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

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

  1. 'actuary' means an individual qualified as an actuary by such qualifications as the Commissioner may recognize;

  2. 'affiliated entity' means a subsidiary, a holding company, a trust controlled or administered by a company, or another company whose board of directors acts in accordance with the directors or instructions of the first company;

  3. 'agent' means a person with the authority of an insurer to solicit applications, receive proposals,
receive premiums, deliver policies, and to make contracts of insurance;

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

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

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

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

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

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

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

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

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

(a) making or negotiating an insurance policy;

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

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

(d) disseminating information concerning coverage and rates;

(e) receiving or collecting any consideration for insurance;

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

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

(h) setting rates;
(i) inspecting a risk;
(j) investigating or adjusting a claim or loss;
(k) doing or proposing to do any activity that
is in substance equivalent to conduct described in
this provision.
(13) 'insurer' means a domestic or foreign insurer;
(14) 'life insurance' means insurance of human lives
and insurance appertaining thereto or connected
therewith and includes the granting of annuities,
endorsement benefits, sinking fund benefits and
benefits in the event of death or disability by
accident or sickness, provided that such insurance
against disability by accident or sickness is included
as an additional benefit in a life insurance policy;
(15) 'marine, aviation and transportation policy'
means an insurance policy that covers a risk relating
to (a) the possession, use or ownership of a vessel,
aircraft or other craft; or (b) the conveyance of
persons or goods by air, space, land or water; or (c)
the storage, treatment or handling of goods so
conveyed or to be so conveyed.
(16) 'officer' means, in relation to a partnership,
corporation, association, trust or any other business
entity, a director, manager or secretary of that body,
or any person having or exercising powers or duties
substantially similar to any of those officers;

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

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

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

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

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

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

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

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

Section 2. Section 104 of title 37 of the Code of the
Federated States of Micronesia, as amended by Public Law 14-66, is hereby further amended as follows:

“Section 104. Transition.

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

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

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

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

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

Section 3. The Code of the Federated States of Micronesia,
as amended, is hereby further amended by enacting a new section
105 of title 37 to read as follows:

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

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

"Section 208. Conflict of interest.

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

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

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

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

(d) be interested in or receive directly or
indirectly from an insurer or affiliated entity, or
from any of its officers, directors, or employees, or
from any insurance agent, insurance broker or
insurance solicitor, any salary, gratuity,
compensation, or other thing of value by way of gift,
credit, compensation for services, or for any other
reason; or

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

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

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

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

"Section 210. Appeal.

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

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

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

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

"Section 213. Commissioner may demand information. The Commissioner may, for the purpose of carrying out the provisions of this Act, demand from a person applying for a license or registration or a person licensed or registered under this Act any document or information relating to any matter connected with his insurance business or transactions, and any such person shall comply with any such demand."
Section 7. Section 214 of title 37 of the Code of the Federated States of Micronesia, as amended by Public Law 14-66, is hereby further amended as follows:

"Section 214. Prohibition on disclosure.

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

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

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

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

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

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

(2) No member of the Insurance Board, the Insurance Commissioner or any employee or agent of the Insurance Board or Commissioner shall disclose to any person any information relating to any person licensed or registered under this Act or a policy-owner that he has acquired in the performance of his duties under this Act except:
(a) for the purpose of the performance of his duties or the exercise of his functions;

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

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

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

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

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

(g) in confidence to advisors from the private sector, international organizations or foreign governments for the purpose of improving the regulatory system and performance of the Insurance Board, so long as the Insurance Board is reasonably satisfied the recipient of the information will maintain confidentiality.”
Section 8. Section 216 of title 37 of the Code of the Federated States of Micronesia, as amended by Public Law 14-66, is hereby further amended as follows:

“Section 216. Examination of affairs.

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

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

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

(4) The Commissioner may:

(a) examine on oath the officers, employees and agents of the person under examination in relation to
its business and may administer an oath accordingly; and

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

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

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

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

“Section 217. Indemnity. Neither the Insurance Board nor any of its members, the Insurance Commissioner, employee or any person duly appointed to assist the Insurance Board in carrying out its powers and duties under this Act shall incur any liability as a result of anything done in good faith in the exercise of any
power or the performance of any duty under this
title.”

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

"Section 301. License required.

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

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

(a) an insurer,

(b) an agent,

(c) a solicitor, or

(d) a broker.

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

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

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

(6) A foreign insurer who does not make the premium
collections described in (5) shall be permitted to do business through a person licensed as an agent if the foreign insurer is registered, unless such foreign insurer chooses to be licensed as an insurer instead.

(7) A person licensed as an agent 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.”

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

“Section 302. Application for license.

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

(a) The name and address of the applicant;

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

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

(d) Evidence of the good character, financial responsibility, business experience and ability of the
applicant, or in the case of a business entity, its officers;

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

(f) The type of license requested;

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

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

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

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

(k) In the case of applicants for an insurer’s license, the insurer must be able to meet the minimum capital requirement of $100,000 and demonstrate
capacity to meet the ongoing minimum capital
requirements as specified by the Insurance Board;

(l) In the case of applicants for an insurer’s
license, disclosure of all contracts of reinsurance;
(m) In the case of applicants for an insurer’s
license, if the applicant is a foreign insurer, a
certificate issued by the insurance supervisory
authority in the place in which the insurer is
incorporated or constituted to the effect that it is
complying with all the applicable insurance
supervisory requirements of that authority;
(n) Other information and fees as required by
Regulations.

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

(3) The applicant has an ongoing duty to provide the
Insurance Board with new or amended information
relevant to the application while the application is
pending and if a license is issued, after the issuance
of a license.”
Section 12. Section 305 of title 37 of the Code of the Federated States of Micronesia, as amended by Public Law 14-66, is hereby further amended as follows:

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

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

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

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

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

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

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

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

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

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

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

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

(12) the license holder has contravened any of the provisions of this Act, regulations or conditions of license.”

Section 13. Section 306 of title 37 of the Code of the Federated States of Micronesia, as amended by Public Law 14-66, is hereby further amended as follows:
"Section 306. Restriction of license. The Insurance Board may restrict a license by issuing an order of restriction. Restrictions on a license may include limitations on business activities, prohibitions against writing of new business or commencement of new activities or acquisitions, directions to stop practices that are unsafe or unsound, requirements to put assets of the insurer in trust or restrict disposal of assets, and prohibitions against particular individuals from the business of insurance."

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

"Section 307. Registered Foreign Insurers.

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

(a) information from the insurer's home supervisory authority that the insurer is solvent and meets all the regulatory requirements in the home jurisdiction and is otherwise in good standing; and a statement from the home supervisory authority that the foreign insurer is approved for transaction of insurance business through an agent in the Federated States of Micronesia; and
(b) posting of a bond, or deposit to an escrow account, in the sum of $100,000, to be withdrawn by the Commissioner upon the occurrence of certain events as stated in the bond or escrow agreement; and

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

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

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

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

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

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

"Section 309. Reporting requirements.

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

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

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

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

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

   (iv) All insurers who operate as separate
entities which can be wound up under domestic or
foreign law shall render separate accounts but where
they are associated together in a group the holding
company shall also furnish to the Commissioner
consolidated accounts of the insurance business for
the group as a whole.

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

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

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

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

(b) Such other information as determined by the
Insurance Board.”

Section 16. Section 310 of title 37 of the Code of the
Federated States of Micronesia, as amended by Public Law 14-66,
is hereby further amended as follows:

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

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

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

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

"Section 314. Limitation on Borrowing. At no time
may the amount of moneys to be borrowed or secured by
a domestic insurer exceed ten percent of the assets of
the domestic insurer without the written consent of
the Commissioner.”

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

“Section 316. Prohibited investments. The Insurance
Board may require that a domestic insurer not make
investments of a specified class and may in that case
require such insurer to liquidate investments of that
class within a specified period.”

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

“Section 319. Winding up of insurance business.

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

(2) The Commissioner may present a petition for the
winding-up of an insurer in accordance with the
provisions of Title 31 of the Code of the Federated
States of Micronesia as amended by Public Law 13-73.

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

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

"Section 321. Premiums.

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

(2) A licensed agent, broker or solicitor who acts in negotiating or renewing a policy of an insurer and receives payment of the premium for the policy from the policy owner, shall be guilty of an offense if he fails to forward the premium to the insurer within 30 days of the receipt of the premium, less his
commission and any other deductions to which by
written consent of the insurer he is entitled,
provided that if any person charged with an offense
under this section shall satisfy the court that he was
prevented by illness or other cause beyond his control
from due compliance with such provisions and has
subsequently paid the premium to the insurer, the same
shall be a good defense to the charge.”

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

"Section 322. Disclosure of information by auditors.

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

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

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

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

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

(e) the business is unable, or is likely to
become unable, to meet its liabilities;
the auditor or actuary must immediately report the
matter to the directors of the business and to the
Insurance Board.

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

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

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

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

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

"Section 402. Policy contents.
(1) A policy must be written in the English language
and printed or typed in clearly legible letters, in 10
point type or larger.
(2) The policy must contain:

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

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

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

(d) the period during with such insurance is to continue;

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

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

(4) The Insurance Board may establish through regulations other requirements for policy contents and review by the Insurance Board of policy forms.”

Section 24. The Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a
new section 406 of title 37 to read as follows:

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

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

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

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

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

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

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

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

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

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

"Section 602. General penalties.

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

(2) Any person who violates any provision of this Act or of any Regulations shall be guilty of an offence and, where no specific criminal penalty is otherwise provided in this Act, shall be liable on
conviction in a court of law, if the offender is an individual, to a fine of $25,000 or to imprisonment for not more than six months, or to both such fine and imprisonment, or if the offender is not an individual, to a fine of $50,000.

(3) Where any offense under this Act is proved to have been committed with the consent of, or to be attributable to the negligence of, an officer, the officer shall be deemed to be guilty of that offense and shall be subject to the same penalty.”

Section 28. This act shall become law upon approval by the President of the Federated States of Micronesia or upon its becoming law without such approval.
October 25, 2006

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