

FEDERATED STATES OF MICRONESIA INSURANCE BOARD



2024 ANNUAL REPORT



FSM INSURANCE BOARD

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EXECUTIVE SUMMARY

The 2024 Annual Report (“Report”) is prepared by the Office of the FSM Insurance Board (“FSMIB”) as required by Section 205 of the Insurance Act of 2006 or Title 37 of the Code of the Federated States of Micronesia (“Title 37 of the FSMC”). This Report contains information and data on the general condition and status of the insurance system in the Federated States of Micronesia (“FSM”) and other important matters covering insurance and key activities that were performed and accomplished during the year ending December 31, 2024.

In the FSM, there are two (2) distinctive types of insurances that are currently available in the financial market and they are the regular or conventional insurance and the captive insurance. In the following pages, the Report provides an analysis of the information and data submitted to the FSMIB by the regular insurance businesses and captive insurance businesses for the period ending December 31, 2024 and December 31, 2023, respectively.

The insurance system is an important component of the overall financial sector in the FSM. Insurance supports a stable economy and society by providing:

1. Financial protection to insured individuals, businesses and other organizations from potential losses due to unforeseen or unexpected events;
2. Reliable employment opportunities to 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.

The Report is available to the general public through the office website at www.fsminsuranceboard.com. Hard copies are also available at the FSMIB office located at the Varner-Boylan Building, Suite 21A, Pohn Umpomp Place, Nett, Pohnpei State.

ESTABLISHMENT OF THE FSMIB

The FSMIB is a regulatory agency of the FSM National Government with three board members, insurance commissioner and five employees, as shown in *Exhibit 1*. It was established in 2006 by Public Law 14-66. In 2006, the FSM Insurance Act of 2006 was amended to include legislation for captive insurance. Pursuant to Title 37 of the FSMC as amended, the FSMIB oversees and regulates two types of insurance - regular or conventional insurance and captive insurance. The FSMIB implements Title 37 of the FSMC, as indicated briefly in *Exhibit 2*.

PRINCIPAL PURPOSES

The principal purposes or mandates of the FSMIB as specified under Section 204 of Title 37 of the FSMC shall be:

- ❖ To regulate insurance business;
- ❖ To undertake the licensing and supervision of insurers, insurance agents, insurance solicitors and insurance brokers;
- ❖ To protect the interests of policy owners; and

- ❖ To promote the soundness, stability and development of the insurance system in the FSM.

VISION

The Office of the Insurance Board of the Federated States of Micronesia seeks to be a fair regulator of the business of Insurance, to protect our citizens, and to support the commercial and economic growth of our nation by ensuring a stable, sound and healthy FSM insurance market system that is consistent with acceptable and prudent principles for the insuring public, insurers and intermediaries.

MISSION

The mission of the Office of the Insurance Board is to work cooperatively with the national and state governments and with the insurance industry to:

- 1) ensure that the citizens of the FSM are treated fairly in all insurance transactions;
- 2) serve as regulator of the business of insurance that is fair and reasonable to all parties;
- 3) earn and maintain our reputation as a global insurance domicile of choice.

EXHIBIT 1: ORGANIZATIONAL CHART OF THE FSMIB

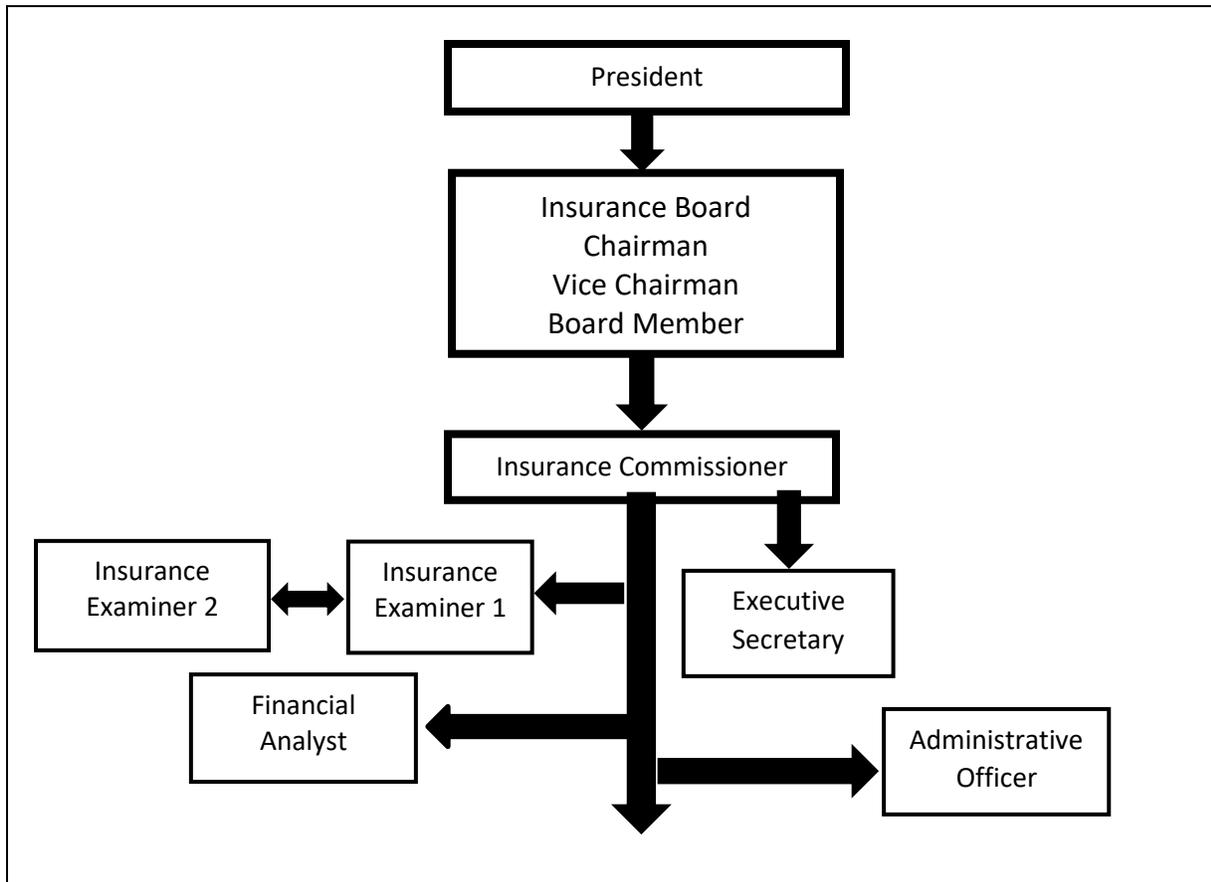
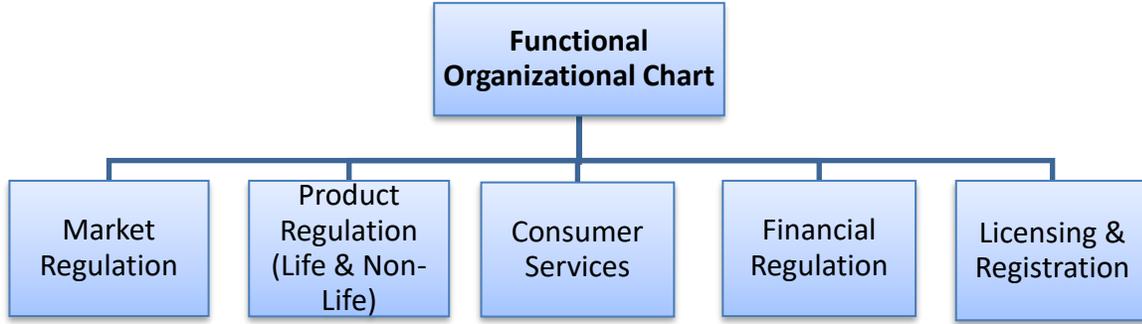


EXHIBIT 2: FUNCTIONAL CHARTS OF THE FSMIB



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 related issues.
2. To 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, and in compliance with legal/regulatory/prudent requirements.
3. To process complaints and undertake public education activities so policyholders, the general public, insurers, and intermediaries are well informed.
4. To 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. To compile and analyze key data to determine conditions in respect to capital adequacy, risk-based profile, corporate and management quality, reinsurance, loss reserve adequacy, investment soundness, liquidity, solvency margin, risk-based capital, accounting methods and underwriting.
5. To 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.

THE FSM INSURANCE SYSTEM

The FSM Insurance market is comprised of two distinct sectors: (1) regular or conventional insurance, and (2) captive insurance.

CONVENTIONAL INSURANCE

The regular or conventional insurance system in the FSM is comprised of foreign and domestic insurers and insurance intermediaries. It is dominated by foreign insurers who work through or are represented by the local licensed insurance agents in the country. As of calendar year ended December 31, 2024, there were eight (8) registered foreign insurers, one (1) licensed domestic insurer, six (6) licensed insurance agents, two (2) licensed insurance brokers and no licensed solicitors.

By law, FSM MiCare and Chuuk State Health Plan, the two government-owned and operated health insurance providers (carriers), are not under the regulatory and supervisory purview of the FSMIB.

FOREIGN INSURER Section 102[3], a foreign insurer is an entity constituted and 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 FSM in each fiscal year for three consecutive fiscal years shall be required to become licensed as domestic insurer. *Exhibit 3* below shows a listing of currently registered and licensed insurers and their respective appointed licensed insurance agents during this reporting period. The conventional insurance market offers both life and non-life insurance products and services. Examples of life insurance products are credit life, group life, and health insurance while non-life insurance products are homeowners, automobile, fire, marine cargo, workers’ compensation, and other coverages.

EXHIBIT 3: CONVENTIONAL INSURANCE PARTICIPANTS

INSURER	STATUS	A.M. BEST RATINGS	DOMICILE	LOCAL AGENT
DB Insurance Company, Ltd. (Guam)	Active	A+ (Superior)	South Korea/Guam	Moylan's Insurance Underwriters (FSM), Inc.
First Net Insurance Company	Active	B++ (Good)	Guam, USA	Moylan's Insurance Underwriters (FSM), Inc
Liberty Mutual Insurance Company	Active	A (Excellent)	Massachusetts, USA	Moylan's Insurance Underwriters (FSM), Inc
NetCare Life and Health Insurance Company	Active	Not Rated	Guam, USA	Moylan's Insurance Underwriters (FSM), Inc
Pacific Indemnity Insurance Company	Active	A-(Excellent)	Guam, USA	Actouka Executive Insurance Underwriters & Moses Insurance Executives
Plateau Insurance Company	Active	A-(Excellent)	Tennessee, USA	Bank of the FSM & Bank of Guam
Individual Assurance Company (FSM), Inc.	Active	B++(Good)	Pohnpei, FSM/Oklahoma	None
NorthStandard Limited	Active	Not Rated	United Kingdom	Moses Insurance Executives
Century Insurance Company, Ltd	Active	A-(Excellent)	Northern Mariana Islands, USA	OIC Insurance Agency Corporation

AGENT Section 102 [3] of Title 37 of FSMC, an agent is defined as “a person with the authority of an insurer to solicit applications, receive proposals, receive premiums, deliver policies, and to make contracts of insurance.” Agents represent foreign insurers or carriers. The Insurance Act of 2006 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 2024, there were six (6) active licensed insurance agents as shown in the following page in *Exhibit 4*.

EXHIBIT 4: INSURANCE AGENTS

AGENT	LICENSE STATUS	INSURER	Location
Actouka Executive Insurance Underwriters	Active	Pacific Indemnity Insurance Company	Pohnpei
Bank of the Federated States of Micronesia	Active	Plateau Insurance Company	FSM Branches
Bank of Guam	Active	Plateau Insurance Company	FSM Branches
Moylan's Insurance Underwriters (FSM), Inc.	Active	First Net Insurance Co., NetCare Life & Health Insurance Co., Liberty Mutual Insurance Co., and DB Insurance Co., Ltd.	Pohnpei
Moses Insurance Executives	Active	Pacific Indemnity Insurance Company, NorthStandard Limited	Pohnpei
OIC Insurance Agency Corporation	Active	Century Insurance Company, Ltd.	Chuuk

BROKER 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 insureds or customers. During year 2024, there were two (2) licensed brokers as shown in the *Exhibit 5* below.

EXHIBIT 5: INSURANCE BROKERS

BROKER	LICENSE STATUS	LOCATION
Oceania Insurance Company	Active	Chuuk
Micronesia Insurance Brokers Company, Ltd	Active	Pohnpei

SOLICITOR Section 102 [24] a solicitor is an individual who solicits insurance applications 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 2024, there were no licensed solicitors in the FSM.

Based on submitted and reported data, the conventional insurance sector generated a total gross premium of \$3,987,787 for life and non-life insurance policies for the year ended 2024. The generated gross premium was collected through the five (5) licensed agents and two (2) licensed brokers, where \$2,167,965 was collected for non-life insurance and \$1,819,822 for life insurance. A total of 2,724 new and existing insurance policies, of which 1,795 was for life insurance and 929 for non-life insurance policies sold through agents and brokers. *Exhibit 6* below shows the

data for the number of policies sold and the amount of premium collected for Life and Non-Life based on submitted and available data. One (1) registered insurer did not submit its 2024 data and therefore were not included in this Report.

EXHIBIT 6: FINANCIAL PERFORMANCE OF THE REGULAR INSURANCE INDUSTRY

POLICY & PREMIUM	LIFE INSURANCE BUSINESS	NON-LIFE INSURANCE BUSINESS	TOTAL
Policy	1,795	929	2724
Premium	\$1,819,822	\$2,167,965	\$3,987,787

Total commission earned was \$648,898, of which \$463,854 was received by agents and \$185,044 by brokers in 2024, as shown below in *Exhibit 7*.

EXHIBIT 7: AGGREGATE EARNED COMMISSION FOR AGENTS & BROKERS

INTERMEDIARIES	COMMISSIONS LIFE INSURANCE BUSINESS	COMMISSIONS FOR NON-LIFE INSURANCE BUSINESS	TOTAL
Agent	\$220,491	\$243,363	\$463,854
Broker	\$20,523	\$164,521	\$185,044
Total	\$241,013	\$407,884	\$648,898

CAPTIVE INSURANCE

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.

The FSM has made a strategic decision to focus its captive insurance outreach efforts on Japan-based businesses. Businesses headquartered in Japan have unique insurance compliance requirements that place most other international captive insurance domiciles impractical. By focusing exclusively on Japan, the FSM can build strong and lasting ties with key insurance professionals and maximize the benefits returning to the FSM for a minimum cost.

Based on the available data, captive insurance companies domiciled in the FSM received \$460 million in premium payments in 2023. The FSM has licensed 27 captive insurance companies since 2009. There are currently 23 licensed companies, as shown on the next page in *Exhibit 8*. It

is not uncommon for captive insurance companies to elect to close down as their parent company reorganizes or changes their risk management strategies.

The 2023 financial information shows that, FSM captive insurance companies wrote less premium than the premium in the previous year and for the first time, the value of these captive’s total assets declined slightly. Moreover, the amount of collected tax dropped significantly in this fiscal year. As the number of captives stayed essentially the same and this is in reverse to previous trends, this result can most likely be attributed to the general state of the economy in Japan during this time period and the exchange rate.

One of the features that makes FSM captives attractive to Japanese business is that they conduct their business and maintain books and records in Japanese Yen. For the purposes of annual report filings, the value of company assets is converted to US Dollars. Between 2021 and through 2023, the Yen declined significantly to the US Dollar. In January 2021, the US Dollar traded for 103 JPY. By October 2023 the US Dollar was trading at 150 JPY. A FSM captive writing the same amount of premium during this time period with consistent claims and expense costs incurred in JPY would, if the financial results were converted to dollars over time, appear to be more volatile.

As both the United States and Japan are traditionally held to be two of the most stable global currencies, fluctuations in value between them tend to smooth out over time and would accordingly be reflected in both the valuation of assets in US Dollars of FSM captives as well as ultimately the tax revenue returned to the Nation.

The FSMIB cooperates with the FSM Captive Insurance Council, a trade association made up of captive insurance owners and service providers who work with FSM-based captive insurance companies. The Captive Insurance Council sponsors an annual seminar in Japan where current and prospective captive insurance owners and service providers can learn about captive insurance in the FSM. The 2024 seminar was held in Tokyo with more than 150 participants from across Japan.

The FSMIB is committed to building the FSM’s reputation as a reliable and stable captive insurance partner for Japanese-owned captives. Other captive domiciles continue to make significant investments of time and resources in Japan. Nevertheless, the FSM remains a premier domicile of choice for Japan businesses. As the alternative risk management and captive insurance market in Japan matures and grow, the FSM remains well positioned to capture much of this growth.

EXHIBIT 8: DOMESTICALLY LICENSED CAPTIVE INSURANCE COMPANIES

NO.	CAPTIVE INSURANCE COMPANIES	LICENSE DATE
1	au Reinsurance Corporation	December 23, 2016
2	Eastern Pacific Insurance, Ltd.	October 29, 2013
3	Global Micronesia Insurance Corporation	May 29, 2015
4	Grand Cru Insurance Company Limited	February 20, 2018
5	Green Sun Insurance, Inc.	March 16, 2015
6	Hanwa Reinsurance Corporation	December 15, 2017
7	HS Insurance Co., Ltd.	February 16, 2017

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8	Island Reinsurance Corporation	June 23, 2011
9	IX Micronesia Reinsurance Corporation	February 1, 2018
10	Ks Insurance Inc.	September 17, 2021
11	Marble Reinsurance Corporation	September 23, 2009
12	MIMOSA Insurance Company Limited	August 08, 2022
13	MP Insurance Corporation	June 28, 2013
14	Nitto Reinsurance Micronesia Co., Ltd.	July 18, 2017
15	NRI Reinsurance Micronesia Ltd.	July 27, 2017
16	Permcure Insurance Co., Ltd.	March 1, 2010
17	Rainbowseeker Insurance, Inc.	March 29, 2011
18	SKK Insurance Company Limited	March 13, 2018
19	Sojitz Reinsurance Company Limited	September 16, 2015
20	Sumida Insurance Company	December 23, 2015
21	Thanks Insurance Corporation	April 24, 2012
22	Toyota Tsusho Reinsurance Micronesia Corporation	September 28, 2010
23	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. The 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 2023 as shown in *Exhibit 9 below*. The aggregated 2024 results are not available at this time because some of the captives with a different calendar year are not required to file their respective audited financial information until June 2025, at which time is after the due date of this Report.

EXHIBIT 9: AGGREGATE FINANCIAL HIGHLIGHTS OF CAPTIVE INSURANCE MARKET

CAPTIVE AGGREGATE	2023	2022	2021	2020	2019
Cash & Investments	343,169,846	334,707,469	251,378,474	359,255,357	402,712,322
Total Assets	1,503,460,706	1,507,009,190	1,444,788,160	1,271,198,283	1,031,586,910
Total Capital & Surplus	437,469,898	460,282,756	460,756,154	457,359,289	439,185,984
Earned Premiums	459,535,967	530,118,376	586,458,032	642,431,983	740,147,073

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Total Taxes	5,267,185	15,652,521	15,305,674	16,465,277	15,847,168
Net Income	18,405,432	62,884,445	55,201,262	62,010,632	58,608,146

FSM domiciled captives pay direct taxes each year to the National Government. Additionally captive insurance companies support regular direct economic activity in the FSM, including the employment of FSM based accountants, attorneys, captive managers, and their support staff. FSM captive owners and captive insurance company board members regularly make visits to the FSM to meet with regulators and local service providers and to conduct board meetings and other business activity. 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 service 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 the office expects to receive approximately 3-5 new requests 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

ACTIVITIES OF THE INSURANCE BOARD

During the year ended December 31, 2024, the FSMIB performed and accomplished the following tasks and activities:

- ❖ Held four (4) regular board meetings;
- ❖ Reviewed and approved 29 business plan changes, 2 agent licenses, and 2 registered foreign insurers.
- ❖ Renewed the contract for the Captive Insurance Consultant (“CIC”) whose main duties were to assist the staff in reviewing technical requests and proposals from licensed captive insurers, review captive insurance licensing applications, provide training sessions and capacity building for staff, and other technical supports; and
- ❖ Renewed the contract for the Examination Captive Insurance Consultant (“Consultant”) whose main duties were to assist the examiners with captive examinations.

- ❖ Renewed the contract for the Consultant for regular insurance business whose main responsibilities include: reviewing new filed applications from agents, brokers or foreign insurers; provide trainings for the staff, and other supports;
- ❖ Submitted 2023 Annual Report to President and Speaker.
- ❖ Performed three (3) examinations of captive insurance companies.
- ❖ Insurance Commissioner and Insurance Examiner Celestine attended the 2024 FSM Resource and Development Conference in Yap, FSM.
- ❖ Insurance Commissioner, Insurance Examiner Celestine, and Financial Analyst attended 2024 FSM Finance Officer’s Conference in Chuuk, FSM.
- ❖ Chairman Habuchmai, Vice Chairman Joseph, Insurance Commissioner, Insurance Examiner Mario, and CIC attended the FSM Captive Insurance Seminar in Tokyo, Japan
- ❖ Administrative Specialist attended the APIPA 2024 Conference in Palau.
- ❖ Insurance Commissioner and CIC attended the 2024 Hawaii Captive Insurance Council Annual Forum in Kauai, Hawaii.
- ❖ Insurance Examiner Celestine attended 2024 NAIC Fall meetings in Denver, Colorado.

OVERVIEW OF THE FSMIB’S FISCAL YEAR 2024 OPERATIONAL BUDGET AND REVOLVING FUND

GENERAL FUNDS (OPERATIONAL BUDGET)

Every fiscal year, each national government agency, office, department, or component responds to the presidential budget call and submits a proposed budget that best reflect its priorities and relevant operational activities for each fiscal year. For FSMIB, the fiscal year 2024 proposed budget was submitted and approved with an increase in the overall budget from \$632,831 in FY2023 to \$642,078 in FY2024. During the fiscal years ending 2024 and 2023, the expenditures were \$540,774 and \$519,846, respectively. *Exhibit 10* shows the budget and expenditures for the 2-year period.

EXHIBIT 10: GENERAL FUNDS APPROVED BUDGET VS. ACTUAL EXPENSES

ACCOUNT DESCRIPTION	FY 2024		FY2023	
	APPROVED BUDGET	ACTUAL EXPENSES	APPROVED BUDGET	ACTUAL EXPENSES
Personnel	\$ 217,547	\$ 135,357	\$ 200,232	\$ 143,306
Travel	\$ 44,852	\$ 42,097	\$ 63,620	\$ 53,747
Other Current Expenses (OCE)	\$ 32,504	\$ 29,581	\$ 33,804	\$ 29,674
Contractual Services	\$ 347,175	\$ 333,738	\$ 335,175	\$ 293,119
Fixed Asset	\$ -	\$ -	-	-
Total	\$ 642,078	\$ 540,774	\$ 632,831	\$ 519,846

REVOLVING FUNDS

The FSMIB 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 expenses relating to the regulation of FSM’s captive

insurance companies. A complete and comprehensive report on the Revolving Fund is also required to be included into the annual report to the President and Speaker.

Annual *deposits* into the Revolving Fund are comprised of: (1) application fees, license fees, annual fees, and premium tax fees collected from captive insurance companies; (2) charges collected from captive insurance companies for costs incurred by the Insurance Commissioner for retaining outside legal, financial and examination services. At the end of each fiscal year, the threshold amount of the Revolving Fund is capped at \$50,000, and as a result, funds in excess of the threshold amount shall be transferred to the General Fund.

Since the establishment of the Revolving Fund account, FSMIB has maintained the minimum threshold amount of \$50,000 and ensured that funds were strictly used for captive insurance activities and purposes. Hence, over the years, the Board has procured services of various experts for technical assistance in areas of captive insurance and information technology to assist with the growing captive portfolio. During fiscal year ending 2024, FSMIB contracted the services of the Captive Insurance Consultant for examinations to assist and conduct examinations on three captive companies. All three examinations were completed prior to September 30, 2024.

During the fiscal year ending 2024, the total amount of fees collected and deposited into the Revolving Fund was about \$39,332. **Exhibit 11** summarizes the activities that happened during the fiscal years ending 2024 and 2023.

EXHIBIT 11: REVOLVING FUNDS REVENUE COLLECTIONS AND CASH TRANSFERS

ACCOUNT DESCRIPTION	FY2024	FY2023
Revenues	\$39,332	\$44,040
Expenditures	-	\$2418
Transfer Out	\$39,332	\$41,622

CONCLUSION

The insurance industry in the FSM continues to play a significant role in the financial sector. The benefits being derived from the insurance activities in both regular and captive insurance businesses are substantial and contributed to the growth of the economy for the year ending 2024 and 2023.

The Chairman of the Board and fellow members with the support of the Commissioner and his staff continue to work with the consultants and government officials to address the challenges and issues facing the insurance sector in the FSM. It is our ultimate goal and objective to continue to collaborate for the growth of the FSM insurance industry and ensure that the insurance system is stable, sound and healthy for the benefits of the policyholders and the citizens of the FSM.