

STANDING COMMITTEE REPORT NO. 14-127

RE: C.B. NO. 14-213/R&D

SUBJECT: INSURANCE LAW

SEPTEMBER 28, 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. 14-213 entitled:

"TO AMEND TITLE 37 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA, AS AMENDED BY PUBLIC LAW 14-66, BY AMENDING SECTIONS 102, 104, 208, 210, 214, 216, 301, 302, 305, 306, 307, 309, 310, 314, 316, 319, 321, 402 AND 602, AND ADDING NEW SECTIONS 105, 217, 322, 323, 406 AND 506, IN ORDER TO ADD AND AMEND DEFINITIONS, TO EXTEND THE PERIOD FOR INSURER COMPLIANCE WITH THE ACT, TO CHANGE CERTAIN REQUIREMENTS FOR INSURER LICENSING AND REGISTRATION, TO CHANGE CERTAIN PROVISIONS WITH RESPECT TO FUNCTIONING OF THE INSURANCE BOARD, TO REDUCE PENALTIES, TO REQUIRE AUDITORS AND ACTUARIES TO MAKE CERTAIN DISCLOSURES, TO CHANGE AND ADD PROVISIONS REGARDING WINDING UP, LIMITATION ON LOANS, PREMIUM REMITTANCE, FRAUD AND CLAIM SETTLEMENT, AND MANNER OF RECORD KEEPING, TO CORRECT TYPOGRAPHICAL ERRORS, 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 incorporate amendments to the Federated States of Micronesia's recently enacted insurance legislation. At the time of the passage of the original insurance legislation, your committee expressed a commitment to continuing communication with insurance industry actors and other stakeholders and a willingness to consider amendments, if necessary. As a result, the Executive has submitted amendments to address the issues raised by the various stakeholders.

The subject bill proposes four (4) major amendments to the current insurance legislation. The first is an extension of the grace period for compliance from 180 days to 365 days. The second is raising the threshold at which foreign insurance providers will be required to establish a branch office in the FSM from \$2,000,000 in premium collection annually to \$3,000,000 annually over three consecutive years. The third is to allow foreign marine, aviation and transportation insurers to register without a bond and the fourth is

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to bring civil and criminal penalties for violations of the legislation into the range of neighboring jurisdictions. In addition, the subject proposes technical changes that bring further clarity and precision to the legislation in terms of the Insurance Board, licenses and winding up provisions, among others.

Your Committee held a public hearing on the subject bill in Palikir on September 26, 2006. In attendance were representatives of the Department of Justice and the President's Office, the Chairman of the Banking Board and the Banking Commissioner as well as representatives of three insurance agents currently doing business in the FSM.

After hearing submissions, your committee is in agreement with the amendments as proposed, with the exception of two matters. First, the subject bill proposes extending the grace period for insurers to come into compliance with the law from 180 to 365 days. Your committee maintains its view that insurance supervision is an urgent matter for the FSM. However, after hearing submissions from the representatives of the Banking Board, your committee recommends extending the grace period from 180 to 270 days, rather than the 365 days recommended by the subject bill.

In addition, your committee only partially supports the proposal to raise the threshold at which foreign insurance providers will be required to establish a branch office in the FSM from \$2,000,000 in premium collection annually to \$3,000,000 annually over three consecutive years. Your committee holds the opinion that \$2,000,000 in premium collection represents a significant volume of business. For the protection of FSM consumers, such insurance companies will be required to establish branch offices in the FSM in the interests of effective insurance supervision. Accordingly, your committee recommends a requirement that a foreign insurance provider that collects \$2,000,000 in premiums or more annually for three (3) consecutive fiscal years make a compulsory change to a domestic insurer.

With the foregoing amendments, your Committee on Resources and Development is in accord with the intent and purpose of C.B. No. 14-213 and recommends its passage on First Reading, and that it be placed on the Calendar for Second and Final Reading in the form attached hereto as C.B. No. 213 C.D.1.

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Respectfully submitted,

/s/ Manny Mori  
Manny Mori, chairman

/s/ Ramon Peyal  
Ramon Peyal, vice chairman

Alik L. Alik, member

Peter M. Christian, member

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

/s/ Simiram Sipenuk  
Simiram Sipenuk, member

/s/ Peter Sitan  
Peter Sitan, member