

# FEDERATED STATES OF MICRONESIA INSURANCE BOARD



## 2022 ANNUAL REPORT



## FSM INSURANCE BOARD

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## EXECUTIVE SUMMARY

The 2022 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, 2022.

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, 2022 and by the captive insurance businesses for period ending December 31, 2021.

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 economy and society 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 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 the four principal purposes. In respect to our regulatory functions, we strive to develop and establish practical and acceptable key

standards to ensure a stable, sound, and healthy insurance industry for the policyholders, intermediaries, and insurers. 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, insurance 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

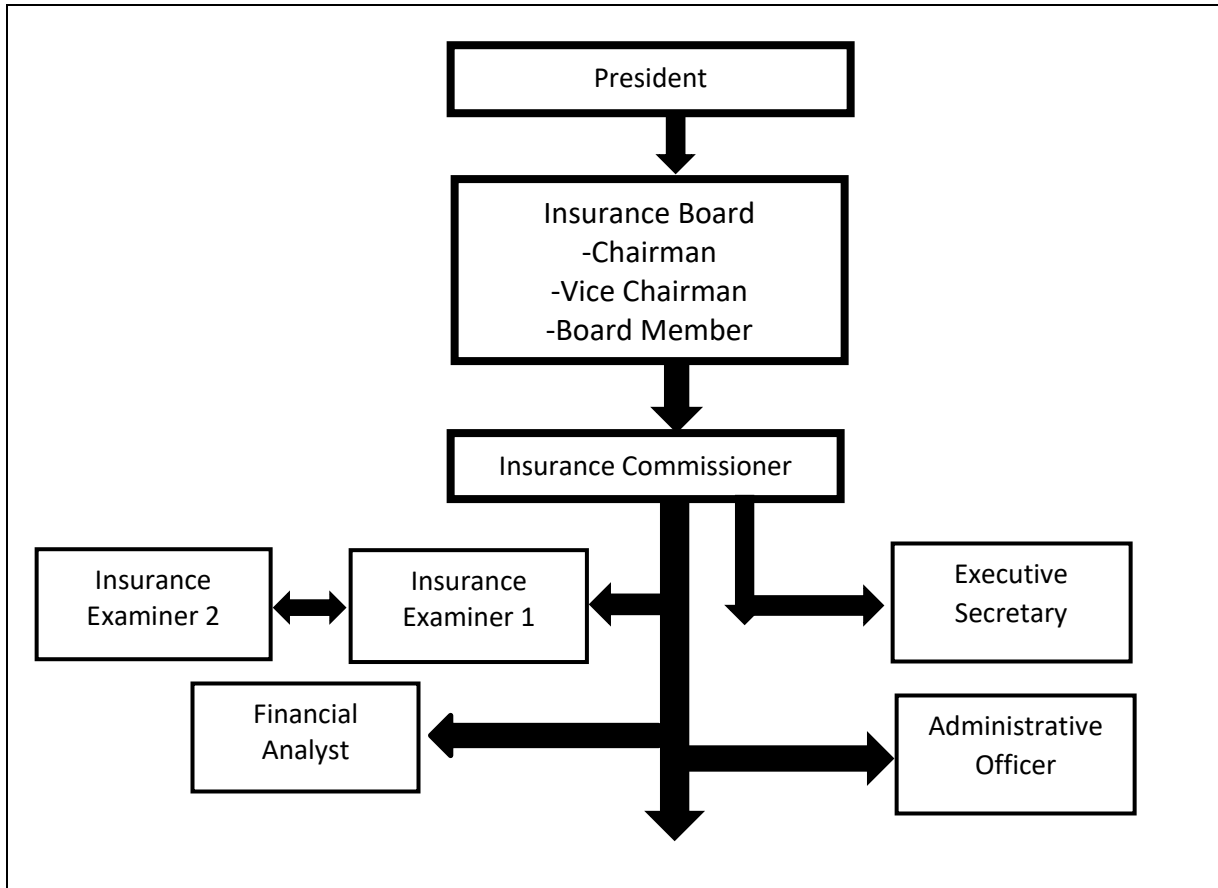
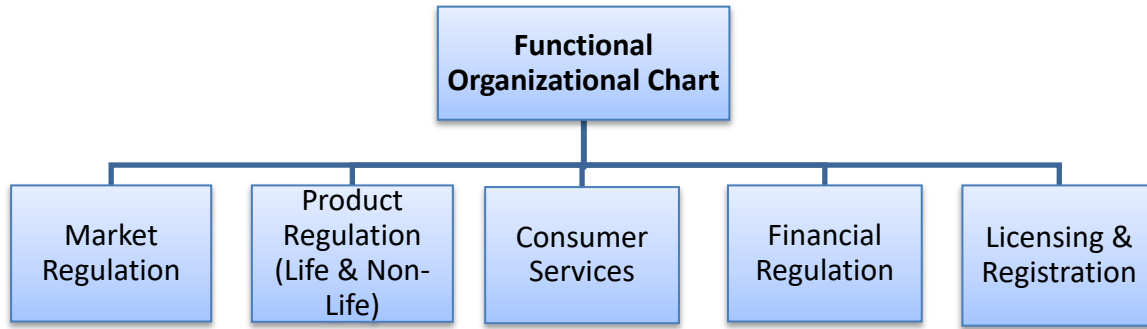


EXHIBIT 2: FUNCTIONAL CHARTS OF THE INSURANCE BOARD



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, the general 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, 2022, there were six (6) registered foreign insurers, one (1) licensed domestic insurer, four (4) 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 cargo, workers’ compensation, and other coverages.

EXHIBIT 3: CONVENTIONAL INSURANCE PARTICIPANTS

INSURER	REGISTRATION /LICENSE STATUS	HOME DOMICILE	LOCAL AGENT
DB Insurance Company, Ltd. (Guam)	Active	South Korea/Guam	Moylan's Insurance Underwriters (FSM), Inc.
First Net Insurance Company	Active	Guam, USA	Moylan's Insurance Underwriters (FSM), Inc.
Liberty Mutual Insurance Company	Active	Massachusetts, USA	Moylan's Insurance Underwriters (FSM), Inc.
NetCare Life and Health Insurance Company	Active	Guam, USA	Moylan's Insurance Underwriters (FSM), Inc.
Pacific Indemnity Insurance Company	Active	Guam, USA	a) Actouka Executive Insurance Underwriters b) Moses Insurance Executives
Plateau Insurance Company	Active	Tennessee, USA	Bank of the FSM (BFSM)
Individual Assurance Company (FSM), Inc.	Active	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

insurer or carrier. During year 2022, there were 4 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.
Moses Insurance Executives	Active	Pacific Indemnity Insurance Company

**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 2022, 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 2022, 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	5,646	712	6,358
Premium	\$1,573,589	\$ 2,144,636	\$3,718,225

Based on submitted and reported data, the conventional insurance sector generated a total gross premium of \$3,718, 225 for life and non-life insurance policies for the year ended 2022. The



generated gross premium was collected through the four licensed agents, where \$2,144,636 was collected for non-life insurance and \$1,573,589 for life insurance. A total of 6,358 new and existing insurance policies, of which 5,646 was for life insurance and 712 for non-life insurance policies sold through agents. Total commission earned was \$833,634, of which \$472,776 was received by agents and \$360,858 by brokers. *Exhibit 6* above shows the data for the number of policies sold and the amount of premium collected for Life and Non-Life based on submitted and available data. Two registered insurers did not submit its 2022 data and therefore were not included in this Report. *Exhibit 7* below shows the data for earned commissions for agents and brokers for year ended 2022.

EXHIBIT 7: AGGREGATE EARNED COMMISSION FOR AGENTS & BROKERS

INTERMEDIARIES	EARNED COMMISSIONS	EARNED COMMISSIONS	TOTAL
	FOR LIFE INSURANCE BUSINESS	FOR NON-LIFE INSURANCE BUSINESS	
Agent	\$54,743	\$418,033	<b>\$472,776</b>
Broker	\$169,255	\$191,603	<b>\$360,858</b>
<b>Total</b>	<b>\$223,998</b>	<b>\$609,636</b>	<b>\$833,634</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.

The FSM has made a strategic decision to focus its captive insurance outreach efforts on Japan-based businesses. Businesses headquartered in Japan have unique insurance compliance requirements that place most other international captive insurance domiciles impractical. By focusing exclusively on Japan, the FSM can build strong and lasting ties with key insurance professionals and maximize the benefits returning to the FSM for a minimum cost.

Based on the available data, captive insurance companies domiciled in the Federated States of Micronesia received \$596 million in premium payments in 2021. The FSM has licensed 27 captive insurance companies since 2009. There are currently 25 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.

FSM captive insurance companies earned \$46 million less in premium in 2021 in comparison to 2020. This decrease is a direct impact of the global COVID-19 pandemic as businesses around the world reduced operations due to restrictions on worker availability, travel and the free flow of commerce. As business activity decreases, their insurable risk likewise decreases. One of the advantages that business owners have with owning a captive insurance company is that traditional insurance companies will, in economic downturns, raise rates to shore off profits even as their risk exposure lowers.

We see further impact of this resilience in the total assets of FSM captives grew from \$1.27 billion in 2020 to \$1.44 billion in 2021. FSM captives paid \$14.37 million in taxes to the FSM in 2021. Between 2017 and 2021, FSM captives have paid over \$66.6 million in taxes to the FSM.

Since July 2022, FSM representatives have been able to conduct in-person meetings in Japan with key representatives of captive managers and FSM captive owners. In November 2022, an online seminar was again held for interested captive insurance professionals. Plans are in development for a return to a live FSM seminar in 2023.

The FSM is at a critical point in its development as a captive insurance domicile. The benefits to the nation are enormous as captive insurance is an environmentally clean industry that brings in outside revenue and exposure in the global business marketplace. Continued growth however depends on the close cooperation between the Insurance Board and Commissioner, the executive and legislative branches of the FSM National Government, and our partnering private industry service providers.

In 2022 the Insurance Board adopted an amendment to the regulation to keep pace with the leading international captive insurance domiciles and will continue to consider updates to its regulations as the needs of the industry demand it.

**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	Permcure 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
24	Three Point Five Reinsurance Co., Ltd	January 17, 2022
25.	MIMOSA Insurance Company Limited	August 08, 2022

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. 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 2017 to 2021 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	2021	2020	2019	2018	2017
Cash & Investments	251,378,474	359,255,357	402,712,322	441,865,005	293,418,777
Total Assets	1,444,788,160	1,271,198,283	1,031,586,910	665,626,050	370,868,542
Shareholder’s Equity	460,756,154	457,359,289	439,185,984	402,663,435	253,911,233
Earned Premium	596,797,116	642,431,983	740,147,073	476,285,302	152,080,443
Tax Benefit	14,370,496	16,465,277	15,847,168	13,801,411	11,042,939
Net Income	836,664,912	62,010,632	58,608,146	51,942,595	36,200,763

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

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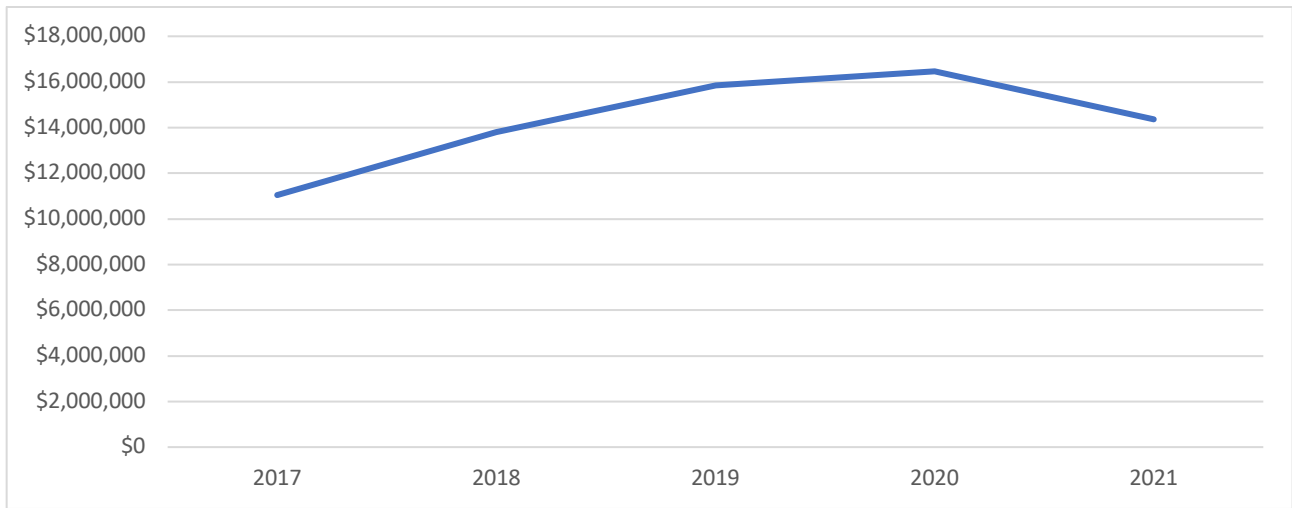
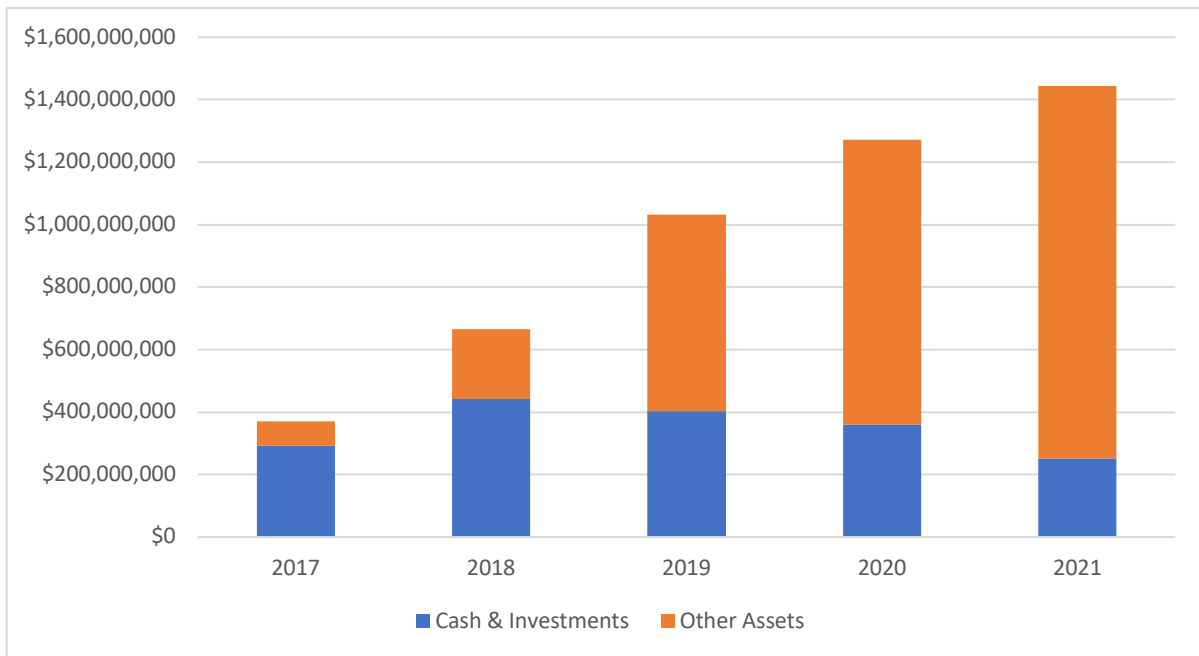


EXHIBIT 11: TOTAL ASSETS OF FSM CAPTIVE INSURANCE COMPANIES



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. We are already starting to see a return of business travel to the FSM for captive insurance related matters and expect it to soon return to pre-pandemic levels.

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, 2022, the Board performed and accomplished the following tasks and activities:

- ❖ Held four (4) regular board meetings and one (1) special board meeting;
- ❖ Reviewed and approved 17 business plan changes, issued two licenses for two (2) new captive companies and one (1) license for regular insurance agent.
- ❖ 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, provide training sessions and capacity building for staff, and other technical supports; and
- ❖ Hired three (3) new employees: Insurance Examiner, Senior Financial Analyst, and Executive Secretary.
- ❖ Performed three (3) examinations of Captive Insurance Companies.

## OVERVIEW OF THE FSM INSURANCE BOARD'S FISCAL YEAR 2022 OPERATIONAL BUDGET AND REVOLVING FUND

### GENERAL FUNDS (OPERATIONAL BUDGET)

Every fiscal year, each national government agency, office, department, or component responds to the presidential budget call and submits a proposed budget that best reflect its priorities and relevant operational activities for each fiscal year. For FSM Insurance Board, the fiscal year 2022 proposed budget was submitted and got approved but with minimal increase in the overall budget from \$546,095 in FY2021 to \$550,842 in FY2022. However, during the last quarter of the fiscal year 2022, the Covid 19 virus hit the island of Pohnpei, causing a rapid spread of the virus throughout the island and eventually lifting the travel restrictions after nearly 2 years. As such, FSM Insurance Board found it necessary to shift funds to accommodate the growing need to procure personal protective equipment and supplies for infection control, off-island travels to visit foreign insurance companies, and purchases of various goods and services for Board

directors’ activities. The budget category amounts were changed over the one-year period due to the reprogramming of funds between the budget categories, therefore causing the initial amounts to change. During the fiscal years ending 2022 and 2021, the expenditures were \$464,464 and \$400,169, respectively. *Exhibit 12* shows the budget and expenditures for the 2-year period.

**EXHIBIT 12: GENERAL FUNDS APPROVED BUDGET VS. ACTUAL EXPENSES**

ACCOUNT DESCRIPTION	FY2022		FY2021	
	APPROVED BUDGET	ACTUAL EXPENSES	APPROVED BUDGET	ACTUAL EXPENSES
Personnel	151,355	131,322	144,760	129,632
Travel	9,308	8,496	23,676	5,056
Other Current Expenses (OCE)	43,504	37,449	28,284	23,665
Contractual Services	346,675	291,191	347,175	241,816
Fixed Asset		-	2,200	-
<b>Total</b>	<b>\$550,842</b>	<b>\$468,468</b>	<b>\$546,095</b>	<b>\$400,169</b>

**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, licensing fees, annual licensing 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 2022, the total amount of fees collected and deposited into the revolving fund was about \$17,399, of which was transferred out of the revolving fund account and into the general fund account for redistribution purposes. In the previous fiscal year of 2021, \$68,282 was collected and deposited into the revolving fund but only \$62,782 was transferred to the general funds.

Since the establishment of the revolving fund account, the Office of the Insurance Board has maintained the minimum threshold 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. However, during fiscal year 2022, the office of the Insurance Board incurred no expenses. *Exhibit 13* summarizes the activities that happened during the fiscal years ending 2022 and 2021.

EXHIBIT 13: REVOLVING FUNDS REVENUE COLLECTIONS AND CASH TRANSFERS

ACCOUNT DESCRIPTION	FY2022	FY2021
Revenues	\$17,399	\$68,282
Expenditures	\$0	\$5,000
Cash Transfer	\$17,399	\$62,782

**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 2022.

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 stable, sound and healthy for the benefits of the policyholders and the citizens of the FSM.