

STANDING COMMITTEE REPORT NO. 14-103

RE: C.B. NO. 14-170/R&D

SUBJECT: INSURANCE LAW

MAY 18, 2006

The Honorable Peter M. Christian
Speaker, Fourteenth Congress
Federated States of Micronesia
Fourth Regular Session, 2006

Dear Mr. Speaker:

Your Committee on Resources and Development ("R&D"), to which was referred C.B. No. 14-170 entitled:

"A BILL FOR AN ACT TO ENACT A NEW TITLE 37 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA TO ESTABLISH AN INSURANCE LAW FOR THE FEDERATED STATES OF MICRONESIA, AND FOR OTHER PURPOSES.",

begs leave to report as follows:

The intent and purpose of the bill are expressed in its title.

The subject bill would enact insurance legislation for the Federated States of Micronesia. No insurance legislation is currently in place, with the result that the interests of consumers are unprotected and the insurance industry is not subject to regulation. The implementation of an effective insurance regime, beginning with legislation that is appropriate to the particular needs and size of the FSM insurance market, is an urgent matter.

Following the veto by the President of earlier insurance legislation, the subject bill has been submitted by the Executive. The subject bill is the result of cooperative efforts by your committee, the Department of Justice, your Office of the Legislative Counsel and the FSM Banking Board, through which advisors from the International Monetary Fund and the Pacific Financial Technical Assistance Centre were consulted. In addition, your committee consulted with regulators in Guam and Hawaii, as well as with representatives of the insurance industries of those jurisdictions.

The subject bill proposes to add insurance regulation to the activities conducted by the Banking Board. It proposes that the name of the Banking Board be changed to the "Financial Institutions Board", to reflect the reality that the scope of the Banking Board's work will be expanded to include a more generally defined "financial institutions" sector. This will serve to consolidate limited resources and expertise in one unit.

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The bill requires that anyone transacting insurance business must be licensed as an insurer, agent, broker or solicitor. The issue of how to regulate foreign insurers, given the limitations of the FSM market, was a central issue in the formulation of the insurance bill. The bill proposes that foreign insurers who collect over two million dollars in premiums each year in the FSM must register as insurers, meaning open a branch office in the FSM. Foreign insurers who collect a lesser amount in premiums may register and then do business through a licensed agent. Your committee accepts this as striking an appropriate balance between protecting policy owners and allowing for a competitive insurance sector.

Foreign insurers who transact business through agents will be required to provide information from their home supervisors and post a bond equivalent to the capital requirement of domestic insurers. They may also be required to keep a minimum amount of premiums within the FSM, pursuant to forthcoming regulations.

Your Committee held a public hearing on the subject bill in Palikir on May 16, 2006. Representatives of the local insurance industry commented that they would require more time to review the bill in order to contribute meaningful comments.

Your committee is of the opinion that the requested time for review is allowed for through the bill's establishment of a transition period of 180 days. During this transition period, your committee will welcome communications from insurance industry actors and other stakeholders. Given that insurance supervision is a pressing need for the FSM, your committee recommends further consultations take place in this manner, during the transition period.

Your committee is confident that the subject bill is well-tailored to the unique needs of the FSM insurance industry and achieves a balance between protecting the interests of consumers while encouraging a competitive insurance sector.

Thus, your Committee on Resources and Development is in accord with the intent and purpose of C.B. No. 14-170 and recommends its passage on First Reading, and that it be placed on the Calendar for Second and Final Reading.

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Respectfully submitted,

/s/ Manny Mori
Manny Mori, chairman

Ramon Peyal, vice chairman

/s/ Alik L. Alik
Alik L. Alik, member

/s/ Peter M. Christian
Peter M. Christian, member

/s/ Dion G. Neth
Dion G. Neth, member

/s/ Simiram Sipenuk
Simiram Sipenuk, member

/s/ Peter Sitan
Peter Sitan, member