

AN ACT

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, 213, 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.

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

1           Section 1.   Section 102 of title 37 of the Code of the  
2 Federated States of Micronesia, as amended by Public Law 14-66,  
3 is hereby further amended as follows:

4           "Section 102.   Definitions.   In this Act, unless the  
5 context otherwise requires:

6           (1) 'actuary' means an individual qualified as an  
7 actuary by such qualifications as the Commissioner may  
8 recognize;

9           (2) 'affiliated entity' means a subsidiary, a  
10 holding company, a trust controlled or administered by  
11 a company, or another company whose board of directors  
12 acts in accordance with the directors or instructions  
13 of the first company;

14           (3) 'agent' means a person with the authority of an  
15 insurer to solicit applications, receive proposals,

1 receive premiums, deliver policies, and to make  
2 contracts of insurance;

3 (4) 'auditor' means an independent accountant  
4 approved by the Commissioner;

5 (5) 'broker' means a person who acts on behalf of a  
6 prospective customer and with the prospective  
7 customer's authority arranges insurance business with  
8 insurers, including making proposals and paying  
9 premiums;

10 (6) 'Commissioner' means the individual appointed as  
11 the Insurance Commissioner under this Act;

12 (7) 'company' means a body corporate formed under  
13 the laws of and having its head office in the  
14 Federated States of Micronesia;

15 (8) 'domestic insurer' means a company that is  
16 licensed under this Act to carry on an insurance  
17 business in the Federated States of Micronesia;

18 (9) 'domestic policy' means a policy issued on  
19 property, lives or other risks located in the  
20 Federated States of Micronesia;

21 (10) 'foreign insurer' means an entity constituted  
22 and licensed to conduct an insurance business by a  
23 jurisdiction other than the Federated States of  
24 Micronesia, that has been registered or licensed under  
25 this Act to carry on insurance business in the

1 Federated States of Micronesia;

2 (11) 'insurance' means a contract whereby one  
3 undertakes to indemnify another or pay a specified  
4 amount upon determinable contingencies;

5 (12) 'insurance business' means the soliciting,  
6 effecting or carrying out of contracts of insurance,  
7 including re-insurance, and the following  
8 transactions:

9 (a) making or negotiating an insurance policy;

10 (b) making or negotiating a guaranty or surety  
11 contract not merely incidental to another legitimate  
12 business or activity;

13 (c) taking, forwarding or receiving an  
14 insurance application;

15 (d) disseminating information concerning  
16 coverage and rates;

17 (e) receiving or collecting any consideration  
18 for insurance;

19 (f) issuing or delivering an insurance policy  
20 to a resident of, or a person authorized to do  
21 business in, the Federated States of Micronesia;

22 (g) directly or indirectly acting as an agent,  
23 broker or solicitor, or any other form of  
24 representative of an insurer;

25 (h) setting rates;

1 (i) inspecting a risk;  
2 (j) investigating or adjusting a claim or loss;  
3 (k) doing or proposing to do any activity that  
4 is in substance equivalent to conduct described in  
5 this provision.

6 (13) 'insurer' means a domestic or foreign insurer;

7 (14) 'life insurance' means insurance of human lives  
8 and insurance appertaining thereto or connected  
9 therewith and includes the granting of annuities,  
10 endorsement benefits, sinking fund benefits and  
11 benefits in the event of death or disability by  
12 accident or sickness, provided that such insurance  
13 against disability by accident or sickness is included  
14 as an additional benefit in a life insurance policy;

15 (15) 'marine, aviation and transportation policy'  
16 means an insurance policy that covers a risk relating  
17 to (a) the possession, use or ownership of a vessel,  
18 aircraft or other craft; or (b) the conveyance of  
19 persons or goods by air, space, land or water; or (c)  
20 the storage, treatment or handling of goods so  
21 conveyed or to be so conveyed.

22 (16) 'officer' means, in relation to a partnership,  
23 corporation, association, trust or any other business  
24 entity, a director, manager or secretary of that body,  
25 or any person having or exercising powers or duties

1 substantially similar to any of those officers;

2 (17) 'person' means any person, natural or legal,  
3 including individuals, partnerships, and corporations;

4 (18) 'policy' means any written contract of insurance  
5 whether contained in one or more documents;

6 (19) 'policy-owner' means a person who is entitled to  
7 claim any benefit provided for in a policy;

8 (20) 'premium' means the money to be paid in return  
9 for an undertaking to provide policy benefits;

10 (21) 'reinsurance' means a contract by which an  
11 insurer insures any part of the risk insured by the  
12 insurer with another insurer;

13 (22) 'related person' with respect to any natural  
14 person means his spouse, child, parents, brothers, or  
15 sisters, or any partnership, corporation, or firm in  
16 which he owns more than a ten percent interest;

17 (23) 'regulations' means regulations made by the  
18 Insurance Board under this Act;

19 (24) 'solicitor' means an individual who solicits  
20 applications for insurance or negotiates insurance  
21 business on behalf of an insurer or an agent and earns  
22 commissions for each successful sale, but is neither  
23 an insurer, an insurance agent, or an employee of an  
24 insurer or agent."

25 Section 2. Section 104 of title 37 of the Code of the

1 Federated States of Micronesia, as amended by Public Law 14-66,  
2 is hereby further amended as follows:

3 "Section 104. Transition.

4 (1) This Act applies to any person transacting  
5 insurance business on or after the effective date of  
6 this Act.

7 (2) All persons transacting insurance business as of  
8 the effective date of this Act will be permitted a  
9 grace period of 270 days from the effective date of  
10 this Act before being penalized for violation of this  
11 Act.

12 (3) Any such person must, within 270 days of the  
13 effective date of this Act, apply for a license or  
14 registration under this Act or cease their insurance  
15 business.

16 (4) Any person who timely files an application shall  
17 have their grace period extended until such time as  
18 their application is approved or denied.

19 (5) Any person who does not file an application  
20 within the 270 days or whose timely filed application  
21 is denied must stop transacting insurance business,  
22 but continue to administer their policies and wind up  
23 their business in accordance with the provisions of  
24 this Act."

25 Section 3. The Code of the Federated States of Micronesia,

1 as amended, is hereby further amended by enacting a new section  
2 105 of title 37 to read as follows:

3 "Section 105. Manner of record keeping. All  
4 information and records required to be produced or  
5 maintained pursuant to this Act shall be stated in the  
6 English language and in US Dollars.

7 Section 4. Section 208 of title 37 of the Code of the  
8 Federated States of Micronesia, as amended by Public Law 14-66,  
9 is hereby further amended as follows:

10 "Section 208. Conflict of interest.

11 (1) Neither a member of the Insurance Board, the  
12 Insurance Commissioner or any person acting on behalf  
13 or under the supervision of the Board or Commissioner  
14 shall, during the discharge of their office:

15 (a) be an officer, director, or employee of any  
16 person licensed or registered under this Act or an  
17 affiliated entity;

18 (b) own or deal directly or indirectly in the  
19 shares or obligations of any person licensed or  
20 registered under this Act or an affiliated entity;

21 (c) be an insurer, insurance agent, insurance  
22 broker or insurance solicitor;

23 (d) be interested in or receive directly or  
24 indirectly from an insurer or affiliated entity, or  
25 from any of its officers, directors, or employees, or

1 from any insurance agent, insurance broker or  
2 insurance solicitor, any salary, gratuity,  
3 compensation, or other thing of value by way of gift,  
4 credit, compensation for services, or for any other  
5 reason; or

6 (e) be interested in or under obligation to  
7 negotiate any contract, obligation, or settlement for  
8 another person with such insurer or affiliated entity.

9 (2) Any violation of this Section by any person  
10 referred to herein shall be sufficient cause for  
11 removal from office.

12 (3) Notwithstanding subsection (1), it shall not be  
13 a conflict of interest to be a policy owner or  
14 beneficiary provided that full disclosure of such  
15 ownership is made to the Insurance Board and in the  
16 case of the members of the Insurance Board, disclosure  
17 shall be made to the President of the Federated States  
18 of Micronesia."

19 Section 5. Section 210 of title 37 of the Code of the  
20 Federated States of Micronesia, as amended by Public Law 14-66,  
21 is hereby further amended as follows:

22 "Section 210. Appeal.

23 (1) Any order issued under this Act may be appealed  
24 to the Insurance Board pursuant to the provisions of  
25 title 17, chapter 1 of the Code of the Federated

1 States of Micronesia.

2 (2) A decision of the Insurance Board shall be final  
3 agency action for purposes of appeal to the Supreme  
4 Court of the Federated States of Micronesia. The  
5 filing of an appeal for judicial review shall not stay  
6 enforcement of an order but the Court may order a stay  
7 upon such terms as it deems proper.

8 (3) An appeal must be filed with the Insurance Board  
9 within 20 days of the date of issuance of the order  
10 being appealed. Unless an appeal is filed the order  
11 shall become final 20 days after issuance and shall be  
12 subject to enforcement. If an appeal is filed, the  
13 order shall not become final until and unless it is  
14 affirmed by the Insurance Board."

15 Section 6. Section 213 of title 37 of the Code of the  
16 Federated States of Micronesia, as amended by Public Law 14-66,  
17 is hereby further amended as follows:

18 "Section 213. Commissioner may demand information.  
19 The Commissioner may, for the purpose of carrying out  
20 the provisions of this Act, demand from a person  
21 applying for a license or registration or a person  
22 licensed or registered under this Act any document or  
23 information relating to any matter connected with his  
24 insurance business or transactions, and any such  
25 person shall comply with any such demand."

1 Section 7. Section 214 of title 37 of the Code of the  
2 Federated States of Micronesia, as amended by Public Law 14-66,  
3 is hereby further amended as follows:

4 "Section 214. Prohibition on disclosure.

5 (1) No person who, in his past or current capacity  
6 as an insurer, agent, broker or solicitor has acquired  
7 information concerning a policy owner shall disclose  
8 such information except:

9 (a) to an affiliated entity in the usual course  
10 of business;

11 (b) with the written authorization of the  
12 policy owner or his legal personal representative;

13 (c) for the purpose of performing his duties  
14 under this Act;

15 (d) when required to do so by a court in the  
16 Federated States of Micronesia;

17 (e) in order to comply with the provisions of  
18 this Act or any other law.

19 (2) No member of the Insurance Board, the Insurance  
20 Commissioner or any employee or agent of the Insurance  
21 Board or Commissioner shall disclose to any person any  
22 information relating to any person licensed or  
23 registered under this Act or a policy-owner that he  
24 has acquired in the performance of his duties under  
25 this Act except:

1 (a) for the purpose of the performance of his  
2 duties or the exercise of his functions;

3 (b) when lawfully required to do so by any  
4 court, or in proceedings for an offense against this  
5 title;

6 (c) with the consent of the person to whom the  
7 information relates;

8 (d) to the extent that the information is  
9 available under any other law or in a public document;

10 (e) in aggregated or summary form, in such a  
11 manner as to prevent any information disclosed from  
12 being identified by any person as being related to a  
13 particular person, including for statistical purposes;

14 (f) in confidence to a supervisory authority in  
15 the Federated States of Micronesia or any other  
16 country, so long as the Insurance Board is reasonably  
17 satisfied the recipient of the information will  
18 maintain confidentiality; or

19 (g) in confidence to advisors from the private  
20 sector, international organizations or foreign  
21 governments for the purpose of improving the  
22 regulatory system and performance of the Insurance  
23 Board, so long as the Insurance Board is reasonably  
24 satisfied the recipient of the information will  
25 maintain confidentiality."

1 Section 8. Section 216 of title 37 of the Code of the  
2 Federated States of Micronesia, as amended by Public Law 14-66,  
3 is hereby further amended as follows:

4 "Section 216. Examination of affairs.

5 (1) The Commissioner may examine the affairs of any  
6 person licensed or registered under this Act or of any  
7 person who is or has at any relevant time been an  
8 affiliated entity of any person licensed or registered  
9 under this Act.

10 (2) The Commissioner may enter the office of any  
11 person licensed or registered under this Act at any  
12 reasonable time, without notice, for purposes of  
13 examination.

14 (3) It shall be the duty of the person under  
15 examination, as well as their past and present  
16 officers, employees and any affiliated entities, to  
17 produce to the Commissioner all books, records and  
18 documents relating to the person or affiliated entity  
19 under investigation which are in their custody or  
20 control, and otherwise to give to the Commissioner all  
21 reasonable assistance in connection with the  
22 examination.

23 (4) The Commissioner may:

24 (a) examine on oath the officers, employees and  
25 agents of the person under examination in relation to

1           its business and may administer an oath accordingly;  
2           and

3                       (b) if he thinks it necessary for the purpose  
4           of his examination that a person whom he has no power  
5           to examine on oath should be so examined, apply to the  
6           court, and the court may, if it sees fit, order that  
7           person to attend and be examined on oath before it on  
8           any matter relevant to the examination.

9           (5) The Commissioner may designate persons to  
10          conduct the examination on behalf of the Commissioner.

11          (6) The Commissioner may, if he thinks fit, charge  
12          the person whose affairs are examined all expenses  
13          properly incurred in connection with the examination  
14          or in connection with the proceedings instituted as a  
15          result of the examination, which shall be paid as a  
16          fee in accordance with the Regulations."

17          Section 9. Title 37 of the Code of the Federated States of  
18          Micronesia, as amended by Public Law 14-66, is hereby further  
19          amended by enacting a new section 217 to read as follows:

20                "Section 217. Indemnity. Neither the Insurance Board  
21                nor any of its members, the Insurance Commissioner,  
22                employee or any person duly appointed to assist the  
23                Insurance Board in carrying out its powers and duties  
24                under this Act shall incur any liability as a result  
25                of anything done in good faith in the exercise of any

1 power or the performance of any duty under this  
2 title.”

3 Section 10. Section 301 of title 37 of the Code of the  
4 Federated States of Micronesia, as amended by Public Law 14-66,  
5 is hereby further amended as follows:

6 “Section 301. License required.

7 (1) No insurance business shall be carried on, in or  
8 from within the Federated States of Micronesia except  
9 pursuant to the provisions of this Act.

10 (2) Any person who transacts insurance business  
11 shall be licensed as either

- 12 (a) an insurer,  
13 (b) an agent,  
14 (c) a solicitor, or  
15 (d) a broker.

16 (3) Only a company may be licensed as an insurer.

17 (4) Only agents transacting insurance business on  
18 behalf of licensed or registered insurers shall be  
19 eligible for a license.

20 (5) A foreign insurer who receives two million  
21 dollars or more in premiums collected in the Federated  
22 States of Micronesia in each fiscal year for three  
23 consecutive fiscal years shall be required to become  
24 licensed as an insurer.

25 (6) A foreign insurer who does not make the premium

1 collections described in (5) shall be permitted to do  
2 business through a person licensed as an agent if the  
3 foreign insurer is registered, unless such foreign  
4 insurer chooses to be licensed as an insurer instead.

5 (7) A person licensed as an agent may conduct  
6 business on behalf of more than one insurer; however,  
7 the agent must apply for a separate license as an  
8 insurance agent for each insurer."

9 Section 11. Section 302 of title 37 of the Code of the  
10 Federated States of Micronesia, as amended by Public Law 14-66,  
11 is hereby further amended as follows:

12 "Section 302. Application for license.

13 (1) An applicant for a license shall submit the  
14 following information to the Insurance Board:

15 (a) The name and address of the applicant;

16 (b) In the case of a business entity, the  
17 corporate charter and bylaws and the names and address  
18 of the officers;

19 (c) The address of the applicant's office in  
20 the Federated States of Micronesia and an appointment  
21 of a representative resident in the Federated States  
22 of Micronesia for service of process and to whom  
23 notices and orders under this Act shall be sent;

24 (d) Evidence of the good character, financial  
25 responsibility, business experience and ability of the

1 applicant, or in the case of a business entity, its  
2 officers;

3 (e) In the case of applicants for an agent,  
4 solicitor or broker's license, information on prior  
5 insurance experience of the applicant and the names  
6 and addresses of prior insurers or agents represented  
7 by the applicant;

8 (f) The type of license requested;

9 (g) The classes of insurance proposed to be  
10 transacted and a demonstration of capacity to transact  
11 such classes of insurance;

12 (h) In the case of applicants for an agent's  
13 license, the request of a licensed or registered  
14 insurer that the applicant be licensed to represent  
15 the insurer as an agent;

16 (i) In the case of applicants for a solicitor's  
17 license, the request of a licensed insurer or licensed  
18 agent that the applicant be licensed to represent the  
19 insurer or agent;

20 (j) An audited financial statement for the most  
21 recent fiscal year, a statement of prospective income  
22 and a business plan for the forthcoming three years;

23 (k) In the case of applicants for an insurer's  
24 license, the insurer must be able to meet the minimum  
25 capital requirement of \$100,000 and demonstrate

1 capacity to meet the ongoing minimum capital  
2 requirements as specified by the Insurance Board;

3 (l) In the case of applicants for an insurer's  
4 license, disclosure of all contracts of reinsurance;

5 (m) In the case of applicants for an insurer's  
6 license, if the applicant is a foreign insurer, a  
7 certificate issued by the insurance supervisory  
8 authority in the place in which the insurer is  
9 incorporated or constituted to the effect that it is  
10 complying with all the applicable insurance  
11 supervisory requirements of that authority;

12 (n) Other information and fees as required by  
13 Regulations.

14 (2) The Insurance Board may require that an  
15 examination be made into the business and affairs of  
16 the applicant, including, in the case of a foreign  
17 insurer, an examination by the insurance authority of  
18 the jurisdiction in which such insurer is organized.  
19 Such examination shall be at the cost of the  
20 applicant.

21 (3) The applicant has an ongoing duty to provide the  
22 Insurance Board with new or amended information  
23 relevant to the application while the application is  
24 pending and if a license is issued, after the issuance  
25 of a license."

1 Section 12. Section 305 of title 37 of the Code of the  
2 Federated States of Micronesia, as amended by Public Law 14-66,  
3 is hereby further amended as follows:

4 "Section 305. Cancellation of license. The Insurance  
5 Board may cancel a license by issuing an order of  
6 cancellation based on any of the following grounds:

7 (1) the license holder or a trustee or receiver  
8 appointed by the court has requested cancellation;

9 (2) the license holder has ceased to carry on an  
10 insurance business in the Federated States of  
11 Micronesia;

12 (3) the license holder has not commenced business in  
13 the Federated States of Micronesia within one year of  
14 being issued a license;

15 (4) in the case of an agent, that the insurer whom  
16 they represent no longer wishes to be represented by  
17 the agent or the insurer is no longer licensed or  
18 registered by the Insurance Board; in the case of a  
19 solicitor, that the agent or insurer whom they  
20 represent no longer wishes to be represented by the  
21 solicitor or the agent or insurer is no longer  
22 licensed or approved by the Insurance Board;

23 (5) false, misleading or inaccurate information was  
24 given in an application under this Act or pursuant to  
25 reporting requirements or a demand for information

1 under this Act;

2 (6) any cause for which issuance of the license  
3 could have been refused if it had then existed and  
4 been known to the Commissioner at the time of  
5 issuance;

6 (7) in the case of an insurer, the insurer has  
7 failed to pay a final judgment for the payment of a  
8 claim owed under a policy;

9 (8) in the case of an insurer, the insurer has  
10 engaged in unfair trade practices;

11 (9) the license holder has misrepresented the terms  
12 of any actual or proposed insurance contract or  
13 application for insurance;

14 (10) in the case of an insurer, the unencumbered  
15 assets, or capital or solvency requirements as defined  
16 by the Commissioner, of the insurer are insufficient  
17 for the proper conduct of his insurance business;

18 (11) the license holder is not conducting business in  
19 accordance with sound insurance principles;

20 (12) the license holder has contravened any of the  
21 provisions of this Act, regulations or conditions of  
22 license."

23 Section 13. Section 306 of title 37 of the Code of the  
24 Federated States of Micronesia, as amended by Public Law 14-66,  
25 is hereby further amended as follows:

1           "Section 306. Restriction of license. The Insurance  
2           Board may restrict a license by issuing an order of  
3           restriction. Restrictions on a license may include  
4           limitations on business activities, prohibitions  
5           against writing of new business or commencement of new  
6           activities or acquisitions, directions to stop  
7           practices that are unsafe or unsound, requirements to  
8           put assets of the insurer in trust or restrict  
9           disposal of assets, and prohibitions against  
10          particular individuals from the business of  
11          insurance."

12          Section 14. Section 307 of title 37 of the Code of the  
13          Federated States of Micronesia, as amended by Public Law 14-66,  
14          is hereby further amended as follows:

15          "Section 307. Registered Foreign Insurers.

16                 (1) A foreign insurer may be registered by providing  
17                 the following:

18                         (a) information from the insurer's home  
19                         supervisory authority that the insurer is solvent and  
20                         meets all the regulatory requirements in the home  
21                         jurisdiction and is otherwise in good standing; and  
22                         a statement from the home supervisory authority that  
23                         the foreign insurer is approved for transaction of  
24                         insurance business through an agent in the Federated  
25                         States of Micronesia; and

1                   (b) posting of a bond, or deposit to an escrow  
2                   account, in the sum of \$100,000, to be withdrawn by  
3                   the Commissioner upon the occurrence of certain events  
4                   as stated in the bond or escrow agreement; and

5                   (c) compliance with any requirement, if set  
6                   forth in Regulations under this Act, that a certain  
7                   amount of premiums collected on behalf of the insurer  
8                   are maintained in the Federated States of Micronesia;  
9                   and

10                   (d) designation of an agent for service of  
11                   process.

12                   (2) A foreign insurer providing a marine, aviation  
13                   and transportation policy may be registered without  
14                   posting the bond required in (1)(b).

15                   (3) The Commissioner may grant or deny or cancel  
16                   registration of a foreign insurer based on these  
17                   requirements and a review of the foreign insurer in  
18                   the same manner as a review of an application for a  
19                   license under this Act.

20                   (4) Any person registered as an insurer under this  
21                   Act shall be deemed and held to be doing business in  
22                   the Federated States of Micronesia and may be sued  
23                   upon any cause of action arising under any policy of  
24                   insurance issued by it and any cause of action under  
25                   the laws of the Federated States of Micronesia in the

1 courts of the Federated States of Micronesia.

2 Section 15. Section 309 of title 37 of the Code of the  
3 Federated States of Micronesia, as amended by Public Law 14-66,  
4 is hereby further amended as follows:

5 "Section 309. Reporting requirements.

6 (1) Licensed insurers and registered insurers shall  
7 provide the following information to the Insurance  
8 Board:

9 (a) Within three months of the end of each  
10 fiscal year:

11 (i) a certified copy of the audited  
12 balance sheet and accounts showing the financial  
13 position of all the insurance business of the license  
14 holder at the close of that year;

15 (ii) a certificate of an auditor stating  
16 that the auditor has satisfied himself that the  
17 accounts of the insurer have been properly prepared in  
18 accordance with the books and records of the insurer  
19 and in accordance with Generally Accepted Accounting  
20 Principles and such other particulars as may be  
21 prescribed by Regulation; and

22 (iii) such other documents and information  
23 as the Commissioner may require or as may be  
24 prescribed by Regulation.

25 (iv) All insurers who operate as separate

1 entities which can be wound up under domestic or  
2 foreign law shall render separate accounts but where  
3 they are associated together in a group the holding  
4 company shall also furnish to the Commissioner  
5 consolidated accounts of the insurance business for  
6 the group as a whole.

7 (b) A copy of any report on the affairs of the  
8 insurer submitted to the policy-owners or shareholders  
9 of the insurer in respect of the financial year to  
10 which the balance sheet relates.

11 (c) In the case of licensed insurers only, a  
12 copy of all contracts of reinsurance at the time they  
13 are entered into and upon any amendment.

14 (2) Licensed agents, brokers and solicitors shall  
15 provide the following information to the Insurance  
16 Board on a quarterly basis and in a form determined by  
17 the Insurance Board:

18 (a) an accounting of all premiums collected,  
19 including the dates of receipt from the policy owner,  
20 the dates of remittance to the insurer, and any  
21 commissions received.

22 (b) Such other information as determined by the  
23 Insurance Board."

24 Section 16. Section 310 of title 37 of the Code of the  
25 Federated States of Micronesia, as amended by Public Law 14-66,

1 is hereby further amended as follows:

2 "Section 310. Periodic investigations to be made into  
3 financial position of insurers.

4 (1) A licensed insurer shall, not less than once in  
5 every 3 years, cause an investigation into its  
6 financial position, including a valuation of its  
7 liabilities to be made by an actuary; provided that  
8 the Commissioner may require an insurer to cause such  
9 an investigation to be made at any time if he deems it  
10 to be in the policy owner's interest to do so.

11 (2) A licensed insurer shall, whenever its financial  
12 position is investigated with a view to a distribution  
13 of surplus or in compliance with subsection (1),  
14 furnish to the Commissioner a full report of the  
15 actuary by whom the investigation was made or an  
16 abstract thereof at the Commissioner's option, and a  
17 statement of its life insurance business at that date,  
18 as soon as such a report is furnished to the insurer  
19 by the actuary. The actuary shall also provide a  
20 statement of the assumptions and the methods used in  
21 making the valuation."

22 Section 17. Section 314 of title 37 of the Code of the  
23 Federated States of Micronesia, as amended by Public Law 14-66,  
24 is hereby further amended as follows:

25 "Section 314. Limitation on Borrowing. At no time

1           may the amount of moneys to be borrowed or secured by  
2           a domestic insurer exceed ten percent of the assets of  
3           the domestic insurer without the written consent of  
4           the Commissioner."

5           Section 18. Section 316 of title 37 of the Code of the  
6 Federated States of Micronesia, as amended by Public Law 14-66,  
7 is hereby further amended as follows:

8           "Section 316. Prohibited investments. The Insurance  
9 Board may require that a domestic insurer not make  
10 investments of a specified class and may in that case  
11 require such insurer to liquidate investments of that  
12 class within a specified period."

13          Section 19. Section 319 of title 37 of the Code of the  
14 Federated States of Micronesia, as amended by Public Law 14-66,  
15 is hereby further amended as follows:

16          "Section 319. Winding up of insurance business.

17           (1) Any license holder may terminate its business in  
18 the Federated States of Micronesia with the approval  
19 and under the supervision of the Insurance  
20 Commissioner and pursuant to Title 31 of the Code of  
21 the Federated States of Micronesia as amended by  
22 Public Law 13-73.

23           (2) The Commissioner may present a petition for the  
24 winding-up of an insurer in accordance with the  
25 provisions of Title 31 of the Code of the Federated

1 States of Micronesia as amended by Public Law 13-73.

2 (3) Notwithstanding any other law, the business and  
3 assets of the insurer shall be liquidated in an  
4 orderly manner so as to fully protect all of the  
5 policy owners of the insurer in the Federated States  
6 of Micronesia. Policy owners shall take first  
7 priority with respect to payment of the obligations of  
8 the insurer."

9 Section 20. Section 321 of title 37 of the Code of the  
10 Federated States of Micronesia, as amended by Public Law 14-66,  
11 is hereby further amended as follows:

12 "Section 321. Premiums.

13 (1) Any licensed agent, broker or solicitor shall,  
14 for the purpose of receiving any premium for a policy,  
15 be deemed to be the agent of the insurer and  
16 notwithstanding any conditions or stipulations to the  
17 contrary the insurer whom they represent shall be  
18 deemed to have received any premium received by such  
19 agent, broker or solicitor.

20 (2) A licensed agent, broker or solicitor who acts  
21 in negotiating or renewing a policy of an insurer and  
22 receives payment of the premium for the policy from  
23 the policy owner, shall be guilty of an offense if he  
24 fails to forward the premium to the insurer within 30  
25 days of the receipt of the premium, less his

1           commission and any other deductions to which by  
2           written consent of the insurer he is entitled,  
3           provided that if any person charged with an offense  
4           under this section shall satisfy the court that he was  
5           prevented by illness or other cause beyond his control  
6           from due compliance with such provisions and has  
7           subsequently paid the premium to the insurer, the same  
8           shall be a good defense to the charge."

9           Section 21. Title 37 of the Code of the Federated States  
10          of Micronesia, as amended, is hereby further amended by enacting  
11          a new section 322 to read as follows:

12                 "Section 322. Disclosure of information by auditors.

13                 (1) If an auditor or actuary, in the course of  
14                 reviewing the business of a person licensed under this  
15                 Act, is satisfied that:

16                         (a) there has been a violation of a provision  
17                         of this Act, or Regulations or Orders under this Act;  
18                         or

19                         (b) a criminal offence involving fraud or  
20                         dishonesty has been committed; or

21                         (c) the business is insolvent or is likely to  
22                         become insolvent; or

23                         (d) there are irregularities which materially  
24                         prejudice the interests of policy owners; or

25                         (e) the business is unable, or is likely to

1           become unable, to meet its liabilities;  
2           the auditor or actuary must immediately report the  
3           matter to the directors of the business and to the  
4           Insurance Board.

5           (2) Failure to report shall constitute a violation  
6           of this Act.

7           (3) A person reporting under this provision shall  
8           not be liable for any damage which may be a  
9           consequence of the report."

10          Section 22. The Code of the Federated States of  
11    Micronesia, as amended, is hereby further amended by enacting a  
12    new section 323 of title 37 to read as follows:

13           "Section 323. Limitations on loans-Maximum amounts.  
14           No domestic insurer shall permit a person to become  
15           indebted or liable to it, either directly or  
16           indirectly, in an amount in excess of 20 percent of  
17           the aggregate paid-in and unimpaired capital, surplus,  
18           and undivided profits of the insurer."

19          Section 23. Section 402 of title 37 of the Code of the  
20    Federated States of Micronesia, as amended by Public Law 14-66,  
21    is hereby further amended as follows:

22           "Section 402. Policy contents.

23           (1) A policy must be written in the English language  
24           and printed or typed in clearly legible letters, in 10  
25           point type or larger.

1 (2) The policy must contain:

2 (a) the parties between whom the contract is  
3 made;

4 (b) a description of the property, life or  
5 interest insured;

6 (c) the interest of the insured and other  
7 interested parties;

8 (d) the period during which such insurance is to  
9 continue;

10 (e) either a statement of the premium or if  
11 insurance is of a character where the exact premium is  
12 only determinable upon a termination of the contract,  
13 a statement of the basis and rates upon which the  
14 final premium is to be determined and paid, with all  
15 amounts stated in US dollars.

16 (3) The policy shall be signed by two of the major  
17 officers of the insurer as designated by the insurer  
18 and, in the case where the insurer is represented by  
19 an agent, by the agent.

20 (4) The Insurance Board may establish through  
21 regulations other requirements for policy contents and  
22 review by the Insurance Board of policy  
23 forms."

24 Section 24. The Code of the Federated States of  
25 Micronesia, as amended, is hereby further amended by enacting a

1 new section 406 of title 37 to read as follows:

2 "Section 406. Claim settlement practices. The  
3 following acts are prohibited as unfair claim  
4 settlement practices. Knowingly engaging in any of  
5 these acts shall be found to be a violation of this  
6 Act.

7 (a) Misrepresenting to claimants pertinent facts or  
8 policy provisions relating to coverage at issue;

9 (b) Failing to promptly acknowledge pertinent  
10 communications regarding claims;

11 (c) Failing to adopt and implement standards for the  
12 prompt investigation of claims;

13 (d) Not attempting in good faith to effectuate  
14 prompt, fair and equitable settlements of claims  
15 submitted in which liability has become reasonably  
16 clear; or

17 (e) Compelling policyholders to institute suits to  
18 recover amounts due under its policies by offering  
19 substantially less than the amount ultimately  
20 recovered in suits brought by them."

21 Section 25. The Code of the Federated States of  
22 Micronesia, as amended, is hereby further amended by enacting a  
23 new section 506 of title 37 to read as follows:

24 "Section 506. Fraud. Any person licensed under this  
25 Act should have in place internal controls that

1           prevent fraud.”

2           Section 26. Section 701 of title 37 of the Code of the  
3 Federated States of Micronesia, as amended by Public Law 14-66  
4 is hereby renumbered as section 601.

5           Section 27. Section 602 of title 37 of the Code of the  
6 Federated States of Micronesia, as amended by Public Law 14-66  
7 is hereby further amended as follows:

8           “Section 602. General penalties.

9           (1) For any violation of this title, including  
10 violation of the regulations, conditions of license  
11 imposed by the Commissioner, or orders issued by the  
12 Commissioner, the license holder shall be subject to  
13 an administrative penalty of not more than \$5,000 and  
14 if the violation is a continuing one, to a further  
15 penalty not exceeding \$1,000 for every day during  
16 which the violation continues; and, in the case of a  
17 material violation, to the cancellation of its  
18 license, in addition to any other penalty prescribed  
19 by law. The Commissioner shall impose the  
20 administrative penalty by issuing an order subject to  
21 appeal and enforcement under Chapter 2.

22           (2) Any person who violates any provision of this  
23 Act or of any Regulations shall be guilty of an  
24 offence and, where no specific criminal penalty is  
25 otherwise provided in this Act, shall be liable on

1 conviction in a court of law, if the offender is an  
2 individual, to a fine of \$25,000 or to imprisonment  
3 for not more than six months, or to both such fine and  
4 imprisonment, or if the offender is not an individual,  
5 to a fine of \$50,000.

6 (3) Where any offense under this Act is proved to  
7 have been committed with the consent of, or to be  
8 attributable to the negligence of, an officer, the  
9 officer shall be deemed to be guilty of that offense  
10 and shall be subject to the same penalty.”  
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22 Section 28. This act shall become law upon approval by the  
23 President of the Federated States of Micronesia or upon its  
24 becoming law without such approval.  
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October 25, 2006

/s/ Redley Killion  
Joseph J. Urusemal  
President  
Federated States of Micronesia