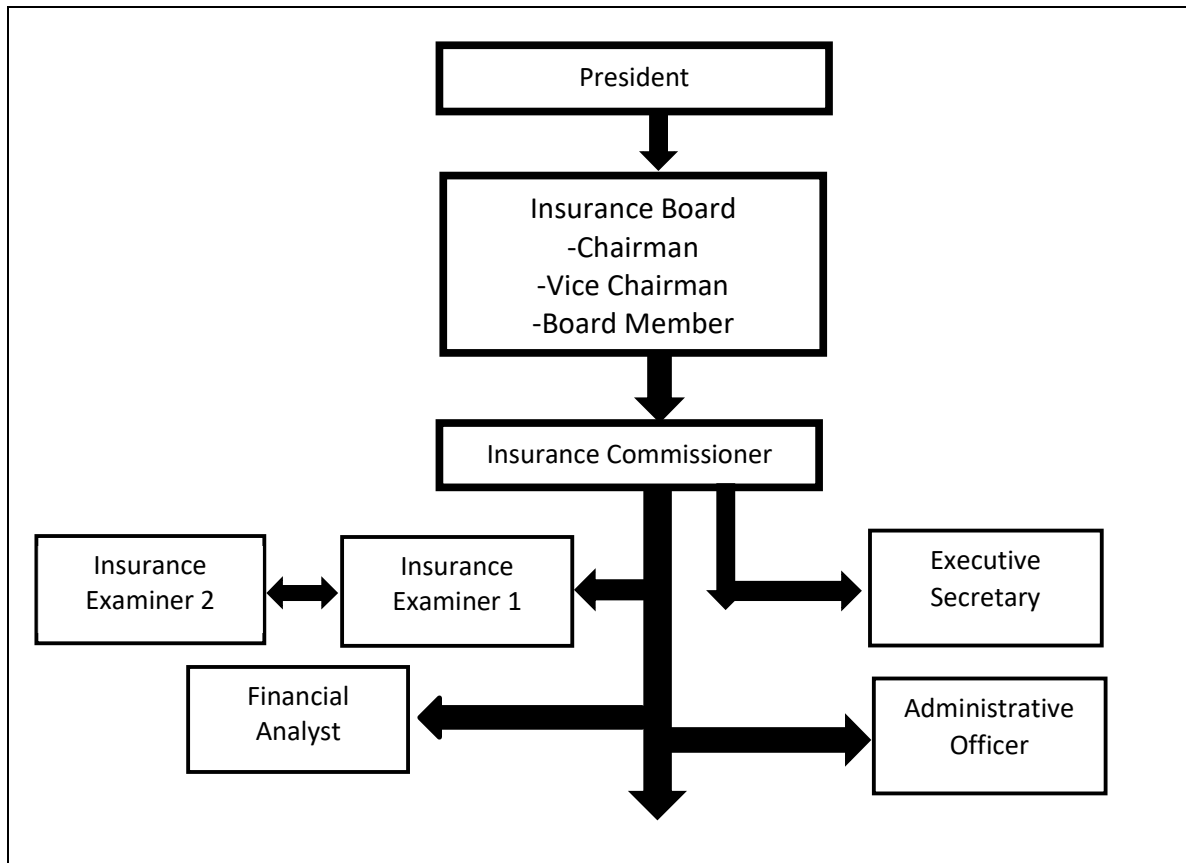
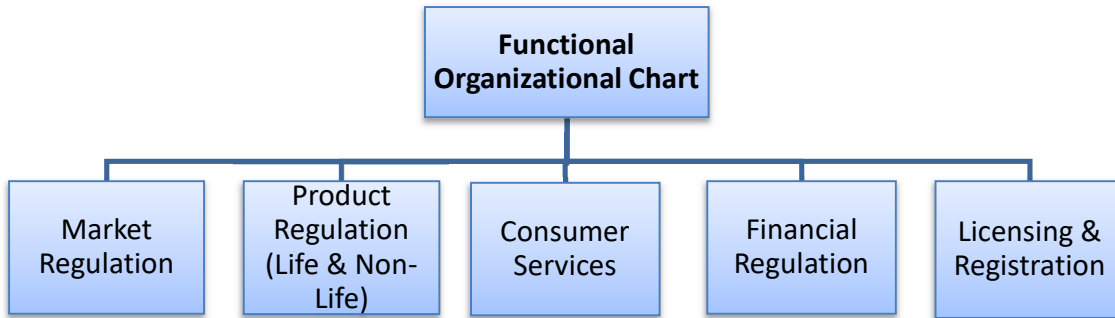


EXHIBIT 2: FUNCTIONAL CHARTS OF THE INSURANCE BOARD



1. To ensure fairness and reasonableness in products and trade practices, rates are not too excessive, processing complaints in respect to trade practices, verification of claim handling, and other market related issues.
2. To ensure insurance products are consistent with statutory, regulatory and prudent requirements in respect to contents, terms, standards, forms, and other specifications. Ensure and verify rates, forms and policy substance and conditions are fair, reasonable, and in compliance with legal/regulatory/prudent requirements.
3. To process complaints and undertake public education activities so policyholders, public, insurers, and intermediaries are well informed.
4. To compile financial and statistical data as an integral element in the monitoring process to ensure the reliability and financial soundness, safety and health of insurance companies and intermediaries, making sure annual and quarterly financial reports are filed and analyzed on a timely basis. To compile and analyze key data to determine conditions in respect to capital adequacy, risk-based profile, corporate and management quality, reinsurance, loss reserve adequacy, investment soundness, liquidity, solvency margin, risk-based capital, accounting methods and underwriting.
5. To assist applicants to ensure applications are completed prior to filing and licensure. Ensure licensees comply with statutory, regulatory, and conditions of license. To monitor license conditions, assess and impose fines.

**THE INSURANCE SYSTEM OF THE FSM**

The FSM Insurance market is comprised of two distinct sectors: (1) regular or conventional insurance, and (2) captive insurance.

**CONVENTIONAL INSURANCE**

The regular or conventional insurance system in the FSM is dominated by foreign insurers who work through local licensed insurance agents in the country. As of calendar year ended December 31, 2021, there were six (6) registered foreign insurers, one (1) licensed domestic insurer, three (3) licensed insurance agents, two (2) licensed insurance brokers, and no licensed solicitors.

By law, MiCare, the only government-owned and operated health insurance provider (carrier), is not under the regulatory and supervisory purview of the Board.

**INSURER** A foreign insurer is an insurance company licensed to conduct insurance business by a jurisdiction other than the FSM and is registered under Section 307 of Title 37 of the FSMC to undertake insurance business in the FSM. Per Section 301 of Title 37 of the FSMC, a foreign insurer who receives two million dollars or more in income from premiums collected in the Federated States of Micronesia in each fiscal year for three consecutive fiscal years shall be required to become licensed as an insurer. *Exhibit 3* below shows a listing of currently registered foreign insurers and their respective appointed local licensed insurance agents during this reporting period. The conventional insurance market offers both life and non-life insurance products and services. Examples of life insurance products are credit life, group life, universal life and/or health insurance policies while non-life insurance products are homeowners, automobile, fire, marine and cargo, workers’ compensation and other lines of coverage.

**EXHIBIT 3: CONVENTIONAL INSURANCE PARTICIPANTS**

INSURER	REGISTRATION /LICENSE STATUS	AM BEST RATING		HOME DOMICILE	LOCAL AGENT
		FINANCIAL STRENGTH	CATEGORY		
DB Insurance Company, Ltd. (Guam)	Active	A	XV (\$2b or greater)	South Korea/Guam	Moylan's Insurance Underwriters (FSM), Inc.
First Net Insurance Company	Active	B++	V (\$10-25m)	Guam, USA	Moylan's Insurance Underwriters (FSM), Inc.
Liberty Mutual Insurance Company	Active	A	XV (\$2b or greater)	Massachusetts, USA	Moylan's Insurance Underwriters (FSM), Inc.
NetCare Life and Health Insurance Company	Active	NOT RATED		Guam, USA	Moylan's Insurance Underwriters (FSM), Inc.
Pacific Indemnity Insurance Company	Active	A-	V (\$10-25m)	Guam, USA	Actouka Executive Insurance Underwriters
Plateau Insurance Company	Active	A-	V (\$10-25m)	Tennessee, USA	Bank of the FSM (BFSM)
Individual Assurance Company (FSM), Inc.	Active	NOT RATED		FSM/USA	None

**AGENT** Section 102 [3] of Title 37 of FSMC, an agent is defined as “a person with the authority of an insurer to solicit applications, receive proposals, receive premiums, deliver policies, and to make contracts of insurance.” Agents represent insurers or carriers. The Insurance Act further requires 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

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insurer or carrier. During the fiscal year ended 2021, there were 3 active licensed insurance agents as shown on the following page in *Exhibit 4*.

**EXHIBIT 4: INSURANCE AGENTS**

AGENT	LICENSE STATUS	INSURER/CARRIER
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 & Health Insurance Co., Liberty Mutual Insurance Co., and DB Insurance Co., Ltd.

**BROKER** Section 102 [5] of Title 37 of FSMC, a broker is defined as “a person who acts on behalf of a prospective customer and with the prospective customer’s authority to arrange insurance business with insurers, including making proposals and paying premiums.” Brokers represent the insured customers. During year ended 2021, there were 2 licensed brokers as shown in the *Exhibit 5* below.

**EXHIBIT 5: INSURANCE BROKERS**

BROKER	LICENSE STATUS
Oceania Insurance Company (OIC)	Active
Micronesia Insurance Brokers Company, Ltd (MIBC)	Active

**SOLICITOR** A solicitor is an individual who solicits insurance applications 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. During year 2021, there were no licensed solicitors in the FSM.

**EXHIBIT 6: FINANCIAL PERFORMANCE OF THE REGULAR INSURANCE INDUSTRY**

POLICY & PREMIUM	LIFE INSURANCE BUSINESS	NON-LIFE INSURANCE BUSINESS	TOTAL
Policy	1,433	610	<b>2,043</b>
Premium	\$1,465,560	\$2,517,529	<b>\$3,983,089</b>

Based on submitted and reported data, the conventional insurance sector generated a total gross premium of \$3,983,089 for life and non-life insurance policies for the year ended 2021. The generated gross premium was collected through the three licensed agents where \$2,517,529 was collected for non-life insurance and \$1,465,560 for life insurance. A total of 2,042 new and existing insurance policies, of which 1,433 was for life insurance and 610 for non-life insurance



policies sold through agents. Total commission earned was \$448,593, of which \$307,289 was received by agents and \$141,304 by brokers. *Exhibit 6* above shows the data for number of policies sold and the amount of premium collected for Life and Non-Life based on submitted and available data. One registered foreign insurer did not submit its 2021 data and therefore not included in this Report. *Exhibit 7* below shows the data for earned commissions for agents and brokers for year ended 2021.

**EXHIBIT 7: AGGREGATE EARNED COMMISSION FOR AGENTS & BROKERS**

INTERMEDIARIES	EARNED COMMISSIONS FOR LIFE INSURANCE BUSINESS	EARNED COMMISSIONS FOR NON-LIFE INSURANCE BUSINESS	TOTAL
Agent	\$61,823	\$245,466	<b>\$307,289</b>
Broker	\$79,940	\$61,364	<b>\$141,304</b>
<b>Total</b>	<b>\$141,763</b>	<b>\$306,830</b>	<b>\$448,593</b>

**CAPTIVE INSURANCE**

Captive insurance companies are a specialized type of insurance company. A captive insurance company can only issue an insurance policy to its owner or another affiliated company. This type of arrangement, a form of self-insurance, are used by large corporations to better manage their risks and set aside funds to pay for future losses. Since each captive insurance structure is unique, and the general public or other unrelated businesses are not able to buy an insurance policy from a captive insurance company, the details and activity of each captive insurance company are treated as confidential pursuant to Section 1004 of Title 37 FSMC.

Based on the available data, captive insurance companies domiciled in the Federated States of Micronesia received \$642 million in premium payments in 2020. The FSM has licensed 27 captive insurance companies since 2006. There are currently 23 licensed companies, as shown on the next page in *Exhibit 8*. It is not uncommon for captive insurance companies to elect to close down as their parent company reorganizes or changes their risk management strategies.

We are pleased to have added one new company in the last year and continue to have conversations with leading global captive insurance service providers about new formations. Due to the extreme difficulty of travel into and out of Japan, we are not seeing any new significant captive formation activity by Japanese companies but we are seeing significantly more discussions. Once travel into and out of Japan becomes easier, we anticipate further growth.

While the global downturn likely spurred a small decrease in the amount of earned premium in 2020, this did not dampen the overall growth, with FSM captives exceeding \$1.27 billion in total assets, an increase of \$240 million over the previous year. FSM captives likewise paid \$16.5 million in fees and taxes in FY 2020, an increase of \$618,109 over the previous year. These figures show that a strong foundation of existing captives can continue to sustain positive growth for the FSM and serve as a foundation for new captive formations when both the FSM and Japan are able to resume unrestricted travel.

With continued travel restrictions, a virtual conference was again held in November 2021 to highlight to interested persons the advantages of a captive and the resources available in the

FSM. We look forward to the possibility of an in-person conference in Tokyo as soon as travel restrictions permit.

The Insurance Board has renewed its consulting contract with Mr. Benjamin Whitehouse of Tennessee. Mr. Whitehouse is an experienced captive insurance regulator and industry professional. He advises the Insurance Commissioner on captive insurance matters as well as participates in outreach to the wider captive insurance community. Mr. Whitehouse represented the Insurance Board and the FSM at the 2020 and 2021 virtual captive conferences and further works directly with captive insurance managers and other professionals to respond to inquiries and facilitate the formation of new captive insurance companies.

It is hoped that a renewed focus on international outreach to the captive insurance community, an increase in interest in captive insurance among leading companies, the lessening travel burdens imposed by covid-19, and proposed increases in corporate tax rates in competing domiciles will increase both the number of captive insurance companies licensed in the FSM as well as the premium volume.

**EXHIBIT 8: DOMESTICALLY LICENSED CAPTIVE INSURANCE COMPANIES**

NO.	CAPTIVE INSURANCE COMPANIES	LICENSE DATE
1	ABLE Overseas Reinsurance Company, Ltd.	March 13, 2018
2	au Reinsurance Corporation	December 23, 2016
3	Eastern Pacific Insurance, Ltd.	October 29, 2013
4	Global Micronesia Insurance Corporation	May 29, 2015
5	Grand Cru Insurance Company Limited	February 20, 2018
6	Green Sun Insurance, Inc.	March 16, 2015
7	Hanwa Reinsurance Corporation	December 15, 2017
8	HS Insurance Co., Ltd.	February 16, 2017
9	Island Reinsurance Corporation	June 23, 2011
10	IX Micronesia Reinsurance Corporation	February 1, 2018
11	Ks Insurance Inc.	September 17, 2021
12	Marble Reinsurance Corporation	September 23, 2009
13	MP Insurance Corporation	June 28, 2013
14	Nitto Reinsurance Micronesia Co., Ltd.	July 18, 2017
15	NRI Reinsurance Micronesia Ltd.	July 27, 2017
16	Permcore Insurance Co., Ltd.	March 1, 2010
17	Rainbowseeker Insurance, Inc.	March 29, 2011
18	SKK Insurance Company Limited	March 13, 2018
19	Sojitz Reinsurance Company Limited	September 16, 2015
20	Sumida Insurance Company	December 23, 2015
21	Thanks Insurance Corporation	April 24, 2012
22	Toyota Tsusho Reinsurance Micronesia Corporation	September 28, 2010
23	TriFork Reinsurance Corporation	June 25, 2013

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:

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- ❖ 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. The aggregated summary of the financial highlights of the FSM captive insurance industry as reported by licensees for their respective fiscal and calendar years ending in 2016 to 2020 as shown in *Exhibits 9 to 11 below*. The aggregated 2021 results are not available at this time because some of the captives with a different calendar year are not required to file their respective audited financial information until June 2022, at which time is after the due date of this Report.

**EXHIBIT 9: AGGREGATE FINANCIAL HIGHLIGHTS OF CAPTIVE INSURANCE MARKET**

CAPTIVE AGGREGATE	2020	2019	2018	2017	2016
Cash & Investments	359,255,357	402,712,322	441,865,005	293,418,777	200,063,312
Assets	1,271,198,283	1,031,586,910	665,626,050	370,868,542	280,637,698
Shareholder’s Equity	457,359,289	439,185,984	402,663,435	253,911,233	185,998,467
Earned Premium	642,431,983	740,147,073	476,285,302	152,080,443	84,183,663
Tax Benefit	16,465,277	15,847,168	13,801,411	11,042,939	9,445,588
Net Income	62,010,632	58,608,146	51,942,595	36,200,763	31,210,662

**EXHIBIT 10: TAXES PAID BY FSM CAPTIVE INSURANCE COMPANIES**

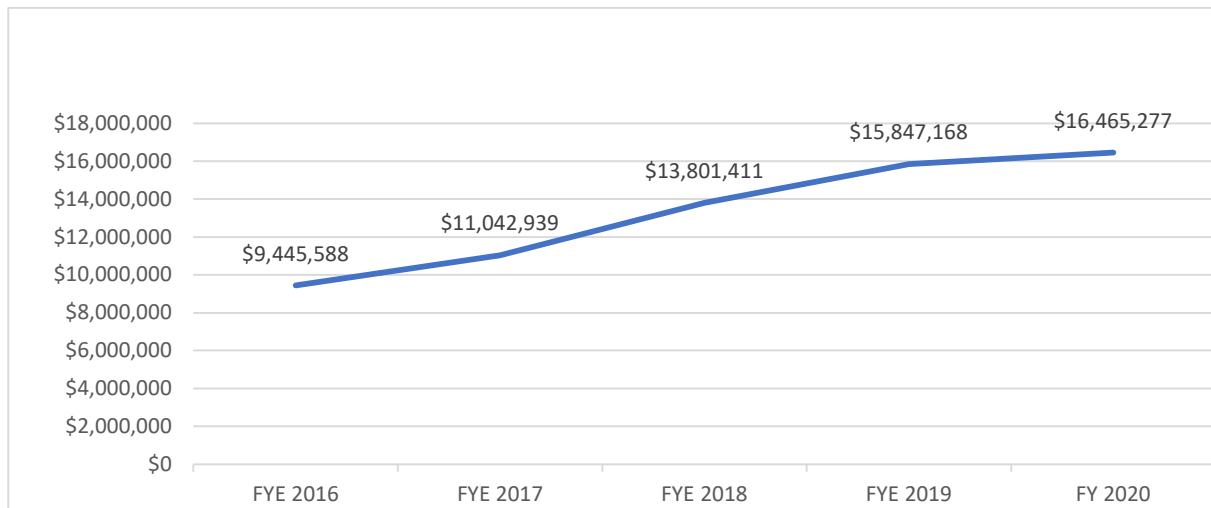
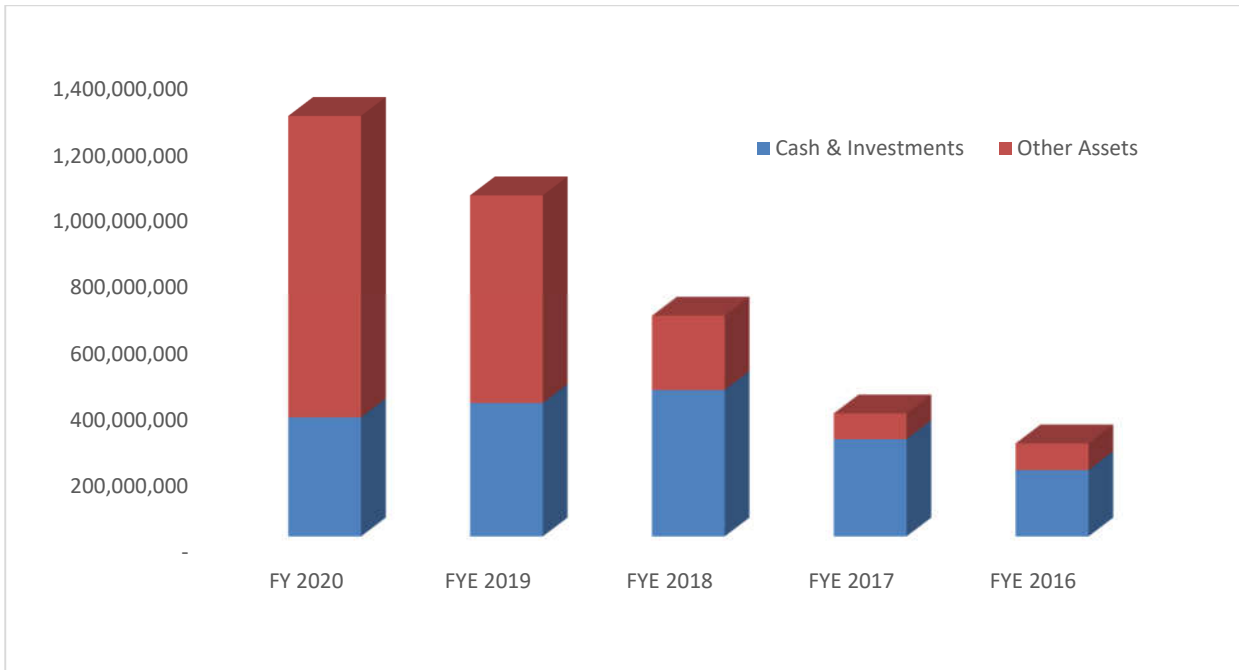


EXHIBIT 11: TOTAL ASSETS OF FSM CAPTIVE INSURANCE COMPANIES



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 collections represent the most significant benefit with approximately \$16.5 million collected during the 2020 Fiscal Year. The formula for the distribution is 60% of the whole amount goes to the FSM Government and 40% goes to MRA as stated in the partnership agreement.

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 service 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. While captive owners have not been able to attend in-person meetings in the FSM since the start of the pandemic, we anticipate that existing and new owners will travel once able to do so.

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 the office expects to receive approximately 3-5 new requests 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 undertake 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

## ACTIVITIES OF THE INSURANCE BOARD

During the year ended December 31, 2021, the Board performed and accomplished the following tasks and activities:

- ❖ Held four (4) regular board meetings;
- ❖ During these meetings, Board and Insurance Commissioner reviewed and approved 17 business plan changes, issued one license for one (1) new captive company and suspended/cancelled one (1) captive company
- ❖ Board and with the assistance of Micronesia Registration Advisors (MRA), renewed the contract for the captive insurance consultant whose main duties were to assist the staff in reviewing technical requests and proposals from licensed captive insurers, review captive insurance licensing applications, and provide training sessions and capacity building for staff, and other technical supports; and
- ❖ Hired new administrative officer

## OVERVIEW OF THE FSM INSURANCE BOARD'S FISCAL YEAR 2021 OPERATIONAL BUDGET AND REVOLVING FUND

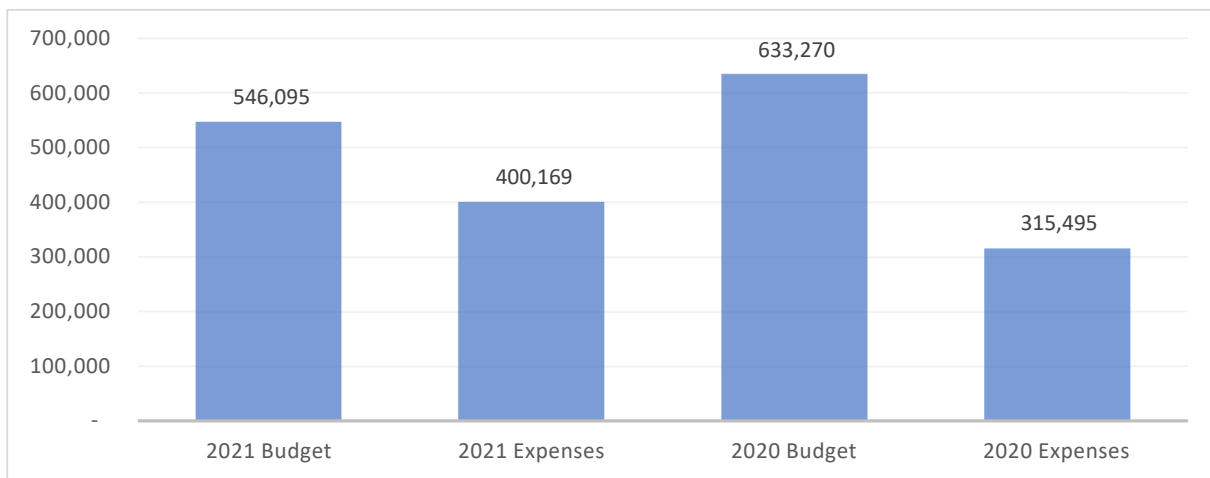
### GENERAL FUNDS (OPERATIONAL BUDGET)

Every fiscal year, each national government office or department responds to the presidential budget call and submits a proposed budget that best reflect their priorities and relevant activities for each fiscal year. For FSM Insurance Board, the fiscal year 2021 budget was submitted and approved but with severe cuts in some categories thus causing a decline in the overall budget from \$633,270 in FY2020 down to \$546,095 in FY2021. Although there was a system-wide salary increase for all national government exempt employees during FY2020, the severe cuts in travel and fixed asset line items greatly impacted the FY2021 budget. Domestic and international travel and big purchases from overseas were limited due to the ongoing Corona virus pandemic. During the fiscal years ending 2021 and 2020, the expenditures were \$400,169 and \$315,453, respectively. *Exhibits 12 and 13* show the budget and expenditures for those years.

EXHIBIT 12: GENERAL FUNDS APPROVED BUDGET VS. ACTUAL EXPENSES

ACCOUNT DESCRIPTION	FY2021		FY2020	
	APPROVED BUDGET	ACTUAL EXPENSES	APPROVED BUDGET	ACTUAL EXPENSES
Personnel	144,760	129,632	131,531	136,218
Travel	23,676	5,056	78,920	19,584
Other Current Expenses (OCE)	28,284	23,665	23,544	18,461
Contractual Services	347,175	241,816	347,175	141,190
Fixed Asset	2,200	-	52,100	-
<b>Total</b>	<b>\$546,095</b>	<b>\$400,169</b>	<b>\$633,270</b>	<b>\$315,453</b>

EXHIBIT 13: GENERAL FUNDS TOTAL OPERATIONAL BUDGET AND EXPENSES



REVOLVING FUNDS

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 expenses relating to the regulation of FSM’s captive insurance companies. A complete and comprehensive report on the Revolving Fund is also required to be included into the Insurance Board’s mandated annual report to the President and Speaker.

Annual *deposits* into the Revolving Fund are comprised of: (1) application fees, license fees, annual license renewal fees, and premium tax 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. At the end of each fiscal year, the threshold amount of the Revolving Fund is capped at \$50,000, and as a result, funds in excess of the threshold amount shall be transferred to the General Fund.

During the fiscal year ending 2021, the total amount of fees collected and deposited into the revolving fund was about \$68,282. Of that total amount, \$53,797 were examination fees paid for by captive companies that were examined/audited, and \$14,485 were fees for new captive applications and renewal of licenses for existing companies. In that same year, \$62,782 of the total amount collected was transferred out of the revolving fund account and into the general fund account for redistribution purposes. The difference of \$5,500 was retained and added unto the required minimum of \$50,000 in the revolving fund account. In the previous fiscal year of 2020, \$13,688 was collected and deposited into the revolving fund. By the close of the fiscal year, the same amount was transferred into the general fund.

Since the establishment of the revolving fund account, Office of the Insurance Board has maintained the minimum amount of \$50,000 and ensured that funds were strictly used for captive insurance activities. Hence, over the years, the Board has procured services of various experts for technical assistance in areas of captive insurance and information technology to assist with the growing captive portfolio. In 2021, about \$5,000 was contracted to an IT company to build and maintain the computer network and provide other IT support and maintenance services as needed. *Exhibit 14* summarizes the activities that happened during the fiscal years ending 2021 and 2020.

**EXHIBIT 14: REVOLVING FUNDS REVENUE COLLECTIONS AND CASH TRANSFERS**

ACCOUNT DESCRIPTION	FY2021	FY2020
Revenues collected	\$68,282	\$13,688
Expenditures	\$5,000	
Cash Transfer Out	\$62,782	\$13,688

**CONCLUSION**

The insurance industry in the Federated States of Micronesia continues to play a big role in the financial sector. Despite the ongoing pandemic and the reduction in the operation budget, the benefits being derived from the insurance activities in both regular and captive insurance businesses are substantial and contributed to the growth of the economy for the year ending 2021.

The Chairman of the Board and fellow members with the support of the Commissioner and his staff will continue to work with our consultants and government officials to address the challenges and issues facing the insurance sector in the FSM. It is our ultimate goal and objective that we will continue to collaborate to ensure that the financial sector is sound and functioning for the benefits of the policyholders and the citizens of the FSM.