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A BILL FOR AN ACT

To further amend title 37 of the Code of the Federated States of Micronesia by including a definition of a new class 3 Multiple Corporate Captive Insurance Companies and providing for the issuance of captive insurance managing licenses, and for other purposes.

BE IT ENACTED BY THE CONGRESS OF THE FEDERATED STATES OF MICRONESIA:

1           Section 1. Section 1001 of title 37 of the Code of the  
2 Federated States of Micronesia, as enacted by Public Law No. 14-  
3 88, as amended by Public Law No. 15-34 is hereby further amended  
4 to read as follows:

5           "Section 1001. Definitions. As used in this chapter,  
6 unless the context otherwise requires:

7           (1) 'Affiliated Company' means any company in the same  
8 corporate system as a parent or member organization by  
9 virtue of common ownership, control, operation, or  
10 management.

11           (2) 'Association' means any legal association of  
12 individuals, corporations, partnerships, associations,  
13 or other entities that own, control, or hold with power  
14 to vote all of the outstanding voting securities of the  
15 captive insurance company.

16           (3) 'Captive Insurance Company' means an insurance  
17 company formed or licensed under this chapter.

18           (4) 'Commissioner' means the individual appointed as  
19 the Insurance Commissioner under this title.

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1           (5) 'Domestic captive insurance company' means a  
2 captive insurance company organized under the laws of  
3 the Federated States of Micronesia.

4           (6) 'Foreign captive insurance company' means a  
5 captive insurance company organized under the laws of a  
6 jurisdiction other than the Federated States of  
7 Micronesia.

8           (7) 'Insurance Manager' means an individual or company  
9 which provides insurance expertise to or for captive  
10 insurance companies and which has in its bona fide  
11 employment a person who is a current member in good  
12 standing of the applicable professional body or of some  
13 other professional insurance association recognized by  
14 the Commissioner for the purpose of providing insurance  
15 expertise and has been approved by the Commissioner.

16           (8) 'Member Organization' means any individual,  
17 corporation, partnership, association, or other entity  
18 that belongs to an association.

19           (9) 'Parent' means a corporation, partnership, other  
20 entity, or individual that directly or indirectly owns,  
21 controls, or holds with power to vote more than 50% of  
22 the outstanding voting securities of a captive insurance  
23 company.

24           (10) 'Principal Representative' means any individual or  
25 corporation registered and in good standing with the

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1 Federated States of Micronesia, operating in or from  
2 within the Federated States of Micronesia who, not being  
3 a bona fide employee of the captive insurance company,  
4 maintains for the captive insurance company full and  
5 proper records of the business activities of the captive  
6 insurance company."

7 (11) 'Unaffiliated business' means any company:

8 (a) That is not in the corporate system of a  
9 parent and affiliated companies;

10 (b) That has an existing contractual relationship  
11 with a parent or affiliated company; and

12 (c) Whose risks are managed by a captive  
13 insurance company in accordance with this chapter.

14 (12) 'Related Third-Party Business' means any company  
15 or other legal entity:

16 (a) That is not in the corporate system of a  
17 parent and affiliated companies;

18 (b) That has an existing contractual relationship  
19 with a parent or affiliated company; and

20 (c) Whose risks are managed by a captive  
21 insurance company in accordance with this chapter.

22 (13) 'Multiple Corporate Captive Insurance Companies'  
23 or 'MCC' means one or more corporations organized, or  
24 with the intent to organize, as a group of corporate  
25 captive insurance companies under the laws of the

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1           Federated States of Micronesia:

2                   (a) where each member captive insurance company  
3                   is formed and owned by a different parent company for  
4                   the purpose of insuring risks of its parent company or  
5                   related third party businesses respectively; and

6                   (b) where all member captive insurance companies  
7                   are together deemed to constitute a group under the laws  
8                   of the Federated States of Micronesia subject to the  
9                   following condition:

10                   (i) the core member captive insurance  
11                   company shall hold 5% or more of the shares of each of  
12                   the other member captive insurance companies;

13                   (ii) each member captive insurance company  
14                   shall permit one or more directors from the core member  
15                   captive insurance company on its board of directors;

16                   (iii) a core member captive insurance company  
17                   must maintain a minimum paid in capital and surplus of  
18                   at least \$1,000,000; and

19                   (iv) each member captive insurance company  
20                   must maintain a minimum paid in capital and surplus of  
21                   at least \$100,000.

22                   (c) Each member captive insurance company making  
23                   up an MCC is deemed an individual captive insurance  
24                   company for purposes of the laws of the Federated States  
25                   of Micronesia.

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1           (d) The license issued to the core member captive  
2           insurance company meeting the capital requirements of  
3           subsection (13)(b)(iii) above shall precede issuance of  
4           licenses to any of the member captive insurance  
5           companies meeting the capital requirements of subsection  
6           (13)(b)(iv) above."

7           Section 2. Section 1002 of title 37 of the Code of the  
8 Federated States of Micronesia as enacted by Public Law No.14-88  
9 and amended by Public Law No. 15-34 is hereby amended to read as  
10 follows:

11           "Section 1002. Determination of class of captive  
12           insurance companies. Each captive insurance company  
13           formed under this chapter shall be designated and  
14           licensed as one of the following classes of captive  
15           insurance companies.

16           (1) A class 1 company shall be a captive insurance  
17           company that insures the risks of its parent and  
18           affiliated companies or associations;

19           (2) A class 2 company shall be a captive insurance  
20           company that insures the risks of its parent and  
21           affiliated companies or associations and/or related  
22           third-party businesses;

23           (3) A class 3 company shall be a captive insurance  
24           company that constitutes part of a Multiple Corporate  
25           Captive Insurance Company as defined in section 1001(13)

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1           of this chapter.;

2           (4) Additional classes of captive insurance companies  
3           may, from time to time, be created by amendment of this  
4           chapter."

5           Section 3. Section 1003 of title 37 of the Code of the  
6 Federated States of Micronesia, as enacted by Public Law No.  
7 14-88, as amended by Public Law No. 15-34, is hereby further  
8 amended to read as follows:

9           "Section 1003. Captive Insurance Company  
10           Licensing and Captive Insurance Manager's  
11           Licensing.

12           The Commissioner or Insurance Board may issue two  
13           types of licenses with respect to the captive  
14           insurance industry: one for the captive insurance  
15           companies pursuant to subsections 1-5 below; the  
16           other for business entitles which engage in the  
17           business of managing captive insurance companies  
18           pursuant to subsections 6-9 below.

19           (1) Captive insurance companies shall be licensed in  
20 accordance with Chapter 3 of this title.

21           (2) In considering whether to license a captive  
22 insurance company under this chapter, the  
23 Commissioner and Insurance Board shall consider the  
24 following factors:

25           (a) Principal office and principal

1 representative;

2 (i) the principal office shall maintain a  
3 principal place of business within the Federated States  
4 of Micronesia;

5 (ii) appoint a principal representative that  
6 shall be approved by the Commissioner;

7 (iii) hold an annual board of directors  
8 meeting in the Federated States of Micronesia. In  
9 meeting the quorum requirements for this annual board  
10 meeting, only the principal representative is required  
11 to be physically present in the Federated States of  
12 Micronesia. The remainder of the quorum may be present  
13 via telephone;

14 (iv) the captive insurance company shall  
15 maintain in its principal office accurate documents in  
16 English of the insurance business and accounting for  
17 examination by the Commissioner.

18 (b) Application documents: the captive insurance  
19 company shall file the following documents with its  
20 application for an insurance license with the  
21 Commissioner and Insurance Board:

22 (i) the amount and liquidity of its assets  
23 relative to the risks to be assumed;

24 (ii) the adequacy of the expertise,  
25 experience, and character of the person or persons who

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1 will manage it;

2 (iii) the overall soundness of its plan of  
3 operation;

4 (iv) the adequacy of the loss prevention  
5 programs of its insured; and

6 (v) such other factors deemed relevant by  
7 the Commissioner in ascertaining whether the proposed  
8 captive insurance company will be able to meet its  
9 policy obligations.

10 (3) Each captive insurance company shall pay to the  
11 Insurance Board a nonrefundable fee of \$500 for  
12 examining, investigating, and processing its application  
13 for licensing, and the Commissioner is authorized to  
14 retain legal, financial and examination services, the  
15 reasonable cost of which may be charged against the  
16 applicant. In addition each captive insurance company  
17 shall pay a license fee for the year or registration and  
18 a renewal fee each year thereafter of \$500.

19 (4) If the Insurance Board is satisfied that the  
20 documents filed by the captive insurance company comply  
21 with this title, the Commissioner may grant a license  
22 authorizing it to transact business in the Federated  
23 States of Micronesia until March 31, of the year of  
24 application at which time the license may be renewed.

25 (5) No captive insurance company licensed under this



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1 chapter shall be allowed to insure the risks of  
2 individual citizens of the Federated States of  
3 Micronesia.

4 (6) The Insurance Commissioner or Insurance Board is  
5 authorized to issue a captive insurance manager's  
6 license, which may be signed by the Insurance  
7 Commissioner's or Insurance Board's authorized designee,  
8 and shall issue the same to any applicant that:

9 (a) has in its bona fide employment a person who  
10 is a current member in good standing of an accounting or  
11 insurance related professional body or association; or,

12 (b) has in its bona fide employment a person that  
13 has minimum of five years experience in the captive  
14 management field.

15 (7) The applicant shall be issued a captive insurance  
16 manager's license by the Insurance Commissioner or the  
17 Insurance Board upon compliance with subsection (6)  
18 above without regard to:

19 (a) whether the applicant has or has not applied  
20 for a license with a captive insurance company; or,

21 (b) whether the applicant is or is not currently  
22 managing a domestic captive insurance company.

23 (8) The captive insurance manager's license grants the  
24 captive insurance manager the authority to work with or  
25 manage:

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1           (a) any person or entity intending to form a  
2           captive insurance company in the Federated States of  
3           Micronesia; or,

4           (b) any domestic captive insurance company  
5           licensed by the Insurance Board.

6           (9) The captive insurance manager's license shall be  
7           effective for a period of five years from the date of  
8           issuance."

9           Section 4. Section 1007 of title 37 of the Code of the  
10 Federated States of Micronesia, as enacted by Public Law No. 14-88  
11 and amended by Public Law No. 15-34, is hereby further amended to  
12 read as follows:

13           "Section 1007. Minimum Capital and Surplus  
14           Requirements:

15           (1) No captive insurance company shall be registered  
16 and issued a license unless it has initial paid-in  
17 capital of \$1,000,000 and thereafter maintains a minimum  
18 capital and surplus of \$100,000; provided however with  
19 respect to multiple corporate captive insurance  
20 companies the core member captive insurance company  
21 shall maintain a minimum paid in capital and surplus of  
22 \$1,000,000 and each member corporate captive insurance  
23 company shall maintain a minimum paid in capital and  
24 surplus of \$100,000.

25           (2) The Commissioner may prescribe additional capital

1 and surplus based upon the type, volume, and nature of  
2 insurance business transacted.

3 (3) Capital and surplus may be in the form of any  
4 combination of the following:

5 (a) cash

6 (b) letter of credit,

7 (c) investments pursuant to section 1013 of this  
8 chapter, or

9 (d) any other security deemed appropriated by the  
10 Commissioner.

11 Section 5. Section 1010 of title 37 of the Code of the  
12 Federated States of Micronesia, as enacted by Public Law No. 14-88  
13 is hereby further amended to read as follows:

14 "Section 1010. Reports and Statements.

15 (1) Captive insurance companies shall not be required  
16 to make any annual report or filings except as provided  
17 in this chapter.

18 (2) Captive insurance companies shall submit to the  
19 Commissioner and Insurance Board the following within  
20 [~~three~~] six months of the companies fiscal year-end:

21 (a) A report of its financial condition verified  
22 by oath of two of its executive officers;

23 (b) Audited financial statements prepared  
24 according to generally accepted accounting principles or  
25 international accounting standards, unless the

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1 Commissioner and Insurance Board approves any  
2 appropriate or necessary modifications or changes  
3 thereof required or approved or accepted by the  
4 Commissioner and Insurance Board for the type of  
5 insurance and kinds of insurers to be reported upon, and  
6 as supplemented by additional information required by  
7 the Commissioner and Insurance Board. The audited  
8 financial statements shall be completed by a person  
9 approved by the Commissioner and Insurance Board who  
10 qualifies as an accountant by examination of one of the  
11 Institutes of Chartered Accountants, or Japanese  
12 Institute of Certified Public Accountants, or American  
13 Institute of Certified Public Accountants, or other  
14 qualified accountant as recognized by the Commissioner  
15 and Insurance Board;

16 (c) Opinion of loss reserve specialist, regarding  
17 reserves for the insurance business underwritten by the  
18 captive insurance company. The opinion of loss reserves  
19 shall be completed by a person approved by the  
20 Commissioner and Insurance Board who is a member of the  
21 Institute of Actuaries, or the Institute of Actuaries of  
22 Japan, or the American Academy of Actuaries, or other  
23 qualified loss reserve specialist recognized by the  
24 Commissioner and Insurance Board;

25 (d) Any additional reports as prescribed and

1 requested by the Commissioner and Insurance Board.

2 (e) Notwithstanding any other provision of this  
3 section, in the case of Multiple Corporate Captive  
4 Insurance Companies, the core member captive insurance  
5 company shall provide the reports, financial statements  
6 and opinions required by subsections (2)(a), (b), (c)  
7 and (d) above with respect to itself and its members  
8 shall not be required to separately report, provide  
9 financial statements or opinion."

10 Section 6. This act shall become law upon approval by the  
11 President of the Federated States of Micronesia or upon its  
12 becoming law without such approval.

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14 Date: 9/19/09

Introduced by: /s/ Joe N. Suka

15 Joe N. Suka  
16 (by request)  
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