

2020 ANNUAL REPORT



FSM INSURANCE BOARD

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EXECUTIVE SUMMARY

We have prepared this annual report (Report) pursuant to Section 205 of Title 37 of the FSM Code (FSMC). Title 37 of FSMC is the FSM Insurance Act of 2006 which has been subsequently amended. This Report contains information and data on the general condition and status of the insurance system in the Federated States of Micronesia, and other matters covering insurance including the activities of the Insurance Board for the year ended December 31, 2020. The Report is available to the general public and can be downloaded from our website which is www.fsminsuraceboard.com. Hard copies are available at our office which is located in Nett, Pohnpei.

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

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

OUR MANDATES

The mandates of the Board or Commission are specified in Section 204 of 37 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.

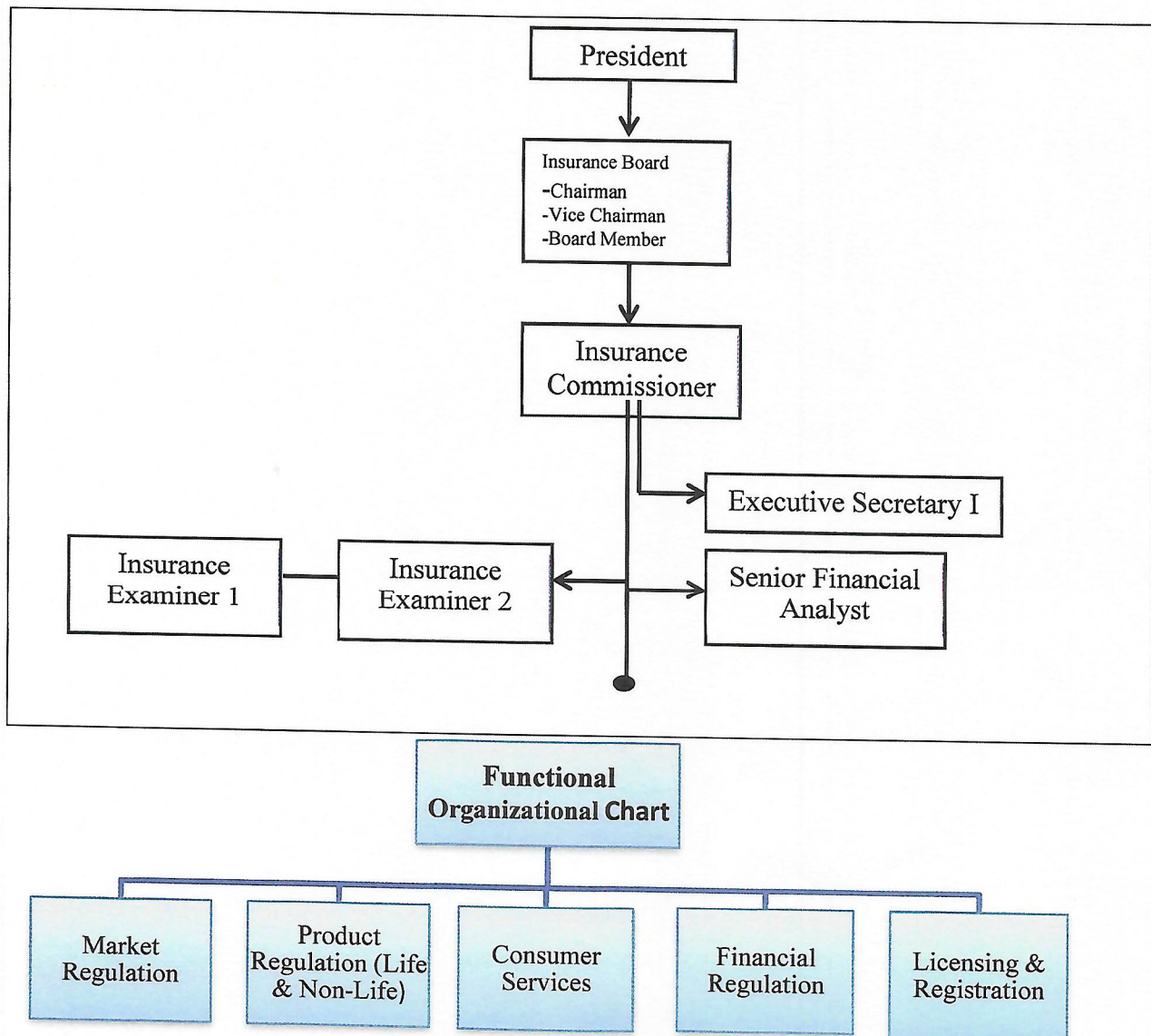
OUR VISION

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

OUR MISSION

Our mission is 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 business to understand and meet licensing and reporting responsibilities by applying the insurance laws and regulations with fairness and integrity to all.

ORGANIZATIONAL AND 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 conduct related issues.
2. 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, 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.

The FSM Insurance Board is a regulatory agency of the national government and headed by the Commissioner and under the supervision and oversight of the Board. The Board implements Title 37 of the FSMC. 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. They are the regular or conventional insurance and captive insurance.

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. The conventional insurance market is primarily comprised of insurance companies and their agents and insurance brokers and solicitors. The conventional insurance market sells both life and non-life insurance products. Examples of life are life and/or health insurance policies. Examples of non-life policies are homeowners' policies, automobile policies, fire policies, marine and cargo policies, workers' compensation and other lines of coverage.

CONVENTIONAL INSURANCE MARKET

The regular or conventional insurance system in the FSM is dominated by foreign insurers. As of year, ended December 31, 2020, 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. *Exhibit 1* below shows a listing of currently registered foreign insurers and their respective appointed local licensed insurance agents during year ended December 31, 2020.

EXHIBIT 1: CONVENTIONAL INSURANCE MARKET PARTICIPANTS

Name of Insurer	Registration / License Status	AM Best Rating	Home domicile	Appointed Local Agent
DB Insurance Company, Ltd. (Guam)	Active	Financial Strength: A Category: XV (\$2b or greater)	South Korea / Guam	Moylan's Insurance Underwriters (FSM), Inc.
First Net Insurance Company	Active	Financial Strength: B++ Category: V(\$10-25m)	Guam	Moylan's Insurance Underwriters (FSM), Inc.
Liberty Mutual Insurance Company	Active	Financial Strength: A Category: XV (\$2b or greater)	USA	Moylan's Insurance Underwriters (FSM), Inc.
NetCare Life and Health Insurance Company	Active	NOT RATED	Guam	Moylan's Insurance Underwriters (FSM), Inc.
Pacific Indemnity Insurance Company	Active	Financial Strength: A- Category: V (\$10-\$25m)	Guam	Actouka Executive Insurance Underwriters
Plateau Insurance Company	Active	Financial Strength: A- Category: V(\$10m-\$25m)	USA	Bank of FSM (BFSM)
Individual Assurance Company (FSM), Inc.	Active	Financial Strangth: A+ Category: N/A	FSM/USA	None

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

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 a fiscal year for three consecutive fiscal years shall be required and eligible to become licensed as an insurer.

AGENTS

Section 102 [3] of Title 37 of FSMC, an agent is defined 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 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 ended 2020, there were 3 active licensed agents as shown in *Exhibit 2 below*:

EXHIBIT 2: INSURANCE AGENTS

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

BROKERS

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 customers who are the insured. Agents represent insurers or carriers. During year ended 2020, there were 2 licensed brokers as shown in the *Exhibit 3 below*.

EXHIBIT 3: INSURANCE BROKERS

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

SOLICITORS

A solicitor 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. During year 2020, there were no licensed solicitors in the FSM.

Based on submitted and reported data, the conventional insurance sector generated a total gross premium of \$4,246,443 for life and non-life for the year ended 2020. The generated gross premium was collected through the three licensed agents and 1 domestic insurer where, \$2,831,551 was collected for non-life insurance and \$1,414,891 for life insurance. A total of 2,954 life and non-life policies were sold through agents and domestic insurer. Commission earned was \$479,058 by agents and \$169,310 by brokers. *Exhibit 4* below 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 2020 data and therefore not included in this report. *Exhibit 5* below shows the data for earned commissions for agents and brokers.

EXHIBIT 4: FINANCIAL PERFORMANCE OF THE REGULAR INSURANCE INDUSTRY

Policy & Premium	Life Ins Business	Non-life Ins Business	Total
Policy	2,266	688	2,954
Premium	\$ 1,414,891	\$ 2,831,551	\$ 4,246,443

EXHIBIT 5: AGGREGATE EARNED COMMISSION FOR AGENTS & BROKERS AS OF DECEMBER 31, 2020

Intermediaries	Earned Commission for Life Ins Business	Earned Commissions for Non-Life Ins Business	Total
Agent	\$ 38,957	\$ 440,101	\$ 479,058
Broker	\$ 94,376	\$ 74,934	\$ 169,310
Total	\$ 133,333	\$ 515,036	\$ 648,369

CAPTIVE INSURANCE MARKET

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 \$740,147,073 in premium payments in 2019. The FSM has licensed 27 captive insurance companies since 2006. There are currently 23 licensed companies. It is not uncommon for captive insurance companies to elect to close down as their parent company reorganizes or changes their risk management strategies.

While we did not see a growth in the number of captive insurance companies, we are seeing a significant growth in the size of our existing captives. In year-end 2019, FSM captives exceeded \$1 billion in total assets for the first time. FSM Captive Insurance companies paid \$15,847,168 in taxes and fees in year 2019.

In 2020, the FSM Congress enacted a new law which will allow a captive insurance company to go dormant. Under dormancy, a captive cannot write any insurance business and is relieved of some overhead costs. The purpose of the dormancy law was to encourage captive owners to not shut down their captive completely if they have no need for an insurance policy through their captive in any given year. By allowing such a captive to go dormant, the captive owner is able to quickly resume insurance operations should their needs change without having to go through the expense of opening a new captive insurance company. The FSM benefits from this law because once a captive shut down, there is no guarantee that the owner would open a new captive in the FSM.

The captive insurance marketplace is truly an international one. Prospective captive owners have many options when it comes to choosing a country to place their company. The FSM strives to be competitive with the world's leading domiciles. The dormancy law is but one step that not only demonstrates to the captive insurance industry that the FSM's law is in keeping with international standards, but that we can also quickly adopt common sense legislation that fairly regulates the captive insurance industry at the same standards as the leading domiciles in the world.

With the emergence of the global Covid-19 pandemic and resulting economic downturn, the global insurance marketplace has been marked by higher premiums and lower capacity. As the global economy rebounds, these conditions are good indicators for further growth of the captive insurance marketplace. In the past year, businesses have not only struggled with interrupted supply chains, severe travel restrictions, and closed retail businesses, but also the fact that the insurance coverage typically purchased to protect businesses from unforeseen circumstances simply did not cover global pandemics. Captive insurance companies do have the flexibility to provide pandemic-related coverage to their own businesses and we expect to see a growth in this type of coverage over the next few years.

Unfortunately, the global pandemic's travel restrictions severely limited growth opportunities for captive insurance companies in 2020. With companies unable to travel here and with the inability to hold in person meetings with key industry stakeholders, there were limited opportunities to effectively reach out to prospective captive insurance owners.

Traditionally, a conference highlighting the FSM captive insurance community would be held in Tokyo. Because of the travel restrictions in 2020, this conference was moved to an online format in November 2020. The conference was virtually attended by over 100 participants.

The Insurance Board's website received an update in the past year that included updates to the board membership, clear information on captive insurance laws and regulations in the FSM, and a special welcome message in Japanese for our many Japan-based captive insurance partners.

The Insurance Board has taken steps to increase our outreach efforts as the global pandemic eases. The Board has entered into a new 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.

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.

Since the enactment of FSM's captive insurance law in 2006, 27 captive insurance licenses have been issued through 2018, and 4 licenses were voluntarily terminated in 2018-2020 bringing the total actively licensed captives at the end of 2020 to 23. The terminations are the result of changes in the risk financing strategies of the captive's parent company. The decline in net licenses issued in 2019-2020 is consistent with the trend of other captive insurance jurisdictions and is generally due to increased competition from more captive domiciles, and changes in captive owner's tax and/or operating environments that reduce the efficiencies of utilizing a captive insurance program. *Exhibit 6* is a list of the domestically licensed captive insurance companies as of December 31, 2020.

EXHIBIT 6: DOMESTICALLY LICENSED CAPTIVE INSURANCE COMPANIES AS OF DECEMBER 31, 2020

<u>Captive Insurance Company</u>	<u>License Date</u>
ABLE Overseas Reinsurance Company, Ltd.	November 1, 2011
au Reinsurance Corporation	December 23, 2016
Eastern Pacific Insurance, Ltd.	October 29, 2013
Global Micronesia Insurance Corporation	May 29, 2015
Grand Cru Insurance Company Limited	February 20, 2018
Green Sun Insurance, Inc.	March 16, 2015
Hanwa Reinsurance Corporation	December 15, 2017
HS Insurance Co., Ltd.	February 16, 2017
Island Reinsurance Corporation	June 23, 2011
IX Micronesia Reinsurance Corporation	February 1, 2018
Marble Reinsurance Corporation	September 23, 2009
MP Insurance Corporation	June 28, 2013

Nitto Reinsurance Micronesia Co., Ltd.	July 18, 2017
NRI Reinsurance Micronesia Ltd.	July 27, 2017
Permcure Insurance Co., Ltd.	March 1, 2010
Rainbowseeker Insurance, Inc.	March 29, 2011
SKK Insurance Company Limited	March 13, 2018
Sojitz Reinsurance Company Limited	September 16, 2015
Sumida Insurance Company	December 23, 2015
TamaHome Insurance Co., Ltd.	June 23, 2014
Thanks Insurance Corporation	April 24, 2012
Toyota Tsusho Reinsurance Micronesia Corporation	September 28, 2010
TriFork Reinsurance Corporation	June 25, 2013

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

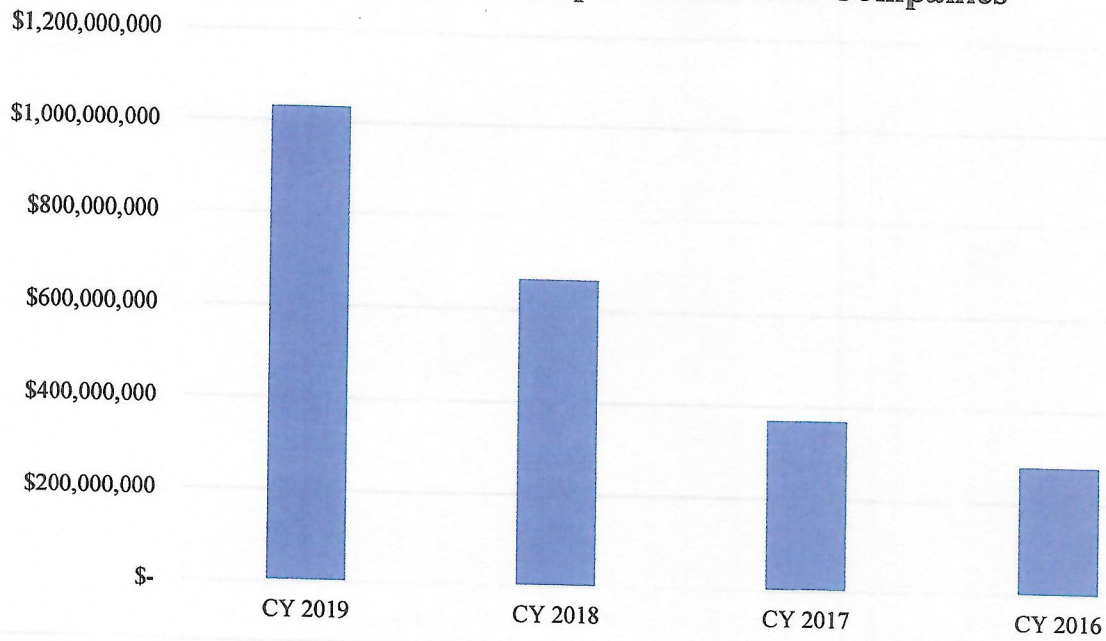
- Trade and Commerce
- Financial Services
- Real Estate and Construction
- Manufacturing
- Transportation
- Information Technology and Communications

The strong financial condition and stable performance of captives continue to dominate the FSM insurance sector. Following is an aggregated summary of the financial highlights of the FSM captive insurance industry as reported by licensees for their respective fiscal and calendar years ending in 2019 to 2016. The aggregated 2020 results are not available at this time because some of the captives with calendar year are not required to file their respective audited financial information until June 2021.

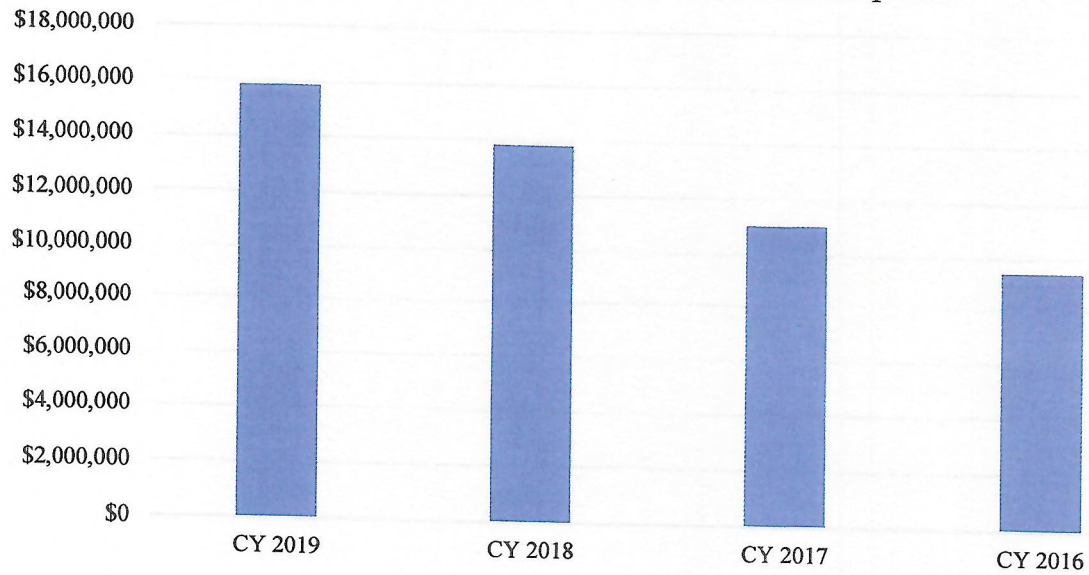
EXHIBIT 7: AGGREGATE FINANCIAL HIGHLIGHTS OF CAPTIVE INSURANCE MARKET AS OF DECEMBER 31, 2020

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Combined Cash and Investments	\$402,712,322	\$441,865,005	\$293,418,777	\$200,063,312
Combined Total Assets	\$1,031,586,910	\$665,626,050	\$370,868,542	\$280,637,698
Combined Total Capital & Surplus	\$439,185,984	\$402,663,435	\$253,911,233	\$185,998,467
Combined Total Premium Earned	\$740,147,073	\$476,285,302	\$152,080,443	\$84,183,663
Combined Total Taxes	\$15,847,168	\$13,801,411	\$11,042,939	\$9,445,588
Combined Net Income	\$58,608,146	\$51,942,595	\$36,200,763	\$31,210,662

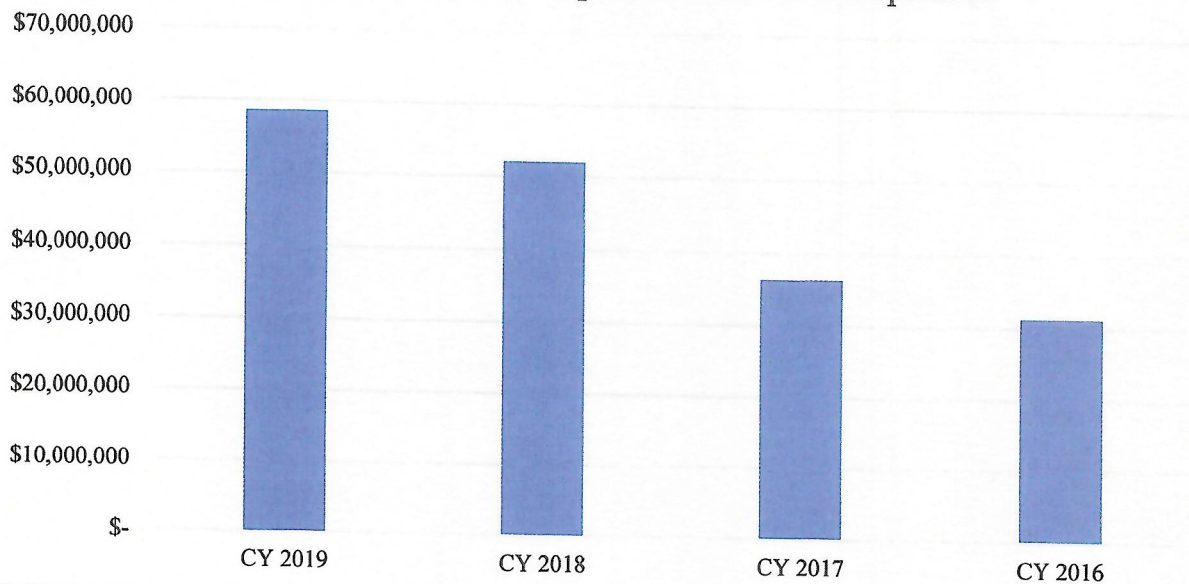
Total Assets of FSM Captive Insurance Companies



Taxes Paid by FSM Captive Insurance Companies



Net Income 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 and premium tax collections represent the most significant benefit with approximately \$9.5 million collected during the year ended 2019, and \$8.3 million for year ended 2018 after fees to MRA. The formula for the distribution is 60% of the whole profit goes to the FSM Government and 40% goes to MRA as stated in the partnership agreement. As reported by MRA, the Captive Insurance Business in the FSM has contributed approximately \$226 million into the economy since inception thru year ended 2020.

All captives are required by Section 1003 of Title 37 FSMC to maintain a principal local office, designate a local principal representative and physically hold its annual board of directors meeting in the FSM. The local expenditures incurred for these requirements include payments directly made to professional services providers like attorneys, captive managers, as well as, FSM's hospitality industry that include hotels, rental car companies, restaurants, and other related services. These direct expenditures in turn flow into other sectors of the local economy through wages, rents, taxes and other expenses.

Prudent regulatory oversight of the captive insurance industry and administration of applicable laws require consistent and timely actions by the FSM Insurance Commissioner and his staff. Based on available information for the year ended December 31, 2020, there were approximately 4-8 new requests that were filed with the Insurance Commissioner each month, as well as, mandated annual financial filings and reports made by each licensed captive. Depending on the nature of the request or filing, the Insurance Commissioner and his staff 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

CAPTIVE MANAGER

In year 2020, there were eight (8) licensed captive managers. During the same year, one captive manager cancelled its license bringing down the total number of captive managers to 7 at the end of year 2020. Termination was due to not managing any captive companies. Two of the 7 captive managers are not currently managing any licensed captives.

ACTIVITIES OF THE INSURANCE BOARD

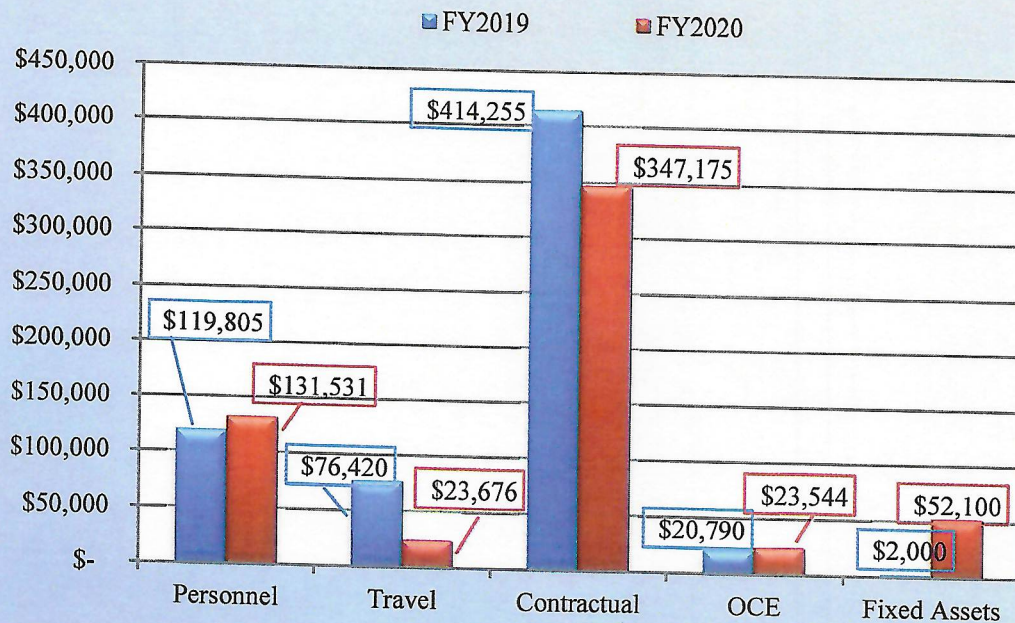
During year ended December 31, 2020, the Board performed and accomplished the following tasks and activities:

- Held five (5) regular board meetings;
- During these meetings, Board and Insurance Commissioner reviewed and approved thirty (30) business plan changes and issued one license for a domestic insurer;
- Board and with the assistance of Micronesia Registration Advisors (MRA), recruited a 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 to provide training sessions and capacity building for staff, and other technical supports;
- Three (3) on-site examinations of captive insurers were completed;
- Acquisition and installation of the filing server in the office;
- Secured a contract with an IT Expert for IT Support and Maintenance.

OVERVIEW OF THE FSM INSURANCE BOARD'S FY2020 BUDGET AND REVOLVING FUND

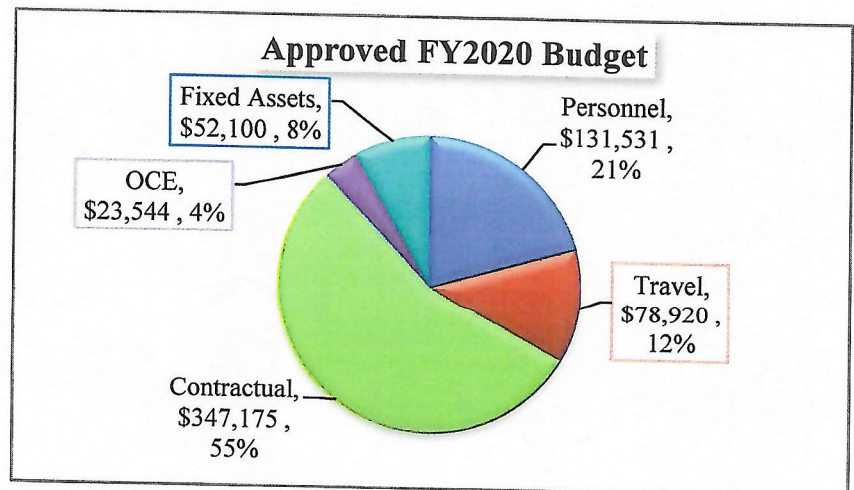
Our approved operational budget for fiscal year 2020 remained at \$633,270 as compared to fiscal year 2019 approved budget. There was a decrease in Contractual, giving us a window to increase other categories without exceeding the 2% budget policy as per Fiscal Year 2020 Budget Call. Travel, however, was initially approved at \$78,920 due to the Travel Restriction Policy; it was reduced by 70%.

Approved 2020 vs. Approved 2019



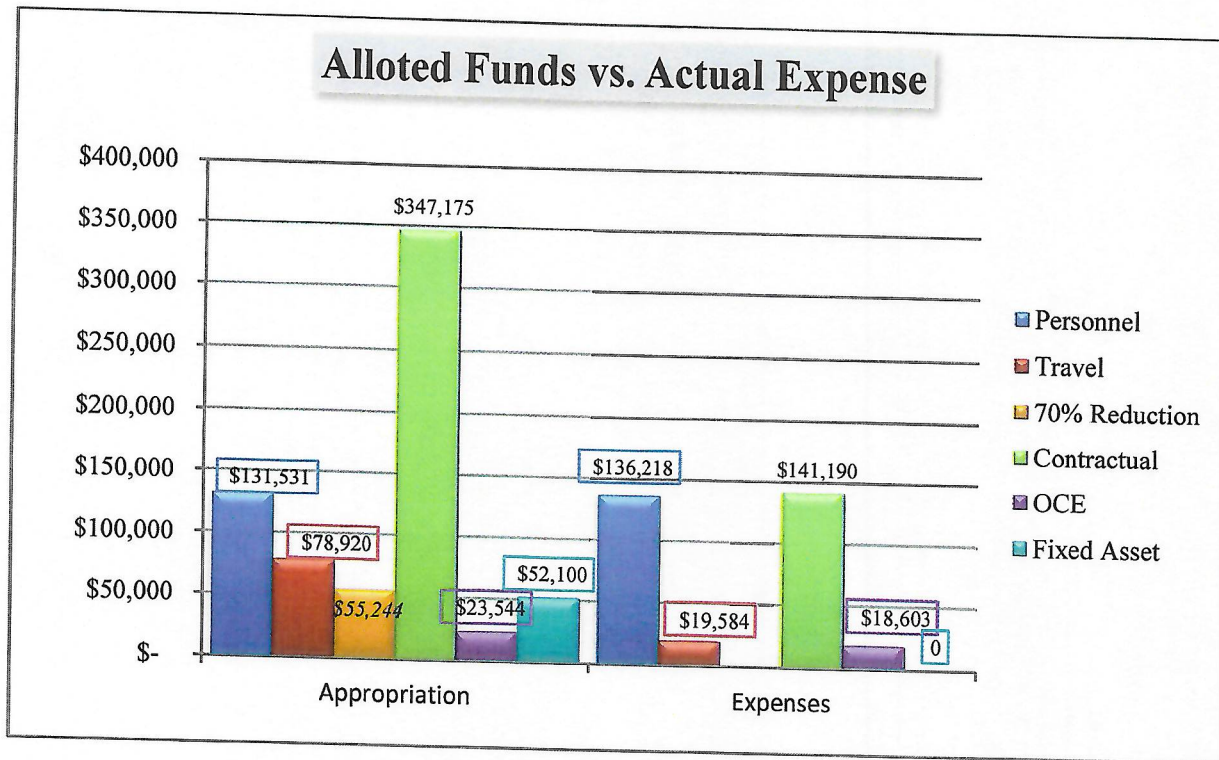
PROPOSED/APPROPRIATED

The operation of the Board was funded by Congress appropriation in the amount of \$633,270 for FY2020. Personnel accounted for 21.0% of the approved Budget, followed by Travel 12%, Other Consumable Expenses (OCE) at 4%, Contractual Services accounted as the largest amount with 55%, and then Fixed Asset 5% of the overall FY2020 Budget.



ACTUAL EXPENSE VS. APPROPRIATION/ALLOTMENT

Chart below shows expenses incurred in FY2020 vs Allotted Fund, inclusive of the 70% reduction in Travel.

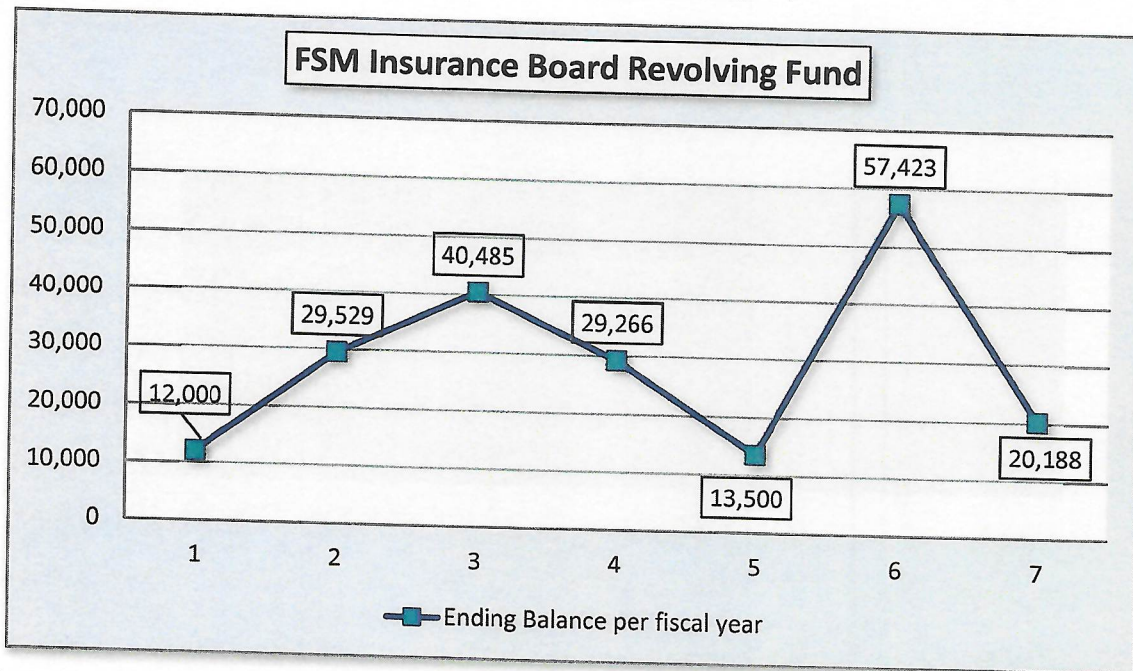


REVOLVING FUND

The Insurance Board Revolving Fund ("Revolving Fund") was created in 2014, and became effective on June 25, 2014 when then President Manny Mori approved Public Law No. 18-71. The Revolving Fund's mandated purpose is to support the regulation of FSM's captive insurance companies, and is separate from and supplements the Insurance Board's General Fund Budget. A complete and comprehensive report on the Revolving Fund is also required to be included 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 fees collected from captive insurance companies, reviewer's fee (#2) charges collected from captive insurance companies for costs incurred by the Insurance Commissioner for retaining outside legal, financial and examination services, and (#3) a General Fund transfer of the greater of \$150,000 or 10% of premium tax collections. At the end of each fiscal year, the Revolving Fund's balance is required to be capped at \$50,000, and as a result funds in excess of \$50,000 are returned to the General Fund at the end of each fiscal year.

**Graph is only showing what has been collected per year as of end of fiscal year 2020. (exclusive of #3)*



NOTE: The large amount collected in 2016 was due to multiple new captive applicants; therefore, application fees, licensing fees along with reviewer's fees were collected and deposited into our revolving fund. In 2019, the FSM Insurance Board conducted onsite examination on three of the captive insurance companies and examination fees in the amount of \$8,500 each captive was collected and deposited.