

2016 ANNUAL REPORT



FSM INSURANCE BOARD

VB Building No.1, Suite 2A
Pohn Umpomp Place, Nett, Pohnpei FM 96941
P.O. Box K-2980, Kolonia, Pohnpei, FM 96941
Tel: (691) 320-3423/5426
Fax: (691) 320-1523
Website: fsminsuranceboard.com

Table of Contents

Executive Summary	2
The Insurance System of the FSM	4
Regular Insurance:.....	4
Insurers.....	4
Agents	4
Brokers	5
Solicitors	5
Captive Insurance:.....	7
Captive Insurers.....	7
Captive Managers.....	7
Mandates, Vision, Mission, Principles, and Approaches	8
Appendix A: Financial Performance of the Regular Insurance Industry	11
Appendix B: Overview of the Board's FY16 Budget	13

Executive Summary

This Annual Report (Report) is produced pursuant to Section 205 of Title 37 of the FSM Code. The Report provides information such as the general condition of the insurance system in the FSM, and other matters and activities of the Insurance Board. The Report is available and can be downloaded at: www.fsminsuranceboard.com. For a hard copy, please contact our office at the address provided.

The Insurance system as a subsector of the overall financial sectors is regulated and supervised pursuant to Title 37 FSMC, which requires, in part, that no insurance business be carried on in the FSM unless the person (carrier and/or intermediary) is admitted by way of registration or licensure, Section 301. Insurance business is defined under Section 102(12), 37 FSMC. The FSM Insurance Commission or Board is established and authorized by 37 FSMC to regulate and supervise the insurance system by: (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, Section 204 of 37 FSMC.

Essentially, the underlying objective of the Board is to ensure the insurance system of the country is protected for the benefit of the insuring public, yet functioning consistently with legal, regulatory and prudential principles for investors, policyholders, and in the case of annuity - the depositors. The approaches and mechanisms to achieve these objectives are unique and specialize as regulatory and supervisory functions are new to the country and 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, there is a potential such approach could 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 system comprises of: (1) regular or conventional insurance, and (2) captive insurance. The regular insurance sector comprises of regular insurers, insurance agents, insurance brokers, and insurance solicitors for life and non-life or property and casualty insurance classes. Insurance agent represents and works for insurers, while insurance broker represents and works for insureds or policyholders. Section 301 of 37 FSMC requires that no insurance business be carried on in the FSM unless the person is authorized by way of licensure or registration. This statutory requirement is consistent and applicable internationally.

As of year ended 2016, six (6) foreign insurers were registered to transact insurance business in the FSM, one (1) domestic insurer licensed conditionally to transact only group life, and one (1) foreign insurer application that was filed but incomplete and pending. In respect to insurance intermediary or producer, there were three licensed agents, two licensed brokers, and no licensed solicitor.

The regular insurance system generated a total gross premium of \$4.3 million for life and non-life as of year ended 2016 based on reported entities. Of the gross generated premium, \$2.9 million was collected through the three licensed agents, and \$1.4 million was through insurance brokers. A total of 4,783 life and non-life policies were sold, of which 4,683 were sold through agents and 100 by way of placement through brokers. Of the \$4.3 million, \$516,900 (based on submitted annual financial statements from two insurers only) was placed on reinsurance. Net income of US\$285,616 (based on annual financial statements received from two insurers only) was reported for the year ended December 31, 2016, for both

life and non-life transacted through agents. The total commission received by the three licensed agents and two licensed brokers was reported at \$636,892, \$153,001 for brokers and \$483,891 for agents. It is important to note that not all registered insurers complied with the request of the Commission or Board to provide statistical and financial data, which in part for purpose of this Report.

The captive insurance system also realized growth in 2016. As of year ended 2016, nineteen (19) captive licensees as of year ended 2016. It is the internal policy of the Commission or Board to license at least three captives a year. Similar growth trend is expected for the years to come. All nineteen captive companies are wholly own by Japanese corporations, and of the nineteen, ten (10) are Class I, five (5) as Class II, and four (4) as Class III or MCC.

The captive insurance system generated a total gross premium of JPY 13.1 billion (US\$116.6 million) as of year-end 2015. Of the total gross premium generated, JPY 3.6 billion (US\$ 31.3 million) was ceded to retrocession and JPY 9.5 billion (US\$ 85.2 million) was retained by the captives.

The overall earnings performance of the captive system strengthened over the year generating net profit of JPY 3.1 billion (US\$27.4 million) as the number of reporting licensed captives increased. Net income for the year improved by JPY 168.9 million (US\$2.5 million) from previous year's net income of JPY 2.9 billion (US\$24.8 million). The captive insurance system was well capitalized, and the capital and surplus for each licensee were adequately maintained well above the minimum requirement per FSM Captive Insurance Laws and Regulations.

For captive management firms, there were eight (8) licensees as of year ended 2016, three (3) of which not managing any licensed captives, two of the eight are domestically incorporated and owned by Japanese, while six are incorporated outside of FSM but with legal nexus established in the FSM. The top three largest global captive management firms are also licensed in the FSM.

The rapid growth of the insurance industry comes with challenges. Not many people in the FSM are trained in insurance regulatory and supervisory functions. However, much of the struggles encountered in the early days have been learned from and staff is beginning to have a grasp on how insurance functions in practice and the regulatory and supervisory requirements involved, although with two staff turnovers in 2016. In other words, we are learning and making progress, although such progress is slow due to a number of challenges or hurdles. Effort was also exerted to secure a technical assistance continued in 2016 to assist in on-site examination procedures and manuals, review the legal framework, regular insurance regulations, on-site monitoring and supervision, market conducts, rating and pricing, financial solvency, staff capacity building, etc.

The production of 2016 Annual Report is slightly delayed due to incomplete and late submissions of financial and statistical reports from the industry, especially the regular insurance. For more information, refer to **Table 1** which presents the number of companies that submitted full statistical report, partial report and not reported.

Table 1

Insurers & Intermediaries	No. of Insurers and Intermediaries As of 31-Dec-16	No. of Insurers & Intermediaries Submitting Statistical Reports	Reported Complete Data	Reported Incomplete Data	Not Reported
Insurers	7	5	4	1	2
Agents	3	1	1	0	2
Brokers	2	2	2	0	0

The Insurance System of the FSM

The FSM insurance industry comprises of regular or traditional insurance, captive insurance and various insurance intermediaries such as agents, broker, and captive managers.

Regular Insurance:

Insurers

Regular insurance comprises of regular insurance carriers (insurers) and regular insurance intermediaries or producers. For regular insurance carriers, there are two types, domestic insurers who are qualified for licensure and foreign insurers who are qualified for registration pursuant to Section 307 of FSMC. For regular insurance intermediaries, there are agents, brokers and solicitors who are supposed to be licensed pursuant to Section 301 of 37 FSMC.

The regular insurance system in the FSM is dominated by foreign insurers. As of year ending 2016, there were six (6) registered foreign insurers transacting insurance business through licensed agents. The only domestic insurer was IAC-FSM, which was licensed conditionally by the Board.

MiCare is a government own health provider (carrier) and not under the regulatory and supervisory purview of the Board or Commission pursuant to §103 of 37 FSMC.

A foreign insurer is an entity constituted and licensed to conduct insurance business by a jurisdiction other than the FSM and is registered under Section 307 of 37 FSMC to carry on insurance business in the FSM. It is optional for a foreign insurer to become a licensed domestic insurer by way of incorporation in the FSM. However, if a foreign insurer premium collection in FSM is \$2 million or more each year for three consecutive years, it must become a domestic licensed insurer if it still wants to continue its insurance business in the country pursuant to Section 301 of 37 FSMC. Otherwise, the foreign insurer can be registered in order to engage in insurance business in the country, and such insurance transactions be through a local licensed agent or such insurance transaction is placed by and through a licensed broker. 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 carries on both life insurance business and other insurance business shall conduct the life insurance business in a separate company, and shall thereby segregate the assets and liabilities of its life insurance business from those of its other insurance business.” Any other business, besides insurance, shall also be conducted in a separate company with segregated assets and liability as well.

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, 2016, there are three (3) licensed agents: (1) Moylan’s Insurance Underwriters (FSM), representing First Net Insurance Company, Dongbu Insurance Company, NetCare Life and Health Insurance Company, and Liberty Mutual Insurance Company, (2) Actouka Executive Insurance Underwriters, representing Pacific Indemnity Insurance Company, and (3) FSM Bank, representing Plateau Insurance Company, the most recently registered foreign insurer domiciled in Tennessee, USA.

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 two known brokers exist in the Federated States of Micronesia as of December 31, 2016. The brokers, Oceania Insurance Company and Micronesia Insurance Brokers Company, Ltd., have 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, 2016, no known solicitor is operating in the Federated States of Micronesia.

Table 2: The below table presents an overview on licensing and registration per Section 215 of the Act:

Foreign Insurers:				
Name of Insurers:	Registration/License Status in FSM	Local Agent	Home domicile	AM Best Rating
First Net Insurance Company	Registered	Moylan’s Insurance Underwriters (FSM), Inc.	Guam	Financial Strength: B++ Category: V(\$10-25m)
NetCare Life and Health Insurance Company	Registered	Moylan’s Insurance Underwriters (FSM), Inc.	Guam	NOT RATED
Dongbu Insurance Company (Guam)	Registered	Moylan’s Insurance Underwriters (FSM), Inc.	South Korea/Guam	Financial Strength: A Category: XV (\$2b or greater)
Pacific Indemnity Insurance Company	Registered	Actouka Executive Insurance Underwriters	Guam	Financial Strength: A- Category: V (\$10-\$25m)
Liberty Mutual Insurance Company	Registered	Moylan’s Insurance Underwriters (FSM), Inc.	USA	Financial Strength: A Category: XV (\$2b or greater)
Plateau Insurance Company	Registered	Bank of FSM (BFSM)	USA	Financial Strength: A- Category: V(\$10m-\$25m)
Brokers:				
Oceania Insurance Company	Licensed	Not applicable	FSM	NOT RATED
Micronesia Insurance Brokers Company,	Licensed	Not applicable	FSM	NOT RATED

Ltd.			
Agents:			
Name of Agents:	Status:	Foreign Carrier:	
Moylan's Insurance Underwriters (FSM), Inc.	Licensed	First Net Insurance Co., NetCare Life and Health Insurance Co., Liberty Mutual Insurance Company and Dongbu Insurance Co.	NOT RATED
Actouka Executive Insurance Underwriters	Licensed	Pacific Indemnity Insurance Company	NOT RATED
Bank of the Federated States of Micronesia (FSM)	Licensed	Plateau Insurance Company	NOT RATED

Most insurers transacting insurance business in the country furnished needed data and statistics respective of FSM operations for purpose of the Annual Report, except a foreign registered insurer, despite numerous emails. The financial report for the regular insurance industry in the FSM consists of financial and statistical data for the year ended 2016.

Based on the submitted data from the regular insurance companies, the FSM insurance industry generated total gross premiums for both life and non-life policies collected by intermediaries (i.e. agents and brokers) amounting to US\$4.3 million for the year ended 2016. A total of 4,783 life and non-life policies were sold in the FSM from registered insurers. Of the total number of policies sold, 4,683 were sold through agents and 100 placed by brokers.

The \$2.9 million in gross premium income for life and non-life was generated through agents alone as of December 31, 2016. For reinsurance, \$516,900 from the gross premium was ceded to reinsurance. Net incurred losses and related loss adjustment expenses for the period was reported at US\$67,674 and net premiums earned for the period was at US\$548,157 (based on annual financial statements received from two insurers only). Net income of US\$285,616 was reported for the year ended December 31, 2016, for both life and non-life transacted through agents (based on submitted annual financial statements from two insurers).

Table 2: Statistics of total premiums collected & claims through Agents and Brokers

FSM INSURANCE INDUSTRY							
As of December 31, 2016	Through AGENTS			Through BROKERS			Life & Non-Life
	Life	Non-Life	Total	Life	Non-Life	Total	Total
Premium Collected	576,965	2,273,489.18	2,850,454	713,548.36	725,924.85	1,439,473.21	4,289,927.39
Premium Ceded ***	-	516,899.57	516,899.57	-	-	-	516,899.57
Net written premium	576,965.00	1,756,589.61	2,333,555	713,548.36	725,924.85	1,439,473.21	3,773,027.82
Amount of Claims Incurred	271,535.00	161,979.06	433,514.06	293,000.00	2,669.10	295,669.10	729,183.16
Amounts of Claims Paid	276,168.00	113,419.19	389,587.19	231,000.00	2,669.10	233,669.10	623,256.29
Amount of Claims Outstanding	46,054.00	185,174.00	231,228.00	-	-	-	231,228.00

NOTE: Based on submitted reports from two insurers ***

Table 3: Commission Income

As of December 31, 2016	AGENTS			BROKERS			Life & Non-Life
	Life	Non-Life	Total	Life	Non-Life	Total	Total
Commission Income	-	483,890.90	483,890.90	76,158.21	76,842.88	153,001.09	636,891.99

Licensed brokers in the FSM sold both life and non-life policies, US\$713,548 for life and US\$725,925 for non-life, respectively, for a total of \$1,439,473, with commission income of US\$153,001 for fiscal year 2016. For additional information, please refer to **Appendix A**.

Captive Insurance:

The captive insurance system comprises of captive insurance companies and captive management firms. The captive insurance companies are incorporated and licensed primarily to provide insurance and reinsurance for the parents, affiliates, associations, and related third parties. Therefore, subsidiary captive companies are alternative forms of risk and financing management mechanisms for the parent to better manage and finance their own risks. There are currently four Classes of captives to be authorized or admitted.

Captive Insurers

As of year-end 2016, a total of nineteen (19) captives were licensed.). The number of captive licensee is expected to increase by an average of three each year, similar to the previous years. If the growth trend continues as has been for the past years, the FSM as a captive domicile could potentially become the largest for Japanese captives in a year or two. All nineteen (19) captive companies are wholly own by Japanese corporations. Of the nineteen (19) captive licensees, ten (10) are designated as Class I, five (5) as Class II, and four (4) as Class III or MCC.

The overall earnings performance of the captive system strengthened over the year generating Net Profit of JPY 3.1 billion (US\$27.4 million) as the number of reporting licensed captives increased. Net income for the year improved by JPY 168.9 million (US\$2.5 million) from previous year's net income of JPY 2.9 billion (US\$24.8 million).

In terms of capital and surplus, the captive insurance system was well capitalized at fiscal year-end 2015 with total capital and surplus reported at JPY 18.9 billion (US \$165 million). Existing captive licensees as of fiscal year 2015 all have their respective capital and surplus adequately maintained well above the minimum requirement per FSM Captive Insurance Laws and Regulations. Solvency tests have been performed on each respective captive licensee and as a whole; both have met the solvency requirements under the FSM Captive Regulations.

Overall, the Insurance Board was satisfied with the financial condition and performance of the captive insurance companies licensed under the Insurance Act of 2006. For additional information, please refer to **Appendix C**.

Captive Managers

As of 2016 year-end, there were eight (8) licensed captive management firms or captive managers. Three of the 8 captive managers are not currently managing any licensed captives, and their captive manager licenses have also expired and have not been renewed yet. Moreover, two of the eight are domestically incorporated and owned by Japanese, while six are incorporated outside of FSM but with legal nexus

established in the FSM. The two domestic captive management firms were wholly own by Japanese citizens and largest in FSM in terms of the number of captive licensees under their respective management umbrellas. The top three largest global captive management firms were also licensed in the FSM prior to 2016, namely Aon, Marsh and Willis, respectively. The validity of captive manager license is five years; however, may be renewed.

Mandates, Vision, Mission, Principles, and Approaches

Mandates:

The mandates of the Board or Commission are spelled out in Section 204 of 37 FSMC, which 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.

Our Vision:

Our Vision is to ensure a confidence, stable, sound and healthy FSM insurance market system that is consistent with prudential principles for the insuring public, insurer and intermediary.

Our Mission:

Our Mission is to equitably, effectively and efficiently administer and implement the FSM Insurance Act of 2006 or 37 FSM Code and accompanying regulations. 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 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 mix 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:

Our dealings and conducts shall be exemplifying friendliness, courteous, ethical, and professional behavior in all areas of performance by:

- Providing the best value and standard 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.

Challenges before the Board:

There are challenges before the Board. As insurance is new, unique and specialize, there is a need to have an in-house legal/regulatory/supervisory insurance expert to work shoulder-to-shoulder with us on both captive and regular insurance. Also due to the increased number of requests filed by captive licensees (i.e. requests for change of business plan) and the increasing time needed for monitoring and supervision requirements as number of entities under regulatory and supervision of the Board has increased, the Board needs additional staff so staff is split between captive and regular insurance. This will allow staff to focus and specialize thus effectiveness is realized. Priority is given to captive insurance side of the operation as all requests filed are time sensitive with deadlines. Staff finds it difficult to undertake reviews and supervision responsibilities at the same time between regular and captive insurance, i.e. review of applications. Currently, there is no set of regulations to include certain prudential standards or benchmarks in order to effectively regulate and supervise insurers and intermediaries, i.e. standards on minimum solvency margin for life insurer vs. non-life insurer, liquidity, investment, reserve, minimum capital, risks based capital, among others. The regulatory and supervisory functions over insurance are provided under the “**Functional Organizational Chart**” in the “Organizational and Functional Charts of the Insurance Board/Commission” on page 13. These are generally the areas that fall under the regulatory and prudential authority to be effective.

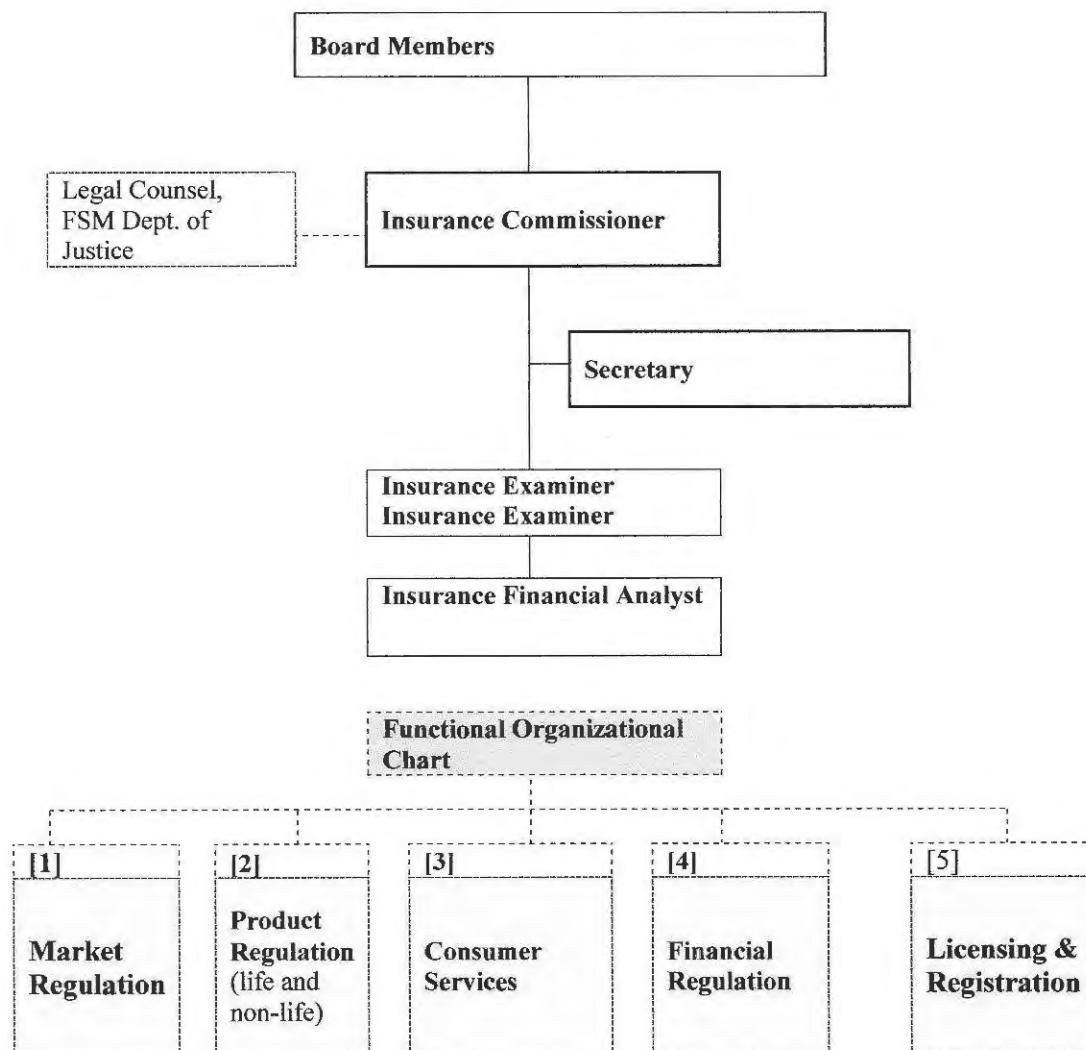
Our attempt to secure technical assistance from donors has not been successful due to insurance being a specialized area, and no insurance specialist available. The Board needs to conduct on-site examination of the first captive licensee per statutory requirement. Funding to hire an expert is needed to help and provide guidance and capacities in the planning, actual on-site examination, and after on-site examination process. The number of captive licensees to undergo on-site examinations will increase in the years to come. Our objective is to lessen reliance on outside experts on many of these requirements as in on-site examinations.

Each application filed before the Board is unique, whether be an application for license or application for change of business plan for which a captive is currently licensed. The Board continues to engage the expertise of independent professional reviewers to assist but on a case-by-case basis. The Board also utilizes expertise to assist with regular insurance matters. To maximize capacity building, it would be ideal for such expert to be in-house.

The general public is not familiar with the importance of insurance and how it functions, let alone the regulatory and supervisory aspects of it, hence the need for frequent public education conducted in the States.

There is a need to review and perhaps overhaul, especially the regular insurance chapters of 37 FSMC in order to ensure healthy, safe and sound insurance system. The current Insurance Act contains some ambiguities and contradictions. Additionally, FSM is unique in light of its geographical and economic factors. These factors, among others, necessitate a review of the Insurance Act, and necessary amendments be considered. For example, there is a need to introduce “surplus lines” and rate setting requirements, loss reserve, IBNR, market conduct standards, among other aspects normally included in the insurance statute.

Organizational and Functional Charts of the Insurance Board/Commission



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 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, reasonable, compliance with legal/regulatory/prudential requirements.
3. Process complaints and undertake public education activities so policyholders, public, insurers, and intermediaries are well informed.
4. 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. 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, investment soundness, liquidity and solvency margin, risk based capital, accounting methods, underwriting, etc.

5. 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, etc.

Appendix A: Financial Performance of the Regular Insurance Industry

Financial Performance Overview of the Regular Insurance System:

The FSM insurance industry generated total gross premiums for both life and non-life policies collected by intermediaries (i.e. agents and brokers) amounting to US\$4.3 million for the year ended 2016. A total of 4,783 life and non-life policies have been reported to be sold in the FSM from registered insurers, 4,683 sold through licensed agents and 100 placed by brokers.

Table 5: Number of policies sold

Year 2016	Agents	Brokers	Total
No. of Policies Sold	4,683	100	4,783

Agents

The financial performance of the insurance system for both life and non-life in the FSM transacted through agents, generated gross premiums of US\$2.9 million for the year ended December 31, 2016. The total amount of premiums ceded to reinsurers in 2016 was reported at US\$516,900 (based on annual financial statements received from two insurers). The tables below depict the statistical report on the licensed agents' business in the FSM.

Table 6: Life Insurance

Coverage	No. of Policies Sold	Effective as of 12-31-16	No. of Claims Filed	No. of Claims Paid	No. of Claims Outstanding
Annuity	0		0	0	0
Cancer/ Heart Stroke	0		0	0	0
Credit Life	4,171	4,894	39	37	3
Group Life	0		0	0	0
Ordinary	0	360	6	6	0
Universal Life	0	0	0	0	0
10 Year Terms	0	0	0	0	0
Total	4,171	5,254	45	43	3

Table 7: Non-Life Insurance

Coverage	No. of Policies Sold	No. of Claims Filed	No. of Claims Paid	No. of Claims Outstanding
Accident & Health	0	0	0	0
Automobile	338	28	35	8
Aviation	0	0	0	0
Building and Content	0	0	0	0
Burglary	1	0	0	0
Comp. Business Package	11	0	0	0
Crime	0	0	0	0
Earthquake	7	0	0	0
Fidelity	1	0	0	0
Fire	56	2	1	1

General Liability	21	0	0	0
Homeowners	1	0	0	0
Marine Cargo	1	0	0	0
Marine Hull	2	0	0	0
Multi-Peril	0	0	0	0
Property	0	0	0	0
Special Risk	1	0	0	0
Surety	3	0	0	0
Travel	0	0	0	0
Worker's Comp	56	6	5	4
Typhoon (Allied Lines per Naic Stmt)	11	0	0	0
Total	512	36	41	13

Based on the annual financial statements received from two insurers, net incurred losses and related loss adjustment expenses for the period was reported at US\$67,674 and net premiums earned for the period was at US\$548,157. This indicates that claims or losses constituted 12% of the total net premiums earned in the same period. The total net income of US\$285,616 and Operating expenses of US\$107,754 were reported for the year ended December 31, 2016, for both life and non-life transacted through agents based on annual financial statements submitted from two insurers.

Note: The annual financial and statistical data for regular insurance companies are based on submitted reports or statements for FY16.

Brokers

Licensed brokers in the FSM sold both life and non-life policies from six (6) foreign insurers for the year ended 2016. Total premium collected for life policies amounted to US\$713,548. The brokers' non-life policies sold in the FSM yielded premium amounting to US\$725,925. Brokers have reportedly earned commission income of US\$76,158 and \$76,842 on both life and non-life policies sold, respectively. Overall, the brokers' insurance industry yielded premium of US\$1.4 million with total commission income of US\$153,001 for fiscal year 2016. The tables below depict the statistical report on the licensed brokers' business in the FSM.

Table 8: Life Insurance

Coverage	No. of Policies Sold	Effective as of 12-31-16	No. of Participants for Group Policies	No. of Claims Filed	No. of Claims Paid	No. of Claims Outstanding
Annuity	0	0		0	0	0
Cancer/ Heart Stroke	0	0		0	0	0
Credit Life		0				
Group Life	0	7	1,760	13	8	0
Ordinary	2			0	0	0
Universal Life	1	42		1	1	0
10 Year Terms	29	4		0	0	0
Total	30	53	1,760	14	9	0

Note: the company clarified through email that the data provided in the table for group life is from the previous years as the company did not sell any group life policies in the year 2016.

Table 9: Non-Life Insurance

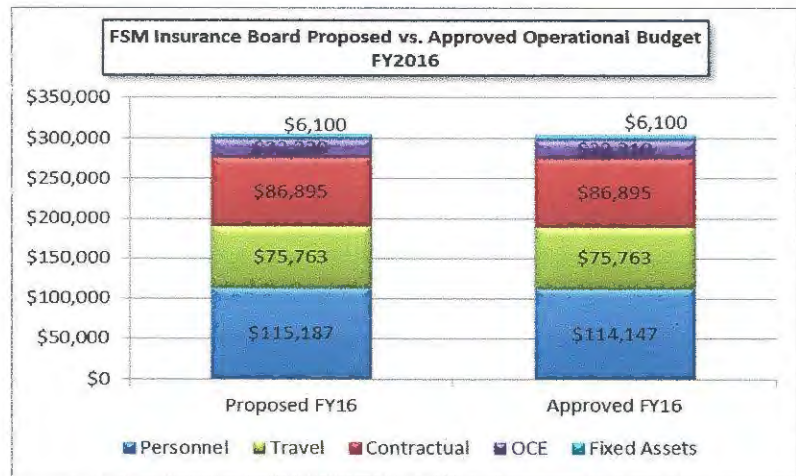
Coverage	No. of Policies Sold	No. of Claims Filed	No. of Claims Paid	No. of Claims Outstanding
Accident & Health	0	0	0	0
Automobile	11	1	1	0
Aviation	2	0	0	0
Building and Content	0	0	0	0
Burglary	1	0	0	0
Comp. Business Package	0	0	0	0

Crime	0	0	0	0
Earthquake	0	0	0	0
Fidelity	1	0	0	0
Fire	21	0	0	0
General Liability	9	0	0	0
Homeowners	0	0	0	0
Marine Cargo	1	0	0	0
Marine Hull	0	0	0	0
Multi-Peril	0	0	0	0
Property	1	0	0	0
Special Risk	1	0	0	0
Surety	3	0	0	0
Travel	0	0	0	0
Worker's Comp	14	6	6	0
Directors/Offic. Liab.	1	0	0	0
Excess Liability	2	0	0	0
Personal accident	2	0	0	0
Total	70	7	7	0

Appendix B: Overview of the Board's FY16 Budget

Proposed vs. Appropriated

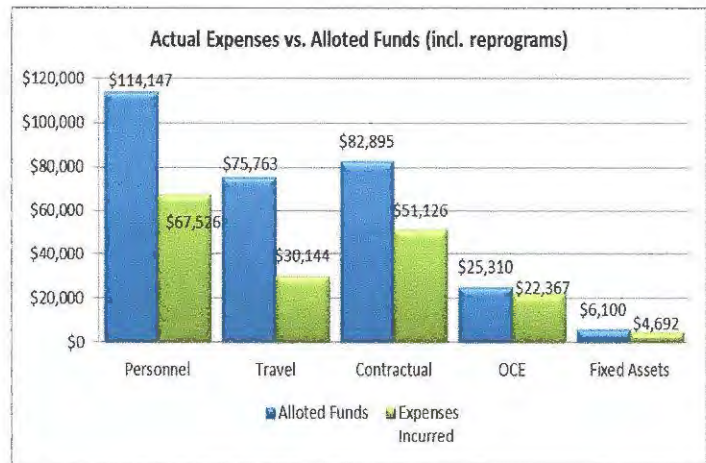
The FSM Insurance Board proposed an amount of \$306,275 as its operational budget for the fiscal year 2016. Personnel accounted for the largest composition of the budget at \$115,187 (38%), followed by Contractual at \$86,895 (28%), Travel at \$75,763 (25%), Other Current Expenditures (OCE) at \$22,330 (7%), and Fixed Assets at \$6,100 (2%). The appropriated or approved budget amount was \$305,214, a decrease of \$1,061 in Personnel (\$1,041) and OCE (\$20) from the proposed amount of \$306,275.



Actual vs. Appropriation/Allotment

Reprogramming of funds between Other Current Expenditures (OCE) and Contractual Services took place. Funds reprogrammed from OCE of \$1,000 to the President's Office for El Nino; also, \$4,000 from Contractual Services into OCE for purchase of office supplies. The Surplus realized in OCE after reprogramming was \$2,942.73.

The expense under Personnel amount up to \$67,526, with a saving of \$46,621. The reason for \$46,621 was due to two (2) positions vacated. Actual expenses incurred under Travel amounted to \$30,144, yielding savings of \$45,619 at fiscal year-end. Under Contractual Services, the actual amount expended totaled up to \$51,126, along with the reprogrammed amount of \$4,000 to OCE, leaving us with \$31,769 saved. For Fixed Asset, a total amount of \$4,692 was expended, with a saving of \$1,408.



Total actual expenses incurred by the FSM Insurance Board for the fiscal year ended 2016 amounted to \$175,856, versus total appropriated of \$305,215, a saving of \$129,359.

Line-Items (Actual Expenses)

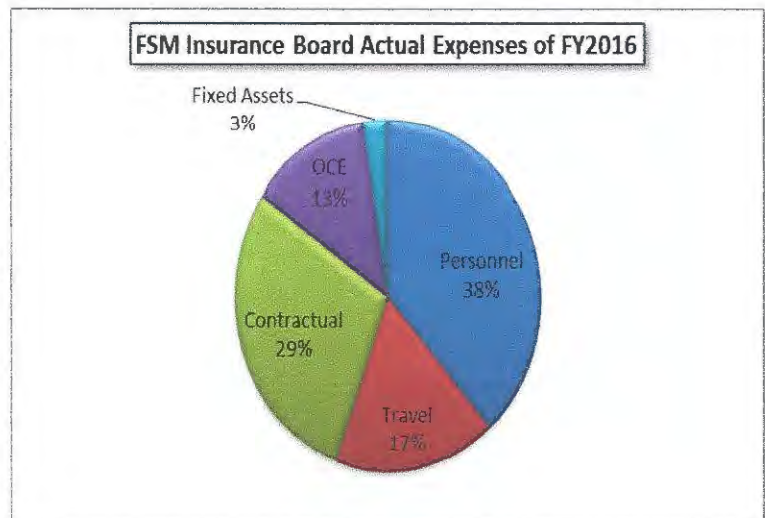
Personnel:

Personnel accounted for the largest component of actual expenses at \$67,526 (38%) for five (5) FTE positions.

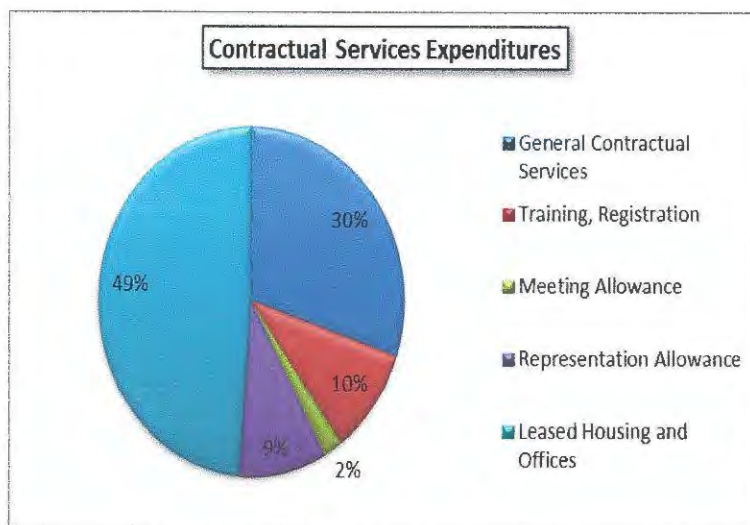
Travel:

Travel expenses accounted for the Third largest component at \$30,144 (17%). For fiscal year 2016, there were a total of eight (8) travels. One of the international travels involved board and staff members participating in a captive seminar in Japan.

Contractual Services:

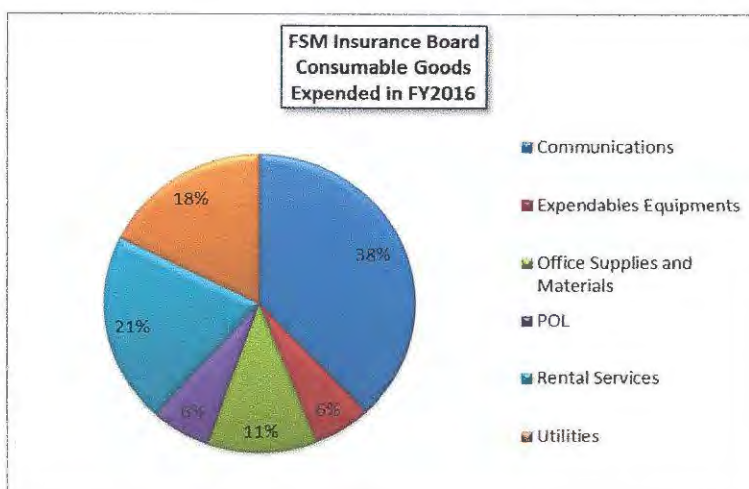


Contractual Services accounted for the 2nd largest component at \$51,126 (29%). This category is predominantly composed of Office Lease at \$24,960 (49%), followed by Professional Services at \$15,396 (30%), Training/Registration with \$5,045 (10%), Representation Allowance at \$4,725 (9%) and Meeting Allowance at \$1,000 (2%). Professional Services was used to hire captive reviewers or insurance experts for a specified timeframe to review new applications 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. As for the office lease, the monthly rental fee is \$2,080. Representation Allowance was used for board activities and functions covering board meetings, meetings with clients, gifts/handicrafts for new applicants, etc. For fiscal year 2016, there were a total of six (6) board meetings, including other special meetings via electronic due to the time sensitivity of the matter which required the Board's immediate attention and sanctioning.



Other Current Expenditures:

Other Current Expenditures (OCE) accounted for 13% of the total expenses for fiscal year 2016, at \$22,367. This category is predominantly composed of Communications at \$8,509 (38%), followed by Office Rental Services at \$4,625 (21%), Utilities at \$3,744 (18%), Office Supplies at \$2,556 (11%), POL at \$1,378 (6%), and Expendable Equipment/Furniture at \$1,325 (4.8%). A significant part of consumables was spent on communication expenses given the large volume of transactions or business dealt overseas with foreign clients.



Fixed Assets:

Fixed Assets accounted for \$4,692, which is 3% of total expenditures. The amount was spent on office needs exceeding \$1,000 each item (i.e. Desktop monitor, laptop, etc.)