



INDEPENDENT CONSUMER & COMPETITION COMMISSION

REVIEW OF THE GENERAL INSURANCE INDUSTRY IN PAPUA NEW GUINEA

ISSUES PAPER



© Independent Consumer & Competition Commission
27 March 2007

Table of Contents

<i>SECTION</i>	<i>PAGE</i>
1 SUBMISSIONS.....	3
2 EXECUTIVE SUMMARY	4
3 INTRODUCTION	9
3.1 OBJECTIVES OF THE REVIEW	9
3.2 PURPOSE OF THE REVIEW.....	9
3.3 SCOPE OF THE REVIEW.....	9
3.4 CONDUCT OF THE REVIEW.....	10
3.5 STRUCTURE OF THIS PAPER	10
4 BACKGROUND AND INDUSTRY OVERVIEW	12
4.1 COUNTRY OVERVIEW	12
4.1.1 Geography.....	12
4.1.2 Economic environment.....	12
4.1.3 Social and political environment.....	13
4.2 INDUSTRY OVERVIEW	13
4.2.1 Structure and composition of the general insurance industry in PNG.....	14
4.2.2 Market segments.....	18
4.2.3 Size of the general insurance industry	28
4.3 LEGISLATION AND REGULATION	30
4.4 4.4 MAJOR STAKEHOLDERS	31
4.5 MAJOR DRIVERS	31
5 KEY ISSUES	35
5.1 CURRENT REGULATION OF THE PNG INSURANCE INDUSTRY	35
5.1.1 Principles for regulation of the insurance industry	35
5.1.2 PNG industry regulator – the Office of the Insurance Commissioner (OIC)	37
5.1.3 Licensing of market participants.....	37
5.1.4 Prudential requirements.....	38
5.1.5 Offshore exemptions	40
5.1.6 Future regulatory arrangements.....	40
5.2 CURRENT COMPOSITION AND STRUCTURE OF THE PNG INSURANCE INDUSTRY	42
5.2.1 Reinsurance	42
5.2.2 Insurance companies.....	43
5.2.3 Brokers / Loss adjustors	44
5.2.4 Changes to current market structure and composition	44
5.3 CURRENT OPERATION OF THE PNG INSURANCE INDUSTRY.....	45
5.3.1 Setting premiums and terms of coverage.....	45
5.3.2 Applicable Government charges.....	46
5.3.3 Setting broker fees.....	47
5.3.4 Accessibility of general insurance to customers	47
APPENDICES	48
APPENDIX A: OFFICIAL TERMS OF REFERENCES	48

1 Submissions

The Government as part of its overall 2007 Budget Strategy has referred the Independent Consumer and Competition Commission (“the Commission”) to undertake a comprehensive review (“Review”) of competition issues and the overall conduct of market participants in the general insurance industry in Papua New Guinea (“PNG”) with a view towards increasing efficiency and cost competitiveness in the industry.

In accordance with the official referral by the Minister for Treasury of the Review under section 123 of the *Independent Consumer and Competition Commission Act 2002* (the “ICCC Act”), the Commission must meet the deadlines in terms of its preparation and release of the Issues Paper, Draft Report and the Final Report and subsequent presentation to the Government including making available copies of the relevant documents at those stages of the Review. Hence, the timetable for the current Review is as follows:

- Release of Issues Paper.....27 March 2007
- Receipt of Submissions on the Issues.....27 April 2007;
- Release of Draft Reportmid June 2007;
- Receipt of submission on Draft Reportmid July 2006;
- Release of Final Report.....31 August 2007.

Consistent with the requirements of section 124 (2) of the ICCC Act, public and industry stakeholders’ involvement forms an important element in the entire consultation process. Hence, this Issues Paper is intended to provide a brief overview of the issues that will be considered as part of the Review and to invite submissions from stakeholders and interested parties.

Submissions to the Commission will be available for public inspection unless the Commission agrees that all or part of the submission should remain confidential. However, in accordance with the provisions of section 124 of the ICCC Act, it is intended to make the Review process as transparent as possible, and to this end, submissions would normally be available for public inspection unless there are exceptional commercial-in-confidence reasons why submissions should be held confidential.

Submissions to this Issues Paper should be received by the 27 April 2007, and be directed to:

Mr Thomas Abe,
Commissioner & CEO
Independent Consumer and Competition Commission
P.O. Box 6394
Boroko. NCD

All inquiries should be directed to **Mr Stanley Alphonse** on:

- Telephone: (+675) 325 2144
- Facsimile: (+675) 325 3980
- Email: salphonse@iccc.gov.pg

2 Executive Summary

The Government, as part of its 2007 Budget Strategy has announced that it will be examining a number of industries with a view to considering competition issues and the overall market conduct issues within those industries. As part of this strategy the Commission, has been instructed by the PNG Government to review the general insurance industry, in particular the impediments to competition in the industry, with a view to increasing competition and reducing user costs.

This Review is intended to look at a wide range of issues relating to the overall structure and operation of the industry with a particular focus upon ways of increasing competition and reducing user costs. This further recognises the significance of the industry to the efficient development and operation of the domestic economy.

The cost and efficiency of the general insurance industry has important economic consequences which affect, inter alia, the profitability and viability of a range of domestic and export industries within PNG.

At the conclusion of this Review, the Commission will make recommendations on what action may be appropriate to be taken by the Government to rectify any problems in the current structure and operation of the general insurance industry with a view to improving competition and efficiency in the industry.

This Issues Paper is designed to solicit responses from stakeholders in the general insurance market. It provides background and context to the industry and will pose a series of questions designed to stimulate responses from stakeholders. Before responding, stakeholders are encouraged to carefully consider the information and discussion provided in Sections 4 and 5 of the Paper

The Issues Paper outlines a number of issues and matters upon which the Commission is seeking stakeholder comments, including:

Scope of the Review

The Commission seeks comments from the public and stakeholders including any interested parties on the scope of this review as detailed in the official Terms of References attached to this Issues paper as Attachment A.

The Effectiveness of the Legal and Regulatory Framework

The Commission invites comments from industry participants and the wider public on the following:

- *Does the current Insurance Act 1995 provide an appropriate legal framework for the efficient operation of the industry?*
- *Are the current regulatory responsibilities of the OIC appropriate?*
- *Is the OIC sufficiently and appropriately resourced to carry out its responsibilities?*
- *Is the current reporting and provision of industry information by the OIC timely and sufficient to meet industry and community needs?*

The Commission seeks comments from stakeholders and the public on the following:

- *What are the advantages and disadvantages of retaining an admitted market in PNG? Is the retention appropriate for the PNG market?*
- *Are current licensing arrangements appropriate (e.g. annual licensing, licensing of loss adjustors, etc) and whether these may potentially be considered as an impediment to competition or the entry of new entrants?*
- *Should the practice of issuing “provisional” licences continue?*
- *Are there alternatives to licensing that could be considered for some or all categories of participants?*
- *Should the current restriction on general insurers writing life or life related business be relaxed and what would this mean for industry regulation?*
- *To what extent does the Insurance Commissioner apply the license requirements uniformly for foreign and national companies?*

The Commission seeks comments on the following:

- *Are the minimum capital requirements and statutory deposits set at the appropriate level for each category of insurance market participant?*
- *How do current prudential requirements impact new entrants?*
- *Is administration and monitoring of current prudential guidelines in the industry generally effective and evenhanded?*
- *Is the role and involvement of actuaries in the prudential supervision of licensed insurers appropriate and sufficient?*
- *Would a risk-based approach to prudential supervision be more appropriate?*

The Commission seeks comments on

- *Whether the current arrangements in regard to offshore exemption business operating effectively (particularly the 17.5% price differential)*
- *The level of insurance, if any, written offshore in breach of Section 36 of the Act and does not go through the exemption process*

The Commission seeks comments on

- *The proposed introduction of the following:*
 - *Insurance Contract Law*
 - *Risk Based Capital requirements*
 - *Insurance Complaints Tribunal*
- *The impact of these measures on the current operation of the PNG general insurance market.*

Market Operation and Competition

The Commission seeks comments on the following:

- *Is the PNG reinsurance market working effectively?*
- *Does Pacific Re Ltd offer viable reinsurance in-country?*
- *What is the level of compliance with the Article 36 of the Insurance Act in regard to reinsurance?*

The Commission seeks comments on the following:

- *Is there sufficient competition amongst the existing insurance companies to provide an effective and efficient general insurance market?*
- *What areas or products would benefit from enhanced competition?*
- *How could the capacity of existing insurers be increased to limit the premiums placed offshore?*

The Commission seeks comments on the following:

- *Are the existing insurance brokers and loss adjustors adequately skilled and experienced to meet the needs of the market?*
- *Is there adequate competition in the market for insurance brokers?*
- *Is there adequate competition in the market for loss adjustors?*

The Commission seeks comments on the following:

- *Do premiums reflect risk or market concentration?*
- *Are premiums for similar risks categories comparable to other markets?*
- *Are the terms of coverage offered by insurers considered appropriate?*
- *Are there risks that are not insured by the general insurance industry?*

The Commission seeks comments on

- *To what extent do existing arrangements support the expansion of the PNG insurance industry, either through new entrants or increasing the capacity of existing operators?*
- *What other steps could be taken to expand the industry?*

The Commission seeks comments on the following:

- *Is the current Insurance Commissioner's Levy necessary and if so, used appropriately and adequately accounted for?*
- *Should the current licensing arrangements for Lloyds of London continue*

The Commission seeks comments on the following:

- *Are fees / brokerage for similar services comparable to other markets?*
- *Does market concentration have an impact on fees / brokerage charged?*
- *Is there an appropriate level of disclosure of broker fees and brokerage / commission?*

The Commission seeks comments on the following:

- *From the perspective of the customer, how efficient is the process for accessing general insurance?*
- *Are there appropriate levels of price transparency in the general insurance market?*
- *Is there sufficient market information in relation to the availability of general insurance products?*

The Commission would welcome comments on any other general insurance industry issues or matters.

3 Introduction

3.1 Objectives of the Review

The principal objectives of the Review are to:

- Review and report on the current profile, structure and operation of the general insurance industry in PNG;
- identify issues and areas where both Government and industry action could improve the overall competitiveness, efficiency and effectiveness of the general insurance industry in PNG; and
- make recommendations on what action that may be appropriate to be taken by Government to address problems in the current industry structure, regulation and operation of the general insurance industry. These recommendations are orientated toward improving the overall competitiveness, efficiency and effectiveness of the industry while maintaining appropriate due diligence and prudential requirements.

3.2 Purpose of the Review

The General Insurance industry plays an important role in the economic growth and development of PNG by providing essential services to facilitate trade and commerce in the face of increasing uncertainty. The Government therefore recognises the essential role that an efficient and effective insurance industry has in supporting the continued growth of the PNG economy. Accordingly, the general insurance industry is one of a number of industries that has been nominated for a comprehensive review by the Commission under its 2007 Budget Strategy.

The principal objective of the Review is to identify and make recommendations to Government to appropriately deal with impediments to the efficient operation of the general insurance industry whilst concurrently assessing the general market conduct and behaviour of participants in the industry to ensure that the industry achieves a greater level of operating efficiency and effectiveness as well as being cost competitive going forward.

3.3 Scope of the Review

The Review is intended to examine a range of issues relating to the operation, composition, structure and regulation of the insurance industry.

The industry in PNG is primarily composed of PNG subsidiaries of international insurance companies and insurance brokers. The Government is unclear about the extent to which these businesses:

- specialise in particular areas of insurance;
- have long-term business relationships between each other (between brokers, insurance companies, reinsurers and underwriters), and
- compete between each other for general insurance services.

In addition, the Government also recognises that the provision of insurance cover in some areas is restricted to insurance companies registered in PNG.

This Review is designed to assist the Government to explore these issues, their impact on competition in the industry and whether there maybe any net economic benefits to the PNG economy which may potentially justify the continuation of any restrictions on competition per se.

3.4 Conduct of the Review

The Commission will undertake a detailed consultation process to ensure that all stakeholder comments are received and considered. This will be supported by the Commission’s own analysis and research. This consultation will include all major stakeholders including all the major industry players operating in PNG, the Department of Treasury, other interested parties and the general public.

The Commission will consider all matters raised in response to this Issues Paper and following further consultation with stakeholders will release a Draft Report which will again provide the opportunity for further consultation. The Commission will consider all comments before releasing its Final Report in response to the Government’s terms of reference. The timetable for the Review is set out in the table below.

Table 1.1: Timetable for the Review

Milestones	Timing
Release of Issues Paper	27 March 2007
Submissions due on Issues Paper	27 April 2007
Release of Draft Report	Mid June 2007
Submission s due on Draft Report	Mid July 2007
Formal release of Final Report	31 August 2007

3.5 Structure of this paper

This Issues Paper is designed to solicit responses from industry stakeholders in the general insurance market. It provides background and context to the industry and will pose a series of questions designed to stimulate responses of stakeholders. These questions should not be seen as indicating the Commission’s likely conclusions from this Review. Further, they should not be seen as dictating the scope of the Review. Hence, the Commission welcomes submissions on other matters stakeholders believe should be addressed.

The paper is structured as follows:

- Section 4 provides a background to PNG and the general insurance industry by providing an overview of;
 - The PNG economy including the social and political environment; and
 - The size, structure and operation of the general insurance industry in PNG including the major stakeholders and the current regulatory arrangements.

- Section 5 discusses the key issues facing the general insurance industry with a particular focus upon:
 - The current regulation of the industry including the prudential guidelines and requirements;
 - A detailed overview of the current composition and structure of the PNG insurance industry; and
 - The current operation of the general insurance industry with particular reference to premium setting, broker fees and other industry charges including the accessibility of insurance products by the consumers.

4 Background and industry overview

4.1 Country overview

4.1.1 Geography

PNG is located on the eastern half of the island of New Guinea located to the north of Australia. PNG comprises both the mainland and some 600 offshore islands. According to the 2000 National Census, PNG's population was about 5.2 million¹ of which around 15 percent of the population live in the ten major urban areas. The major city and capital of the country is Port Moresby with a population of just over 220,000. Other main towns and cities include Lae, (population around 90,000), Madang (30,000), Mt Hagen (40,000), Wewak (23,000) and Goroka (25,000) with the balance of the population living in other provincial capitals with the majority living in the rural areas.

The geography consists of volcanic mountains and many islands which makes transport difficult throughout the country. PNG is located in an active seismic zone and regular volcanic eruptions occur, in particular around Rabaul, Bougainville, West New Britain and Manam Island. Few earthquakes have caused great numbers of casualties or property damage as they tend to occur in remote areas, with volcanic eruptions responsible for far more deaths and destruction.

4.1.2 Economic environment

PNG has a dualistic economy with a traditional quasi subsistence rural sector providing a livelihood for approximately 85 percent of the population with the balance employed in the formal monetary sector. The formal sector provides a rather narrow employment base, consisting of workers engaged in mineral production, a relatively small manufacturing sector, public sector employment and service industries including finance, construction, transportation and utilities.

After several years of economic contraction, the PNG economy has recorded strong positive GDP growth since 2003. Real GDP growth is forecast to grow by 3.7 percent in 2006 and 4.5 percent in 2007². Other macroeconomic indicators have also improved with both inflation rates and interest rates declining. Despite this more positive outlook, the economy continues to be highly dependent on price fluctuations in the external sector, through export earnings in PNG's key sectors of oil, agricultural and minerals. Adverse movements in commodity prices will certainly have a major influence on macroeconomic stability.

PNG's country risk profile is characterised as posing moderate level of country risk as is shown in the table below.

Table 4-1: Papua New Guinea: Risk assessment

Category	Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk
Risk level	B	BB	B	CC	CCC
Risks are defined as follows: AAA = least risky, D= most risky Source: Economist Intelligence Unit, Country risk summary					

¹ Department of Treasury, Budget 2004

² PNG Department of Treasury, 2007 Budget, Volume 1, Chapter 1: Economic and Fiscal Developments in 2005 and 2006, page 1

As a result of PNG's moderate risk level, the efficient and effective operation of the insurance industry is essential to ensuring reasonable outcomes for consumers. Further detail on the PNG economy as a major driver of the general insurance industry is provided below (refer section 4.5).

4.1.3 Social and political environment

PNG's socio economic development has been quite disappointing and in most cases lagging behind comparable neighbours within the region. In essence, the population experiences poor socio-economic indicators, with access to basic health care, education and other services being unreliable at best. Food-borne, water-borne and other infectious diseases including malaria, tuberculosis, typhoid and hepatitis are common, and there is particular concern currently regarding the epidemic level of HIV/AIDS infection in PNG. Further, only a relatively small proportion of the working age population is engaged in the formal employment sector whilst the majority of the population are involved in the non-formal subsistence sector of the economy.

In terms of the political environment, political instability in previous years (apart from the time since the current Government came in office) has been blamed for the poor economic and social development of PNG. However recent reforms instigated to remove political instability has resulted in the current Government complete its full five year term in office. Hence the current Government will be the only government since Independence to fully complete a full term in office.

Notwithstanding the above, as a young fledgling democracy, there are political challenges that lie ahead. National elections are scheduled for June 2007, the results of which may alter the social and political environment within the country and going forward.

4.2 Industry overview

General insurance relates to the insurance of property and liability³.

Table 4-2 on the next page outlines the various classes of general insurance that exist in global insurance markets, noting that PNG does not necessarily have a market for all types of insurance included in the table.

Table 4-2: Classes of general insurance

Class of insurance	Types of insurance
Stationary property and pecuniary interest	<ul style="list-style-type: none"> • Domestic building and contents • Fire • Industrial special risks (all risks of loss or damage other than those specifically included) • Burglary • Glass • Engineering • Money • Fidelity (misappropriation of goods and money by employees) • Consequential loss (loss of profits)

³ Hart, D, Buchanan, R, Howe B, 1996, *Actuarial Practice of General Insurance*, Sydney

Moving property	<ul style="list-style-type: none"> • Motor vehicles, including comprehensive, compulsory third party and third party property damage • Ships and boats • Aircraft • Cargo • Other transportable property, including personal property (jewellery, cameras etc), items carried from place to place (travellers' baggage) and items temporarily moved (office equipment)
Liability	<ul style="list-style-type: none"> • Public and products • Workers' compensation • Professional indemnity • Other, including product recall, breach of warranty
Other	<ul style="list-style-type: none"> • Sickness and accident • Extended warranty • Mortgage • Consumer credit • Trade credit
Source: Hart, D, Buchanan, R, Howe B, 1996, Actuarial Practice of General Insurance, Sydney	

4.2.1 Structure and composition of the general insurance industry in PNG

There are four categories of participants in the PNG general insurance market:

- **Reinsurer** — ensure that insurers who take on insurance risks are protected from losses that they may not be able to cover adequately, by entering into reinsurance agreements negotiated between insurers and reinsurers only. The policy holder and the broker do not have any part in this process.
- **Insurer** — assesses a risk brought to it by a broker and makes a decision whether to accept it or not. If accepted the terms and conditions, premium rate, etc are negotiated with the broker. A client can approach an insurer direct to effect insurance coverage and does not necessarily have to use the services of a broker. The insurer is responsible for paying any claims that arise during the period or currency of the policy, usually for a twelve-month period.
- **Brokers** — insurance intermediaries who are engaged by clients or policyholders to source the insurance market to find the best or suitable insurance cover for their client's insurance requirements.
- **Loss Adjusters** — independent professionals appointed by insurers to assess losses and report to the insurer on their findings. Insurers use the loss adjuster recommendations to determine the outcome of claims by clients.

The following table outlines the number of market participants in each category.

Table 4-3: Number of market participants in each category, 2007

Category	Number of market participants
Reinsurers	One licensed reinsurer - majority owned by the PNG Government
Insurers	Twelve licensed insurers of which seven are wholly foreign owned, three locally owned and two joint venture companies.
Brokers	Six licensed general insurance brokers in which three are locally owned, one foreign owned, and two joint venture companies.
Loss adjusters	Five loss adjusters – one of which is locally owned, two foreign owned and two joint venture companies between local and foreign interests.
Source: Office of the Insurance Commissioner	

Reinsurers

Pacific Re Ltd is the only licensed reinsurer operating in PNG. Pacific Re is majority owned (52.8%) by the PNG Government through Motor Vehicle Insurance Limited. Mainly foreign-owned insurers in PNG, who were previously guarantors of third party motor vehicle insurance, own the balance of Pacific Re.

The principal classes of reinsurance written include property, miscellaneous accident, construction, motor, liability, marine hull and marine cargo. Pacific Re reported in September 2006 the following indications of premium rate trends in the PNG reinsurance market:

- Property – reductions of 10 to 20 percent;
- Construction – rates firm;
- Marine cargo – reductions of 15 to 20 percent; and
- Casualty (largely composed of high value vehicles, fleets and heavy plant used on public highways) – rates firm.

Pacific Re does not transact business through brokers within the local market, but does accept overseas business through brokers in the Pacific including Micronesia, Fiji, Cook Islands, Guam and Samoa.

Pacific Re's total PNG and overseas business is estimated to be approximately 40 percent treaty reinsurance (specified types or classes of insured exposures automatically accepted without evaluation of each individual exposure) and 60 percent facultative reinsurance (coverage for specific individual risks). The percentage of reinsurance accepted from the PNG market is thought to be approximately 25 to 30 percent treaty reinsurance and 70 to 75 percent facultative reinsurance.

Direct writers in all lines of business purchase catastrophe reinsurance. Alternative risk transfer methods do not appear to be used in the PNG market. There is a small amount of reinsurance exchanged between local insurers. Coinsurance for larger accounts is common practice and is largely broker-driven. The PNG market maintains no pools.

Many of the largest risks that exist in the PNG economy such as those emanating from the mining and energy sectors tend to be placed offshore. Local subsidiaries or branches of foreign insurance companies may place their reinsurance directly with their head offices. Locally owned insurance companies may also use the services of international reinsurance brokers.

Lloyd's of London is licensed to accept offshore reinsurance placements in circumstances where Pacific Re and all other local insurers/reinsurers participation and capacity has been fully utilised subject to written approval from the Office of the Insurance Commissioner ("the OIC"). However, where a local insurer has existing arrangements with an offshore reinsurer in respect of their reinsurance programme, the Office of the Insurance Commissioner considers these on a case-by-case basis.

Pacific Re and the Insurance Commissioner are aware that there is a lack of total compliance within the market of offering all their outwards treaty and facultative reinsurance to Pacific Re, however the extent of non-compliance is hampered by the lack of a robust, centralised data collection and analysis system.

The table on the next page provides details on market reinsurance in PNG for 2004 and 2005, highlighting that property, marine and motor reinsurance account for an estimated 65 to 70 percent of the PNG reinsurance market.

Table 4-4: Reinsurance statistics, 2004 - 2005

Class	Outside PNG		Inside PNG		Total ceded			
	2005	2004	2005	2004	2005		2004	
	PGK mn	PGK mn	PGK mn	PGK mn	PGK mn	%	PGK mn	%
Property	27,775	21,229	1,701	2,555	29,476	43.3	23,795	40.0
CAR	1,361	2,561	12	118	1,373	2.0	2,679	4.5
Marine	8,295	9,004	133	180	8,428	12.4	9,184	15.5
Motor	4,852	4,546	1,618	1,459	6,470	9.5	6,05	10.1
WCA	3,336	4,488	102	24	3,438	5.1	4,512	7.6
Liability	9,796	4,233	15	33	9,811	14.5	4,266	7.2
Others	8,575	8,915	318	62	8,893	13.2	8,977	15.1
Total	63,990	54,976	3,899	4,442	67,889	100.00	59,418	100.00

Note:
CAR – Construction All Risks
WCA – Workers' Compensation Act
Source: Office of the Insurance Commissioner

Insurers

The largest insurers in the PNG general insurance industry are subsidiaries or branches of foreign insurance companies, including:

- QBE Insurance (PNG) Ltd, a wholly owned subsidiary of QBE of Australia;
- American Home Assurance Co, a branch of AIG of USA;
- Tower Insurance Ltd, a subsidiary of Tower Insurance Ltd of New Zealand;
- Pacific MMI Insurance Ltd, which is 50 percent owned by Allianz of New Zealand; and
- Mitsui Sumitomo Insurance Co Ltd, a branch of Mitsui Sumitomo Insurance Co Ltd of Japan.

Locally owned insurers include recent market entrants Croesus Ltd, Fortis Ltd, Inspac and Pacific Assurance Group, the PNG Government-owned Motor Vehicle Insurance Ltd and National Teachers Insurance Ltd. Fortis Ltd is trading as a captive of the Tolakoma Gold Mining Group for its workers' compensation business.

Workers' Mutual Insurance Group, previously a major market participant, went in interim liquidation with effect from July 2006, following the appointment of a series of statutory managers.

Lloyd's of London is also licensed as a foreign insurer to accept PNG risks, but only in circumstances where the local licensed insurers are unwilling or unable to assume such risks (subject to written approval from the OIC). The following table outlines the market share by written premiums in 2002 for insurance companies operating in PNG.

Table 4-5: Market share by written premiums, 2002

Insurance companies	2002 written premiums (PKG million)	% of total market
QBE Insurance	47.9	35.4%
American Home Assurance (AIG)	30.2	22.3%
Tower Insurance	27.3	20.2%
Pacific MMI Insurance	24.3	18.0%
Mitsui Marine & Fire	5.7	4.2%
Total market	135.3	100%
Source: Insurance Market Report, Papua New Guinea: Non-Life, AXCO, November 2006 OIC is unable to supply any recent data		

As Table 4-5 highlights, QBE Insurance, American Home Assurance, Tower Insurance and Pacific MMI Insurance dominate the PNG general insurance market.

Anecdotal evidence suggests that general insurers do not use agents as a distribution channel, but with some business is generated and maintained directly by the insurers' own management. It is also understood that banks introduce business to insurers on an informal basis.

Brokers

It is estimated that brokers control between 70 and 80 percent of the PNG general insurance market, however detailed data is not available to confirm this assertion. As detailed in Table 4-3

there are six licensed general insurance brokers – leading international brokers Aon Risk Services (PNG) Ltd and Marsh Ltd, along with four new local entities Insurance Partners (PNG) Ltd, Asian Pacific Insurance Brokers Ltd, Kanda International Brokers and Risk Consultants, and South Pacific Insurance Advisors Ltd.

Loss adjusters

There are five loss adjusters operating in the PNG general insurance market – Moresby Claim Adjustment Partners, Pacific and Island Loss Adjusters, Pacifica Marine, Persan Loss Consultants and Adjusters, and Crawford & Company (PNG).

4.2.2 Market segments

The following table provides a breakdown of the insurance industry in PNG in terms of its component classes.

Table 4-6: PNG insurance market – General statistics

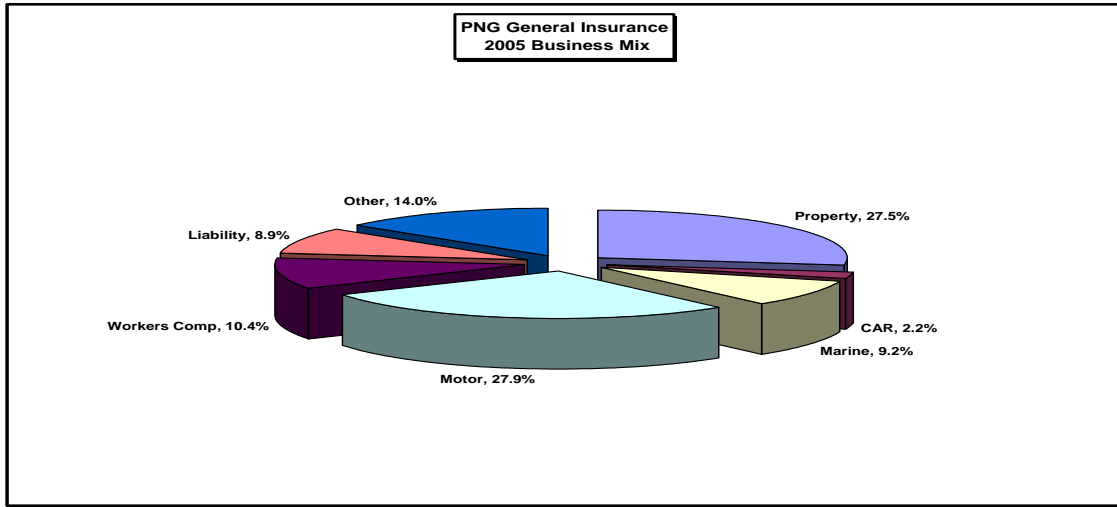
Indicator	Class	2000	2001	2002	2003	2004	2005
Premiums (PGK mn)	Property	40.3	38.9	43.0	47.1	49.8	55.4
	CAR	2.2	2.8	10.3	3.4	4.7	4.5
	Motor	40.8	45.1	45.0	50.8	55.3	56.3
	Worker's compensation & employer's liability	13.4	14.7	17.6	23.1	21.1	20.9
	Liability	5.7	6.3	9.8	10.1	9.8	18.0
	Marine, aviation and transit	12.7	13.3	15.7	20.2	16.6	18.6
	Other	23.0	22.1	23.8	25.8	30.5	28.2
	Total	138.1	143.2	165.2	180.5	187.8	201.9
Loss Ratios (%)	Property	46.2%	28.0%	30.6%	30.3%	21.2%	12.9%
	CAR	6.0%	5.4%	2.0%	13.0%	8.7%	16.1%
	Motor	63.0%	5.0%	47.8%	45.7%	36.0%	40.9%
	Worker's compensation & employer's liability	61.4%	33.7%	30.1%	23.9%	28.6%	35.6%
	Liability	23.3%	34.9%	5.3%	7.8%	13.7%	6.1%
	Marine, aviation and transit	57.6%	24.2%	61.1%	87.0%	14.1%	14.0%

Indicator	Class	2000	2001	2002	2003	2004	2005
	Other	52.2%	59.6%	66.7%	50.4%	46.6%	39.0%

Source: Office of the Insurance Commissioner and Insurance Market Report, PNG Non-Life, AXCO, Nov 2006

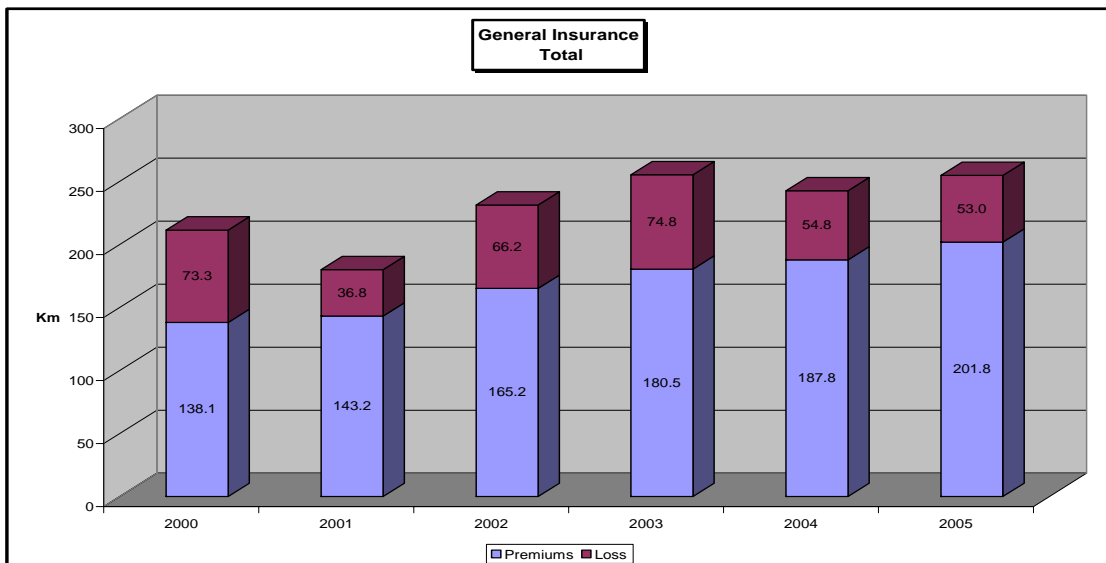
The mix of general insurance business in PNG in 2005 is shown in the following chart.

Graph 4.1: PNG General Insurance Business Mix (2005)

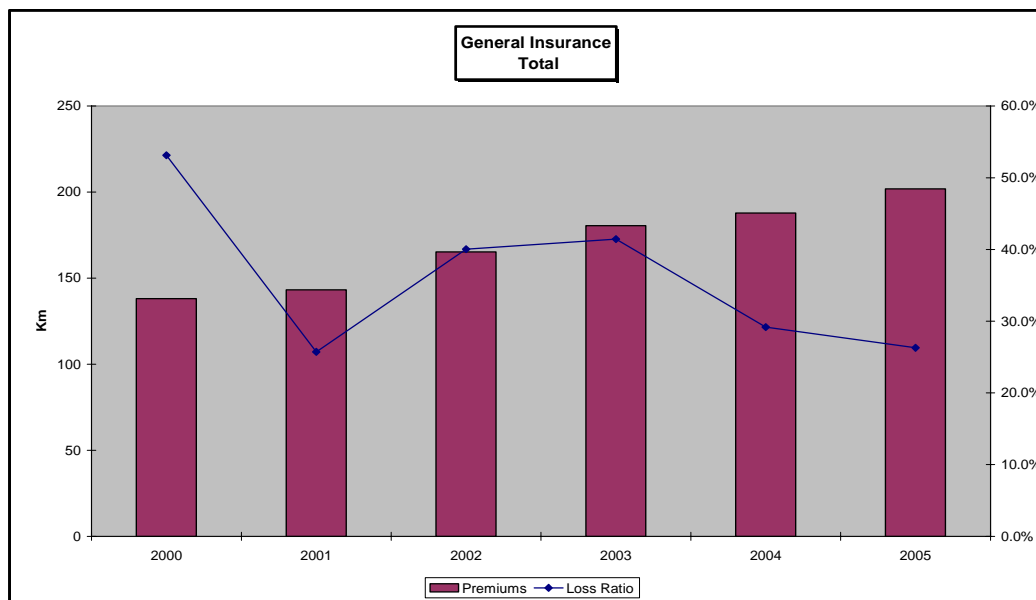


The overall industry has demonstrated a compound annual growth rate (CAGR) of 7.9 % over the last five years. Premium and loss ratios for the industry as a whole are shown in the graphs on the following page:

Graph 4.2: Total General Insurance Premiums and Losses (2000-2005)



Graph 4.3: Total General Insurance Premiums and Loss ratio (2000-2005)



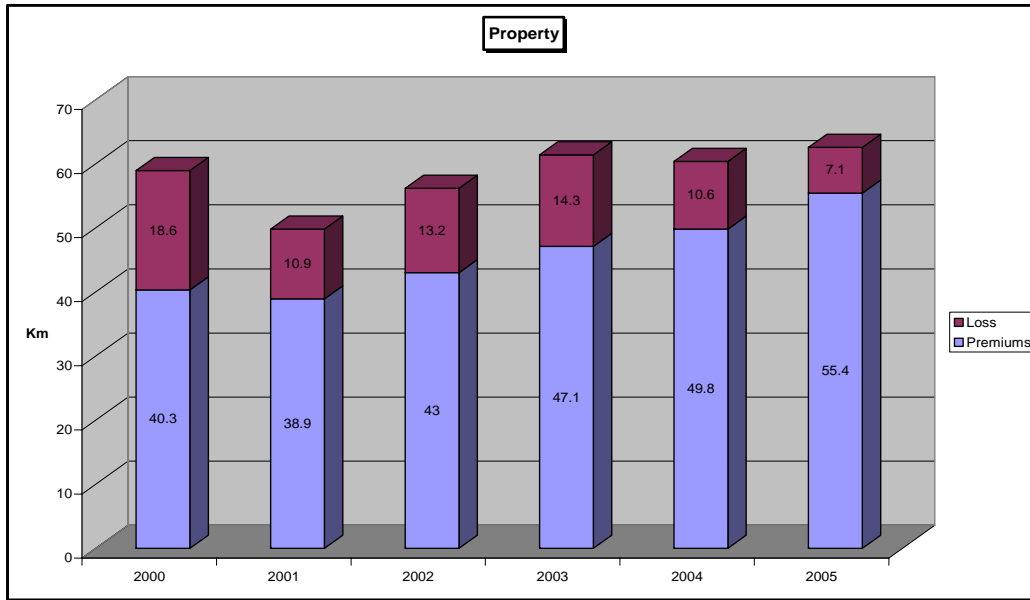
Further analysis of the categories of insurance written are set out below:

Property

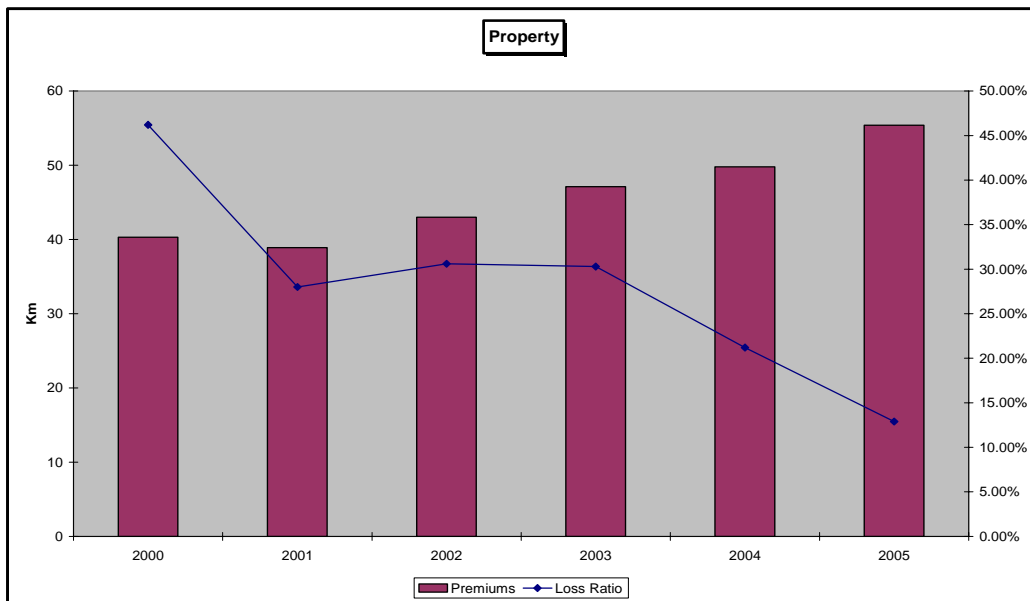
- Revenue in this class represents approximately 27.5 % of all non-life premiums.
- Gross premium income in this sector was K49.8 million in 2004 and K55.4 million in 2005 (an increase of 11.2 %) and compound annual growth rate (CAGR) over the last 5 years has been 6.5%.
- The major insurers in this class are believed to be AIG (American Home Assurance), QBE and Pacific MMI.
- The demand for householders insurance grows in response to a gradual expansion of the urban property owning classes.

The profile of property business written since 2000 up to 2005 is shown in the following graphs:

Graph 4.4: Property Premiums and Losses (2000-2005)



Graph 4.5: Property Premiums and Loss ratio (2000-2005)

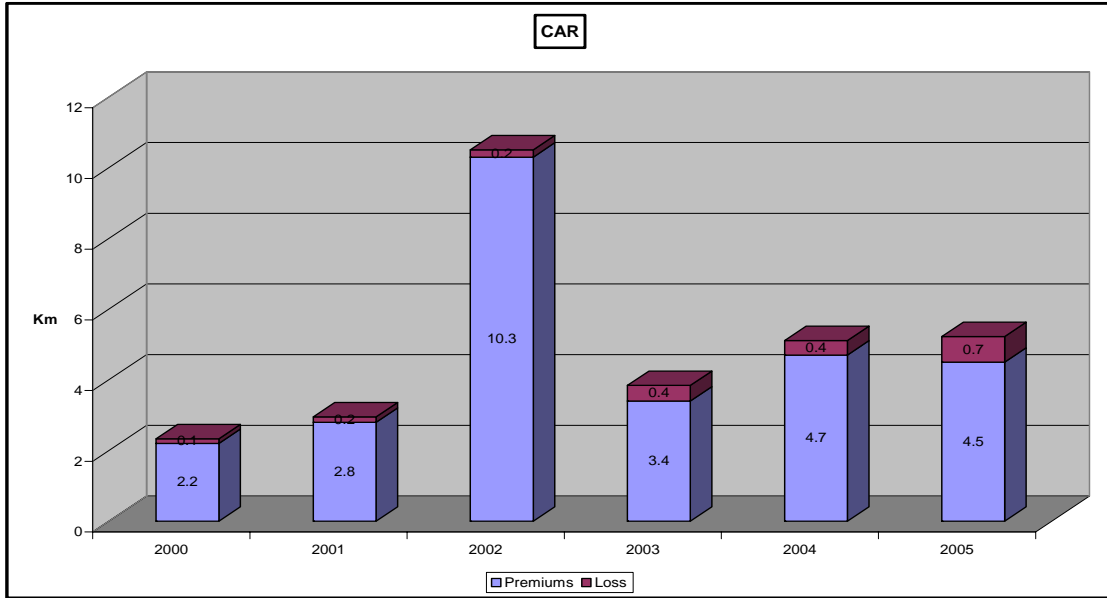


Construction All Risks (“CAR”)

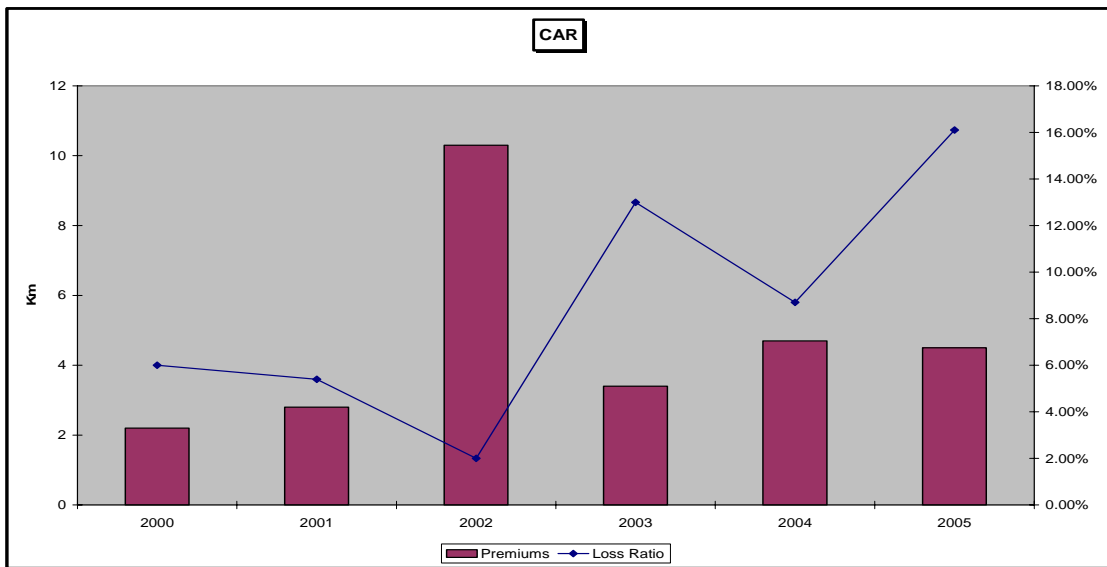
- Revenue in this class represents approximately 2.2 % of all non-life premiums
- Gross premium income in this sector in 2004 was K4.7 million and K4.5 million in 2005 (a decrease of 4.3%) and the 5 year CAGR has been 15.4%.
- The major insurers in this class are believed to be AIG (American Home Assurance) and Pacific MMI.

The profile of CAR business written since 2000 is shown in the following graphs:

Graph 4.6: CAR Premiums and Losses (2000-2005)



Graph 4.7: CAR Premiums and Loss ratio (2000-2005)

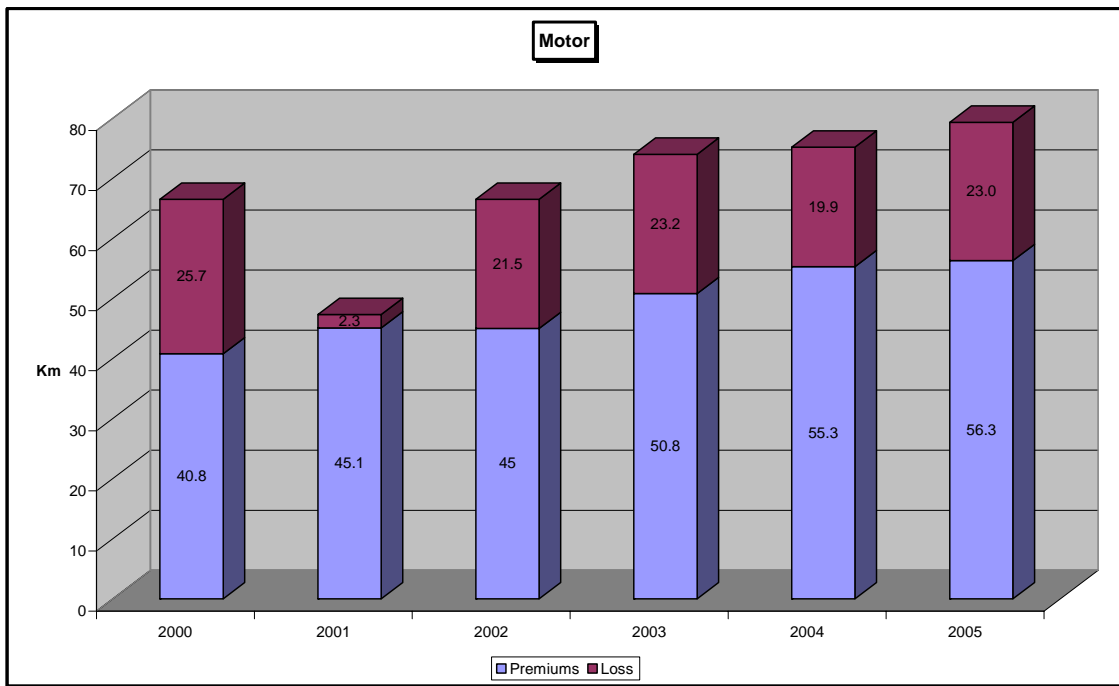


Motor

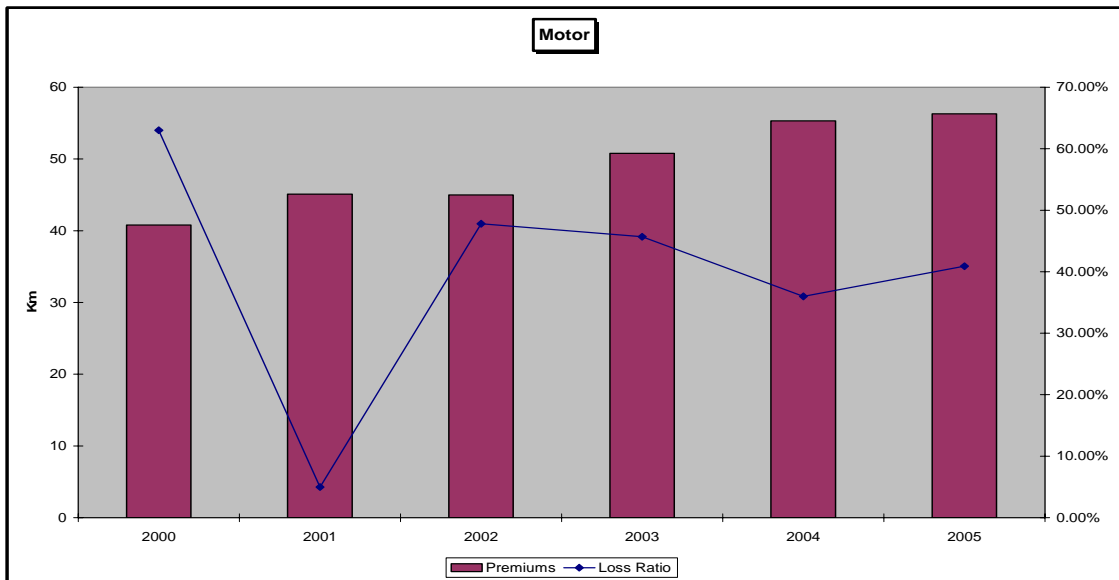
- Revenue in this class represents approximately 22.9 %of all non-life premiums.
- Gross premium income in this sector in 2004 was K55.3 million and K56.3 million in 2005 (an increase of 1.8%) and the 5 year CAGR has been 6.7 %.
- The major insurers in this class are believed to be MVIL, Pacific MMI, Tower and QBE.

The profile of motor business written since 2000 up to 2005 is shown in the following graphs:

Graph 4.8: Motor Premiums and Losses (2000-2005)



Graph 4.9: Motor Premiums and Loss ratio (2000-2005)



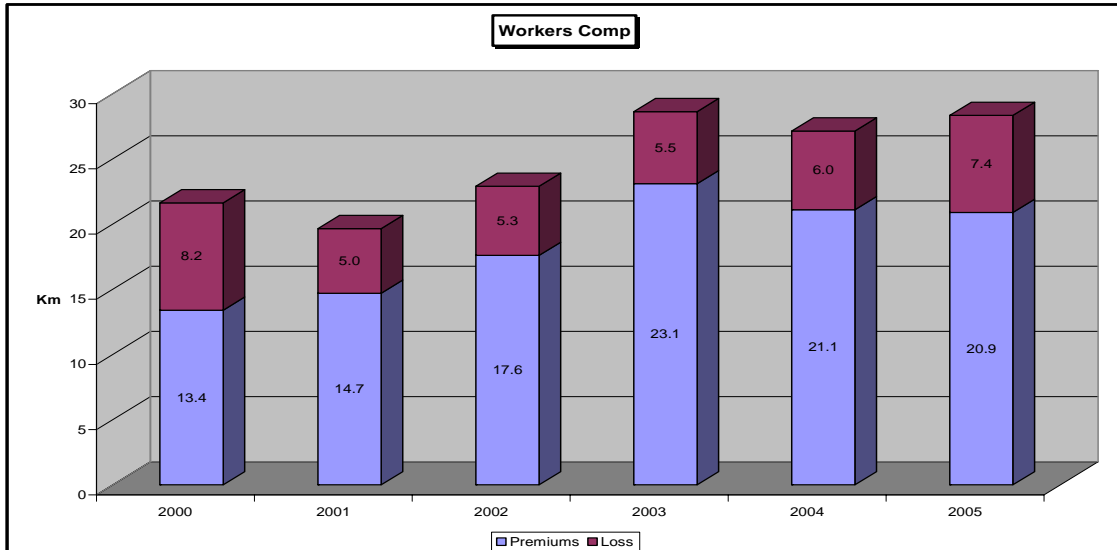
Worker's compensation and employer's liability

- Revenue in this class represents approximately 10.4 % of all non-life premiums
- Gross premium income in this sector in 2004 was K21.1 million and K20.9 million in 2005 (a decrease of 0.9 %) and the 5 year CAGR has been 9.3 %.

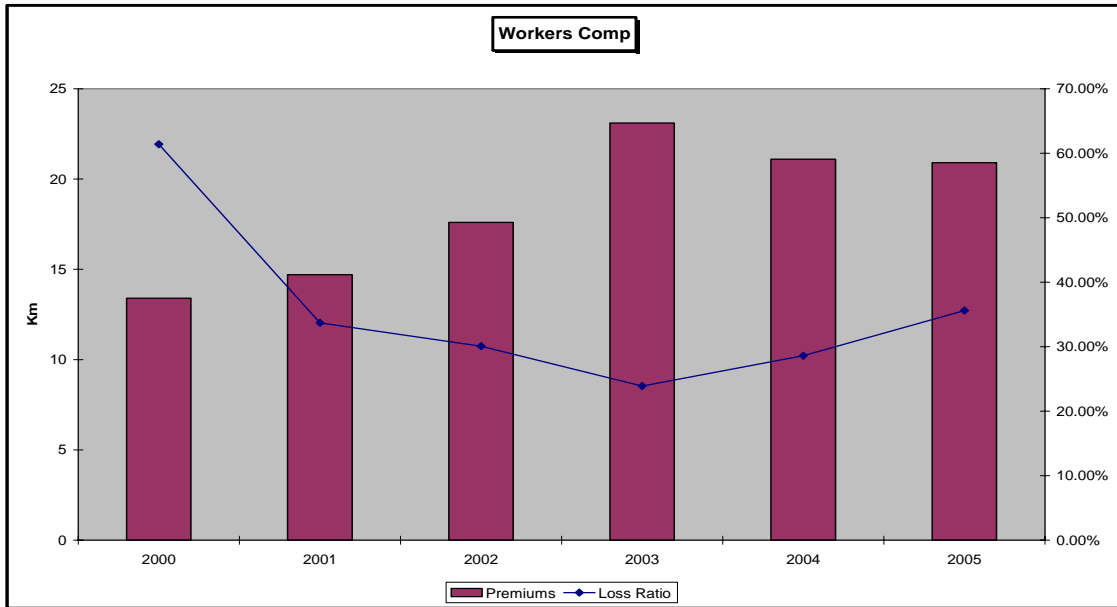
- The major insurers in this class are believed to be QBE, Tower and AIG.

The profile of Workers Compensation business written since 2000 up to 2005 is shown in the following graphs:

Graph 4.10: Workers Compensation Premiums and Losses (2000-2005)



Graph 4.11: Workers Compensation Premiums and Loss ratio (2000-2005)



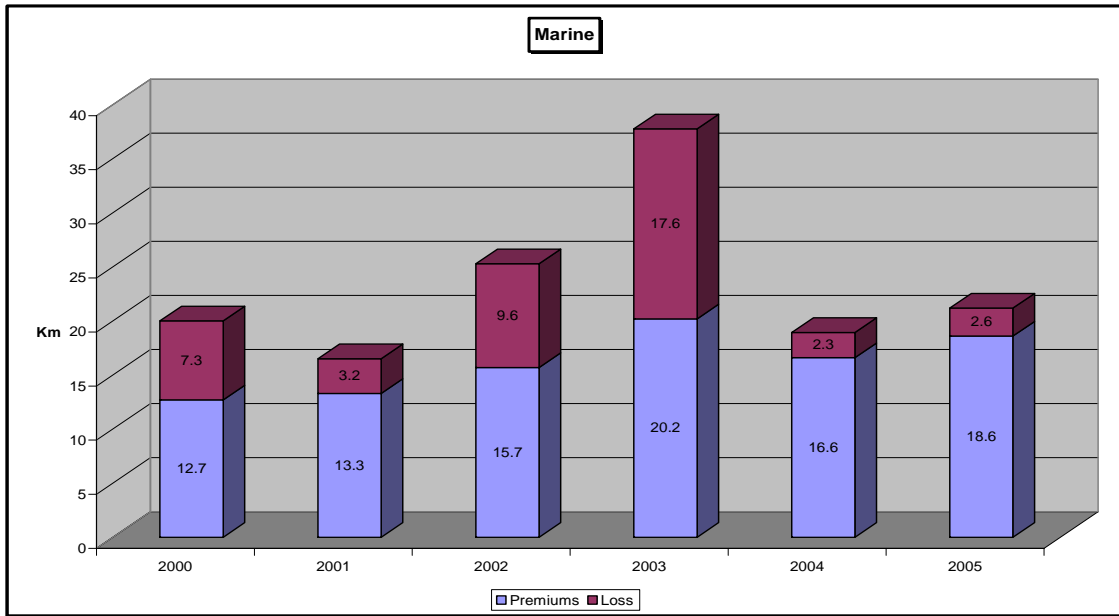
Marine

- Revenue in this class represents approximately 9.2 %of all non-life premiums
- Gross premium income in this sector in 2004was K16.6 million and K18.6 million in 2005 (an increase of 12.0 %) and the 5 year CAGR has been 6.7 %..

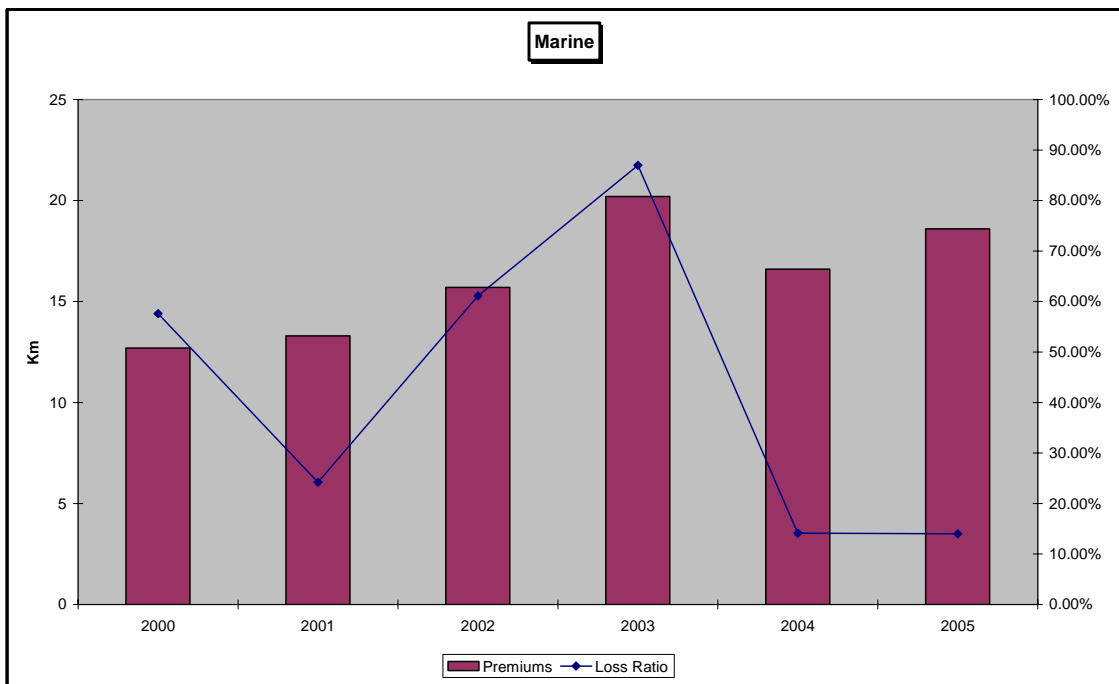
- The major insurers in this class are believed to be QBE and Tower.

The profile of Marine business written since 2000 up to 2005 is shown in the following graphs:

Graph 4.12: Marine Premiums and Losses (2000-2005)



Graph 4.13: Marine Premiums and Loss ratio (2000-2005)



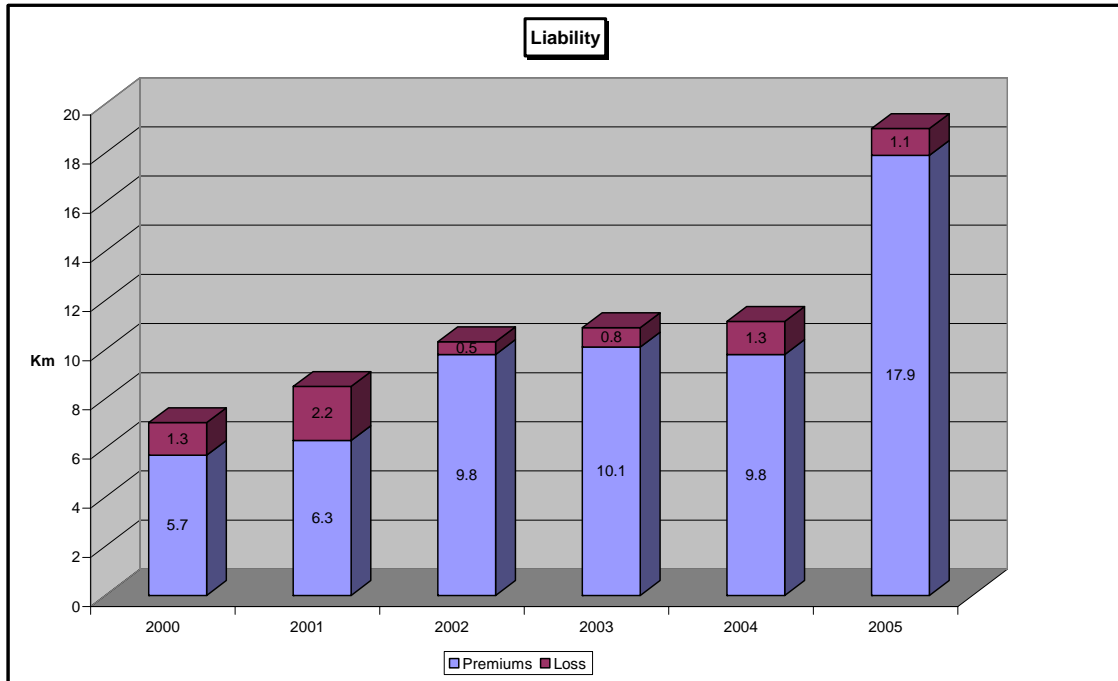
Liability

- Revenue in this class represents approximately 8.9 %of all non-life premiums

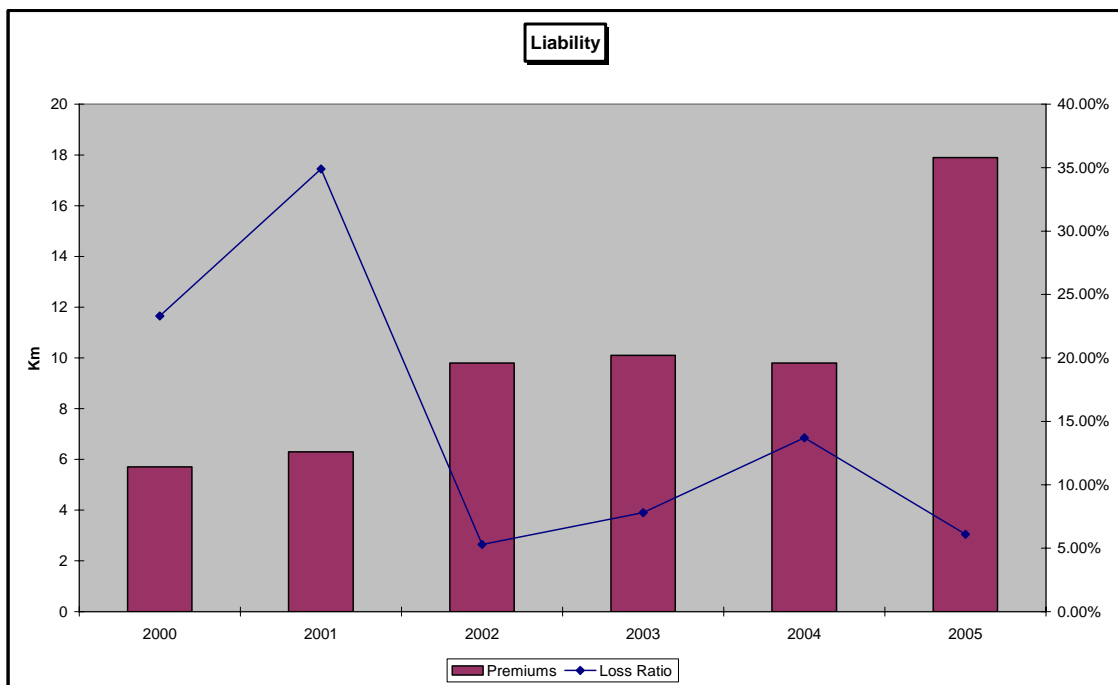
- Gross premium income in this sector in 2004 was K9.8 million and K17.9 million in 2005 (an increase of 82.7 %) and the 5 year CAGR has been 25.7 %.
- The major insurers in this class are believed to be AIG, QBE and Tower.

The profile of liability business written since 2000 up to 2005 is shown in the following graphs:

Graph 4.14: Liability Premiums and Losses (2000-2005)



Graph 4.15: Liability Premiums and Loss ratio (2000-2005)

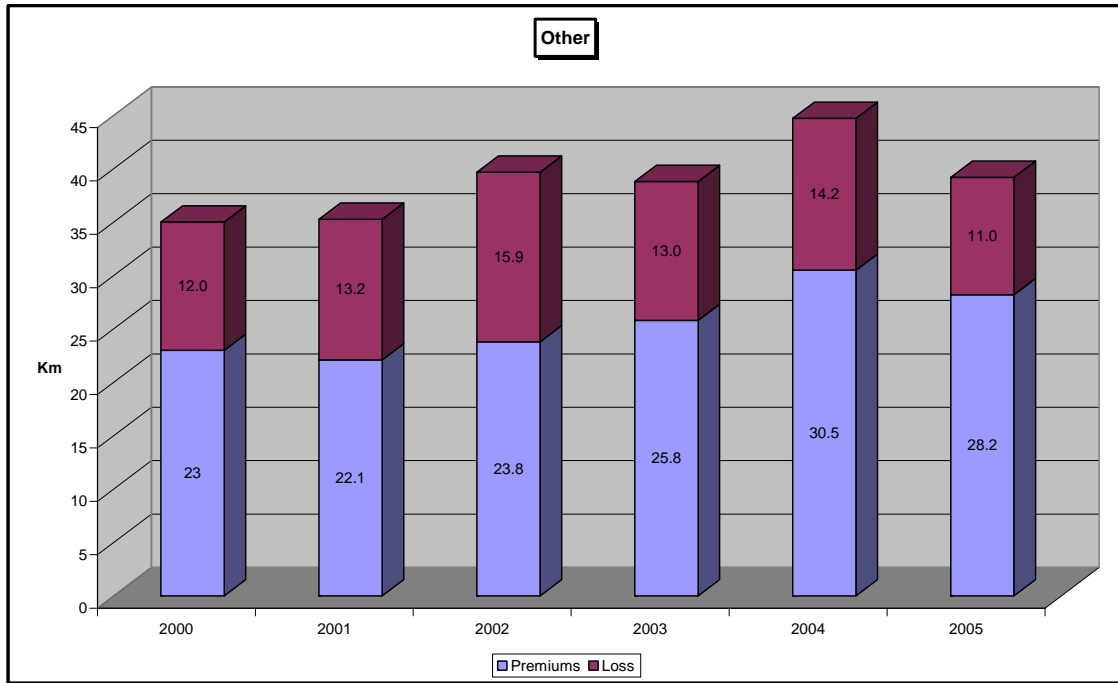


Other

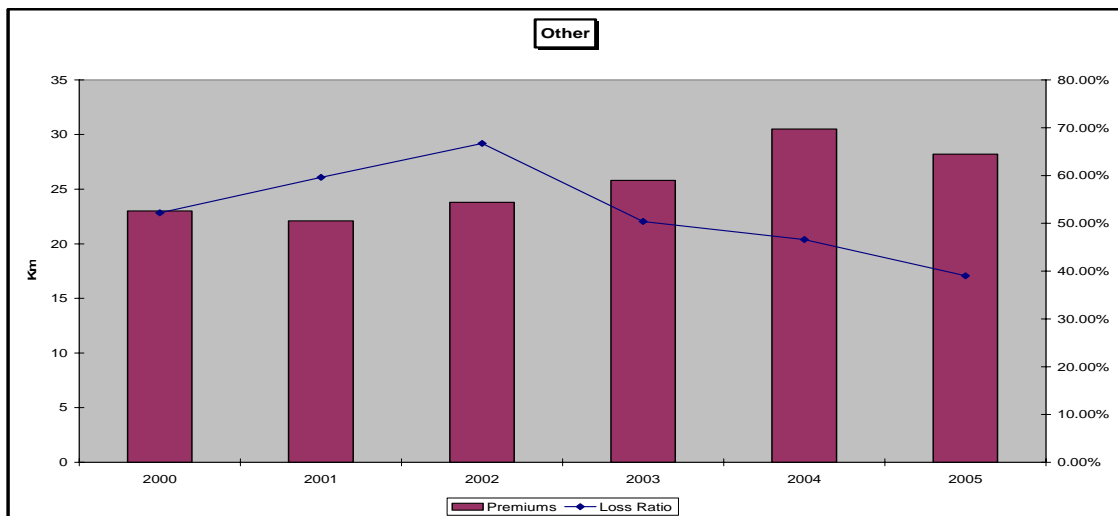
- Revenue in this class represents approximately 14.0 %of all non-life premiums
- Gross premium income in this sector in 2004was K30.5million and K28.2 million in 2005 (a decrease of 7.5 %) and the 5 year CAGR has been 4.2 %.
- All insurers underwrite in this class.

The profile of other business written since 2000 up to 2005 is shown in the following graphs:

Graph 4.16: Other Premiums and Losses (2000-2005)



Graph 4.17: Other Premiums and Loss ratio (2000-2005)



4.2.3 Size of the general insurance industry

PNG's market for both life and general insurance products is very small by international standards as illustrated in the table below.

Table 4-7: Size of the PNG insurance market, 2003

Category	2003 premiums (PKG million)	2003 premiums (USD million)	% of total market
General (non-life)	180.7	50.9	89.8
Life	20.3	6.6	10.2
Health	.2	.05	0
Total	201.9	57.5	100

Source: Insurance Market Report, Papua New Guinea: Non-Life, AXCO, November 2006
Cannot be sourced from OIC

General insurance represented around 90 percent of the PNG insurance market by value of premiums in 2005. Table 4-8 compares the annual growth in general insurance premium income (in PNG kina) with nominal GDP growth and inflation.

Table 4-8: Annual growth in premium income, 2001 - 2005

	2001	2002	2003	2004	2005
Premium income growth (%)	3.7	15.4	9.3	4.0	7.5
Nominal GDP growth (%)	6.8	12.5	10.3	7.8	21.2
Inflation rates (%)	9.3	11.8	14.7	2.1	1.7

Source: Office of the Insurance Commissioner and Insurance Market Report, Papua New Guinea: Non-Life, AXCO, November 2006, Department of Treasury, 2007 Budget Papers and National Statistics Office.

Annual growth in premium income has been variable over the period 2001 to 2005, which is consistent with the changes in GDP and inflation over the same period. Premium growth is shown in the following graph at the next page:

Graph 4.18: Annual Premium Growth (2000-2005)

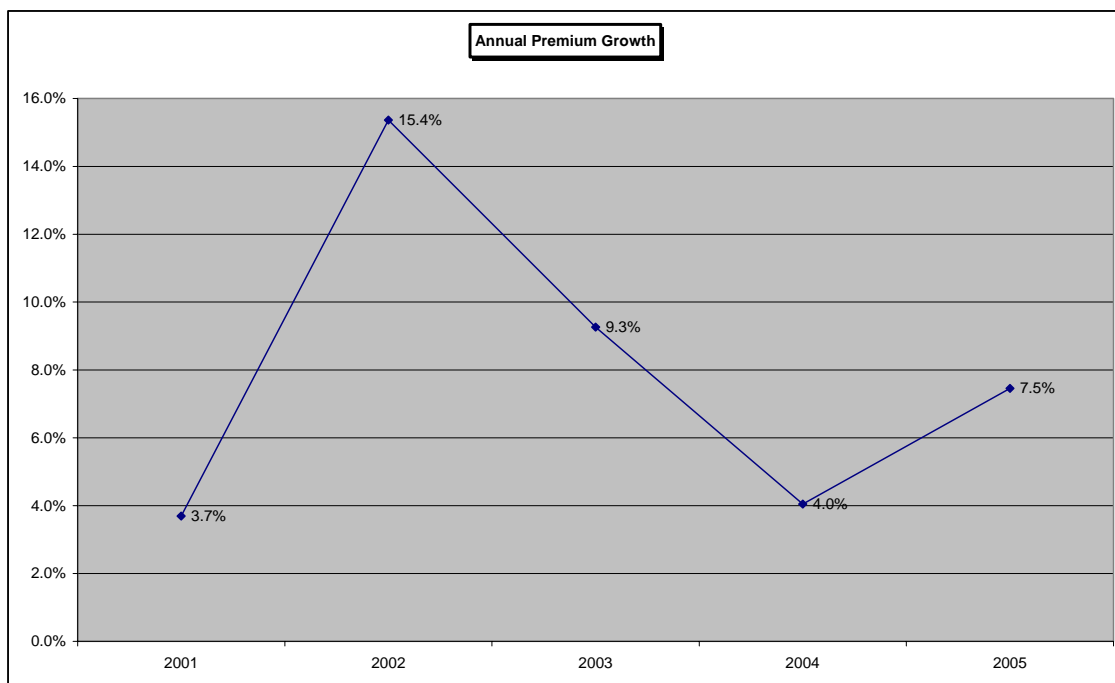


Table 4-9 compares the relative market penetration of the insurance industry with neighboring markets as a percentage of GDP and expenditure per capita in US dollars.

Table 4-9: Comparison of the PNG insurance market with neighbouring countries

	Life/Personal Accident/Health		General		Total	
	Market premium as % of GDP	Expenditure per capita in USD	Market premium as % of GDP	Expenditure per capita in USD	Market premium as % of GDP	Expenditure per capita in USD
PNG	0.1	1.14	1.4	10.10	1.5	11.24
Indonesia	0.8	8.77	0.6	7.01	1.4	15.78
Philippines	0.9	9.31	0.6	5.14	1.5	14.45
Australia	4.0	1,291.27	2.6	821.15	6.6	2,112.42

Source: Insurance Market Report, Papua New Guinea: Non-Life, AXCO, November 2006

As Table 4-9 indicates, the market for general insurance is much greater in PNG than it is in either in Indonesia or the Philippines. In comparison to Australia, which has a well-developed and competitive insurance industry, insurance expenditure per capita in PNG is extremely low. However this result is not surprising given the characteristics of PNG's economy and population.

Despite the relatively small size of the insurance market in PNG, the OIC reports that the industry has experienced rapid growth in recent years, as highlighted in the table below.

Table 4-10: Growth in PNG insurance market between 2000 and 2005

	2000 (PGK million)	2005 (PGK million)	Growth period over
Gross Premiums	138.1	201.8	46.1%
Net claims	42.0	44.7	6.5%
Underwriting expenses	31.2	41.4	32.7%
Underwriting results	22.2	43.2	94.5%
Gross industry profit	23.9	105.1	340.4%
Net industry worth	49.9	292.1	485.7%
Source: Office of the Insurance Commissioner, information provided 5 March 2007			

The Insurance Commissioner believes that the growth experienced in the PNG general insurance industry in recent years has been generated in part by the growth in the number of new companies entering the market. The Insurance Commissioner notes that since 2004, four new insurers, one broker and one loss adjuster have been licensed and subsequently entered the PNG market.

4.3 Legislation and regulation

The OIC oversees the general insurance industry in PNG in accordance with the *Insurance Act 1995*. The life insurance industry is governed by separate legislation, the *Life Insurance Act 2000*, and is regulated by the Financial System Supervisory Unit within the Bank of Papua New Guinea.

Other legislation that also impacts the legal framework of the general insurance industry includes:

- *Companies Act 1997*;
- *Banks and Financial Institutions Act 2000*;
- *Motor Vehicles (Third Party Insurance) Act 1974*;
- *Workers' Compensation Act 1978*;
- *Superannuation Act 2000*;
- *Insurance Corporation Act 1977*; and
- *Investment Authority Act 1992*.

There are a number of compulsory insurances in PNG, specifically:

- motor vehicle third party bodily injury cover under the *Motor Vehicles (Third Party Insurance) Act 1974*;
- occupational accident cover under the *Workers' Compensation Act 1978*;
- fund directors and officers' cover under the *Superannuation Act 2000*; and
- professional indemnity insurance for insurance brokers and loss adjusters under the Insurance Broker and Insurance Loss Adjuster Licence Requirements (in accordance with sections 18 and 19 of the *Insurance Act 1995*).

4.4 4.4 Major stakeholders

Stakeholders in the general insurance industry can be grouped as follows:

- Government bodies including the ICCC, OIC, Bank of Papua New Guinea, Department of Treasury;
- Insurance market participants in both the private and public sectors;
- Industry Associations including the Insurance Council,
- Companies and individuals requiring insurance products, and
- Members of the general public

4.5 Major drivers

There are a number of external factors that impact on the operation and performance of the general insurance industry, such as:

- Sovereign risk;
- Currency;
- Operation of the banking and financial sector;
- Political environment; and
- Economic conditions.

Sovereign risk

Sovereign risk is the risk that a government will default on a loan that is either made by, or guaranteed by it.

The current value of government debt in PNG as a proportion of GDP is 42 per cent, which is above the sustainable level of 30 per cent of GDP level recommended by the International Monetary Fund (IMF)⁴. The debt market in PNG is mainly comprised of foreign currency debt, which is set at variable rates, meaning that debt levels fluctuate with movements in currency.

Sovereign risk is not currently of significant concern for PNG as the Government has instituted new measures of debt management in 2006. These measures are aimed at reducing levels of exposure to foreign currency by re-financing a high level of existing foreign currency loans to

⁴ PNG Department of Treasury, *2007 Budget, Volume 1, Chapter 8: Medium Term Debt Strategy*, page 1

interest free loans. The PNG government has also made commitments not to raise the level of government debt any further, and gradually to repay excessive foreign government debt by arranging a concessional basis of repayments to its bilateral and multi-lateral lenders⁵. As a result of these measures, the government is unlikely to have any problems meeting its external debt repayment obligations in the next few years⁶.

Currency risk

Currency risk is defined as the risk of incurring losses resulting from an adverse change in exchange rates, and the uncertainty that currency fluctuations may affect the value of foreign investments or profits when converting them into the investor's local currency.

PNG has traditionally been subject to high levels of currency risk. This is reflected in the depreciation of the Kina against the other main currencies that PNG invests in, namely the Japanese Yen, US Dollar, Euro, UK Pound, and Australian Dollar. Key reasons for the depreciations have been due to the level of illiquidity of the Kina, the underlying inflation rate, political instability, fiscal extravagance, and insufficient debt management.

In 2007-08, the Kina is expected to depreciate gradually against its main traded foreign currencies. However, it should not be subject to any sharp downward pressure, barring the unforeseen occurrences of sudden political instability as the June 2007 election approaches, or serious debt mismanagement. PNG has also increased its Foreign Reserves levels to nearly US\$1.3 billion in 2006, up from US\$718 million at the end of 2005⁷. The result is that the Bank of Papua New Guinea should be able to support the Kina to some degree if necessary. Further, higher commodities prices for PNG's main exports of gold, copper and crude oil would help to offset currency risk.

Banking Sector

The banking and financial services sector in PNG is relatively sophisticated, although mainly urban based. The banking sector is rarely required to fund the private sector, due to the majority of major resource developments being financed from offshore and cautious lending policies. This is a result of the banking sector needing to restructure its loans policies as a result of bad loans throughout the 1980s and the instability in Bougainville in 1989. However, there has been a recent increase in loans to the private sector, due to a general upturn in the domestic economy. Further, the Kina Facility Rate (KFR) was unchanged for much of 2006, and remained steady for the most recent September Quarter. The current rate for the Kina is at 6.0 per cent.⁸

The dominant commercial bank in PNG is Bank South Pacific, with Westpac Banking Corporation (PNG) and Australia New Zealand Banking Group (PNG) also having a significant presence. Bank South Pacific owns more than half of the banking sector's assets, mainly due to the merger with the previously state owned Papua New Guinea Banking Corporation (PNGBC). Total assets held by the commercial banks have increased in value and number rapidly during recent years, up from K3.9 billion (approximately US \$1.3 billion) in 2003 to a projected K5.5 billion (approximately US \$1.8 billion) at the end of 2005⁹.

The Port Moresby Stock Exchange opened in 1999 for public trading. There are currently fourteen stocks and one debt security listed for trading. The market has traditionally been

⁵ Ibid, page 2

⁶ Economist Intelligence Unit, *Papua New Guinea: Country Risk Summary*, 1 February 2007

⁷ Bank of Papua New Guinea, *Statement on Monetary Policy*, December 2006, page 16

⁸ Economist Intelligence Unit, *Papua New Guinea: Country Outlook*, 1 February 2007

⁹ Ibid

illiquid; however there has been a surge in market capitalisation in recent years from K11.7 billion at the end of 2004 to K18 billion at the end of 2006¹⁰.

Political Environment

The current Prime Minister of PNG is Sir Michael Somare, who has held office since 2002 (he was previously Prime Minister from 1975 until 1980, and 1982 until 1985) and is the only leader who has held office to the full term (5 years under the PNG constitution), since independence in 1975. General elections are scheduled for June 2007, at which time there is a risk of political unrest, social instability, and security problems that have marred most polling periods since PNG gained independence¹¹.

Policy-wise, the government has been frugal in its expenditure and in its attempts to reduce government debt as it moves towards maintaining economic stability, even in the months approaching the election. The government traditionally supports state-owned enterprises that are performing well, rather than following a path of privatisation. This is especially the case in telecommunications (Telikom), energy (PNG Power), and the state-owned airline (Air Niugini). Further, land ownership has traditionally been difficult to establish in PNG, and the Prime Minister has indicated that the government will review land laws in an attempt to make this easier, to help economic development. However, perceptions of political instability will most likely continue to hinder foreign investment into PNG.

Economic conditions

One of the key drivers of the general insurance industry is the broad economic conditions of PNG. After several years of economic contraction, the PNG economy has recorded strong positive GDP growth since 2003. Real GDP growth is forecast to grow by 3.7 percent in 2006 and 4.5 percent in 2007¹².

Inflation is expected to increase to 3.5 percent during 2007 and to 4.5 percent in 2008¹³. This is a reflection of the increased control on government spending, greater stability in the exchange rate, and the increased levels of foreign reserves.

Employment levels in PNG are set to grow. However, the share of the labour force employed in the formal sector is still low when compared to other countries in the Pacific region. It is important to note that PNG experiences annual population growth of 2.3 percent, and that employment creation in the private sector is unlikely to bring down unemployment levels and favourably affect underemployment

PNG's leading export market is Australia and has a strong commodity export market¹⁴. The main export commodities of PNG are gold, copper and crude oil, whose prices have surged in recent years. However, global crude oil prices are anticipated to fall in 2007-08, and copper prices are expected to also settle after a rise of over 85 percent in 2006. Gold prices are forecast to increase by 5 percent in 2007, and 2 percent in 2008.

¹⁰ Economist Intelligence Unit, *Papua New Guinea: Financial Services*, 18 July 2006

¹¹ Economist Intelligence Unit, *Papua New Guinea: Country Outlook*, 1 February 2007

¹² PNG Department of Treasury, 2007 Budget, Volume 1, Chapter 1: Economic and Fiscal Developments in 2005 and 2006, page 1

¹³ Economist Intelligence Unit, *Papua New Guinea: Country Outlook*, 1 February 2007

¹⁴ Asia Development Bank, *Asian Development Outlook 2006, Volume II Economic Trends and prospects for developing Asia, Papua New Guinea*, accessed 15/3/2006 <http://www.adb.org/Documents/Books/ADO/2006/png.asp>

Key sensitivities

Key sensitivities impacting on the general insurance industry performance include¹⁵:

- **Interest rate movements** influence the demand for general insurance by affecting consumers' ability to borrow to buy or invest in assets;
- Increased **regulatory compliance requirements** will generally raise compliance costs, which may raise prices for services provided;
- **Level of unanticipated claims** due to incidence of natural disasters and general societal changes;
- **Property market performance** will influence demand; and
- **Equity market performance** will influence demand for general insurance products and the return on investments made by general insurance companies.

Key success factors

Key success factors in general insurance industry include¹⁶:

- **Limited sovereign risk** – confidence in the government to repay loans made or guaranteed.
- **Acceptance in the international reinsurance market** – ability to place risks internationally.
- **Ability to effectively manage risk** – ability to diversify risk profile including lines of business, geographic spread of business, spread of reinsurers and spread of investment assets.
- **Provision of related range of goods and services** – ability to cross sell products from existing customer base and development of new products.
- **Management of a high quality assets portfolio** – adequate asset management through investment in diversified low volatility portfolios with a maturity profile that allows for anticipated claims.
- **Superior financial and debt management** – adequate underwriting procedures that emphasise high quality risks. Adequate provision should be made for future claims utilising in-house and external actuarial resources. Adequate capital and solvency levels to accommodate adverse claims outcomes.
- **Well developed internal processes** – effective and low cost administration systems.
- **Cost effective distribution systems** - effective and low cost product distribution channels.
- **Capacity to objectively assess new investments** – level of reinsurance should be assessed for its capacity to meet ongoing obligations.

¹⁵ IBISWorld, *General Insurance in Australia*, January 2007

¹⁶ IBISWorld, *General Insurance in Australia*, January 2007

5 Key issues

This section identifies and discusses the key issues associated with the PNG general insurance industry. Consistent with the scope of the review, it considers the key issues in each of the following areas:

- Regulatory arrangements in the PNG general insurance industry;
- Composition and structure of the industry; and
- Current operations of the industry.

The key issues associated with each of these areas are identified below.

5.1 Current regulation of the PNG insurance industry

5.1.1 Principles for regulation of the insurance industry

Since its inception in 1994, the International Association of Insurance Supervisors (IAIS) has developed a range of Principles, Standards and Guidance papers with the objective of contributing to improved supervision of the insurance industry globally, development of insurance markets, and global financial stability.

To this end, the IAIS has developed *Insurance Core Principles* covering the following areas¹⁷:

- Conditions for effective insurance supervision;
- Supervisory systems;
- Supervised entities;
- On-going supervision;
- Prudential requirements;
- Markets and consumers; and
- Anti-money laundering, combating the financing of terrorism.

The IAIS framework for insurance supervision consists of guidance around three groups of issues: financial, governance and market conduct issues. Previously, the IAIS has also issued *Guidance on Insurance Regulation and Supervision for Emerging Market Economies*. This paper established the following broad fundamentals for industry supervisors in these types of markets.

Essential infrastructure for effective market functioning

- Effective insurance legislation is essential to establish a sound and robust insurance system, and to assure market participants that sound practices are being applied, thereby increasing market transparency and confidence. A comprehensive set of prudential regulations and standards is considered essential to enable supervisory authorities to exercise their powers and responsibilities in a coherent fashion.

¹⁷ IAIS, *Insurance Core Principles and Methodology*, October 2003

- Accounting principles and a clear role for actuaries and auditors are important to ensure interested parties have access to reliable industry information to enable them to make reasonable assessment of current operations and future prospects.
- Reliable basic data in relation to loss frequency and loss severity is crucial in calculating correct insurance premiums and technical provisions required to maintain the solvency of insurance companies and for establishing the stability of insurance markets.

Insurance supervisory authority

The insurance supervisory authority should:

- Have the power to licence insurance companies, apply prudential regulations, conduct consolidated supervision, obtain and independently verify relevant information, and undertake enforcement activities in the industry;
- Be independent from authorities and the industry in undertaking its tasks, and be accountable in the use of its powers and resources;
- Possess the appropriate range of knowledge and experience;
- Have a reliable and stable source of funding to safeguard its independence and effectiveness;
- Have the powers and sufficient resources to co-operate and exchange information with other authorities;
- Establish an employment system to hire, train and maintain a professionally qualified staff.

The authority should also must maintain strict professional secrecy, and be prohibited from any arbitrary intervention in administering its responsibilities.

Promotion of the market mechanism

- Ensure the quality, timeliness and relevance of information disclosure to enable stakeholders to make informed decisions;
- Provide the foundations for good institutional governance of insurance companies;
- Promote competitiveness that is subject to appropriate levels of prudential safeguards (see below).

Prudential supervisory and regulatory measures

The IAIS states that due to the high risk in these environments, regulations should be given the following emphasis.

- Licensing requirements on industry participants;
- Ongoing supervision, including onsite inspection, liability provisions, asset requirements, capital adequacy requirements and adequate reinsurance;
- Appropriate pricing of insurance products that is not excessive or discriminatory;
- Regulations that clearly state the scope of business and rights and responsibilities for insurance market intermediaries;

- Consideration of compulsory insurance in certain areas (e.g. third party motor insurance); and
- Adequate remedial correction of any problems.

The remainder of this section considers the extent to which the regulation of the PNG general insurance market adheres to these principles.

5.1.2 PNG industry regulator – the Office of the Insurance Commissioner (OIC)

The General Insurance industry in PNG is regulated under the *Insurance Act 1995* (the Act), which is administered by the OIC. The OIC is headed by an Insurance Commissioner appointed by the Minister for Treasury for a term of three years.

The Act details the regulatory requirements in relation to each of the following areas:

- Powers and responsibilities of the Insurance Commissioner in administering the Act;
- Licensing of insurers, brokers and loss adjusters;
- Deposits and guarantees by licensed insurers and brokers;
- Arrangements for audits, returns and inspections;
- Arrangements for the insurance of risks situated in PNG; and
- Other requirements (i.e. dispute resolution, winding up, etc).

It has been suggested that the provisions of the current Act are broad and consequently appear to have provided the Insurance Commissioner with wide powers in interpreting the Act. There are certain concerns expressed by stakeholders within the industry concerning what they perceive as the relatively poor supervision, the nature of action on breaches of regulatory requirements and certain inconsistencies in dealing with industry participants. There are also concerns expressed regarding the perceived need for more sophisticated and secure data processing systems with which to collect, monitor and analyse market data.

The Commission seeks comments on the following:

- ***Does the current Insurance Act 1995 provide an appropriate legal framework for the efficient operation of the industry?***
- ***Are the current regulatory responsibilities of the OIC appropriate?***
- ***Is the OIC sufficiently and appropriately resourced to carry out its responsibilities?***
- ***Is the current reporting and provision of industry information by the OIC timely and sufficient to meet industry and community needs?***

5.1.3 Licensing of market participants

Currently, in accordance with the Act, any company interested in undertaking general insurance business must apply to the Insurance Commissioner for a licence to operate in PNG. Licence requirements are uniform for foreign and national companies, and are specific to each of the four

categories of the industry sector (i.e. reinsurer, insurer, broker or loss adjuster). They include both financial and non-financial requirements.

Typically, the Insurance Commissioner takes between four to six weeks to issue a licence to an applicant. Licences are required to be renewed annually.

Despite there being no provision within the Act, there have been instances when “provisional” licences have been issued to some insurers who have not met the annual licensing requirements.

There is also a concern that general insurers may be writing other classes of insurance eg life or life related for which they are not licensed.

The Commission seeks comments on the following:

- ***What are the advantages and disadvantages of retaining an admitted market in PNG?***
- ***Are current licensing arrangements appropriate (e.g. annual licensing, licensing of loss adjusters, etc) and are they an impediment to competition or new entrants?***
- ***Should the practice of issuing “provisional” licences continue?***
- ***Are there alternatives to licensing that could be considered for some or all categories of participants?***
- ***Should the current restriction on general insurers writing life or life related business be relaxed and what would this mean for industry regulation?***
- ***To what extent does the Insurance Commissioner apply the licence requirements uniformly for foreign and national companies?***

5.1.4 Prudential requirements

The Office of the Insurance Commissioner has set the following minimum capital requirements and statutory deposits to ensure licensed insurance companies are solvent:

Category of insurer	Minimum capital requirements	Statutory deposit
Reinsurers	K20 million	K300,000 or 15% of net premium income of previous year
Insurers	K2 million	K300,000 or 15% of the net premium income of previous year
Brokers	K200,000	K50,000
Loss adjusters	K50,000	Nil

Other prudential requirements are as follows:

- i. Revocation of Licence — A licence can be revoked on the basis of liquidation, bankruptcy, non-compliance with the *Insurance Act 1995*, failure to renew a licence, or any other reason why the company should not continue to be licensed;

- ii. Appointment of auditor — An auditor shall audit and make a report to the Insurance Commissioner;
- iii. Insurance Returns — A return shall be submitted in the form, type and manner determined by the Insurance Commissioner;
- iv. The Insurance Commissioner shall inspect and review an insurer's proposal forms, policies, brochures advertisements and other promotional documents in relation to the conduct of general insurance business;
- v. Issuance of policies and renewals — A policy document is issued within thirty days and a policy renewal certificate is issued within thirty days;
- vi. Investigation and report by Actuary — If the financial interests of a policyholder, shareholder or creditor is in jeopardy, an actuary will be appointed to investigate and provide a report;
- vii. Powers of Inspection and Investigation — The Insurance Commissioner or person appointed by him will carry out investigations on an insurance company's premises;
- viii. Powers of Direction — Following investigation in vi) and vii) above the Insurance Commissioner will issue directives to overcome breaches of the Act and protect the interests of policyholder, shareholder and creditor
- ix. Offshore exemption — if the existing facilities and capacity of the insurance industry is not able to insure a risk domestically, then on application by an insurance company to the Insurance Commissioner to grant an exemption for a risk to be placed offshore;
- x. Responsibility of Agents — Agreements between licensed insurers, brokers and loss adjuster shall be inspected and approved by the Insurance Commissioner;
- xi. Transfer Scheme — The Insurance Commissioner or the Court shall approve a Transfer scheme;
- xii. Trade Practices Provision — It is an offence for a person to undertake practices of collusive pricing, collusive tendering or other practices inhibiting fair and open competition;
- xiii. Winding up Proceedings — A company shall not carry on business if winding up proceedings have commenced.
- xiv. Others

While some breaches have direct penalties, others will be subjected to further investigation and evaluation. The Office of the Insurance Commissioner does not have direct powers to prosecute and impose penalties.

The fact that insurers are not required to engage the services of an actuary unless financial interests are in jeopardy is not consistent with common international practices. For example, in Australia insurers are required to employ an actuary to sign off on solvency and pricing annually.

Due to concerns regarding the adequacy of minimum capital requirements and monitoring of solvency margins, the Commissioner is considering the introduction of risk-based capital methods to replace current prudential requirements (see Section 5.1.6 for further discussion).

The Commission seeks comments on the following:

- *Are the minimum capital requirements and statutory deposits set at the appropriate*

level for each category of insurance market participant?

- *How do current prudential requirements impact new entrants?*
- *Is administration and monitoring of current prudential guidelines in the industry generally effective and even-handed?*
- *Is the role and involvement of actuaries in the prudential supervision of licensed insurers appropriate and sufficient?*
- *Would a risk-based approach to prudential supervision be more appropriate?*

5.1.5 Offshore exemptions

Section 36 of the Act specifies that a licensed insurer must be used to insure all risks that are situated in PNG unless an exemption is granted. Under Section 37 of the Act, the Commissioner has discretion to grant an exemption if he or she believes the existing facilities in the local market and available capacity of licensed insurers are fully utilised, or if an exemption is in the national interest. The exemption granted is subject to conditions as considered appropriate by the Commissioner.

Under this Section, many of PNG's largest risks in property and aviation are placed offshore, with the result that the local market is unable to fulfil its revenue potential.

The Commissioner is unable to refuse an application for an exemption where:

- A licensed insurer has the facility and capacity to insure or reinsure the risk; and
- The costs to the insured person of insuring or reinsuring the risk with a licensed insurer are greater by 17.5 per cent than the costs to the insured person of insuring or reinsuring the risk with an offshore insurer.

The Act specifies that in comparing the costs, the Commissioner should consider all cost factors including premiums, commissions, and other fees and charges.

It is uncertain if the provisions of the Act in regard to exemptions are being fully adhered to, particularly in the case of transnational companies operating in PNG which may insure their total operations as part of a global package

The Commission seeks comments on

- *Whether the current arrangements in regard to offshore exemption business operates effectively (particularly the 17.5% price differential)*
- *The level of insurance, if any, written offshore in breach of Section 36 of the Act and does not go through the exemption process*

5.1.6 Future regulatory arrangements

There are a number of proposed changes to the current regulatory arrangements at different stages of development and implementation. These include:

- the finalisation and introduction of Insurance Contracts Law;

- the introduction of risk-based capital methods to replace current solvency margin regulations; and
- the establishment of an Insurance Complaints Tribunal.

Each of these measures are discussed in further detail below.

Insurance Contracts Law

It is expected that an Insurance Contracts Law will be finalised and introduced in 2007. The law will be applicable to both general and life insurance, and has been based on similar legislation in Australia adapted to meet local needs.

Typically, legislation of this type seeks to build consumer confidence by ensuring that contracts of insurance strike a fair balance for all parties, and that the provisions included in the contracts and insurers operate fairly.

Risk-based capital methods

The Insurance Commission has concerns regarding the adequacy of existing minimum capital requirements. At present, there are no official regulations for insurance technical provisions, and in practice insurers maintain unexpired premium provisions and outstanding claims provisions.

This structure is not in accordance with international practice and exposes policyholders to the risk that companies will not hold capital in their local operations commensurate with the risk that they are undertaking. The establishment of a solvency margin obligation that is sensitive to risk is consistent with IAIS core principles.

As such, the Financial Sector Reform and Strengthening (FIRST) Initiative, managed by the World Bank¹⁸, is currently undertaking a risk based capital regime for general insurer's project. Its goal is to improve the regulatory framework and the applications of the insurance sector in PNG through the development of a risk based capital approach and a consistent supervisory approach.

Key project outputs will include the following:

- Assessment and recommending appropriate risk based capital framework;
- Advice and case studies on implementing change;
- Parametric recommendations;
- Training on solvency assessment;
- Legal drafts; and
- Completion of a MoU with APRA.

It is suggested that the current prudential requirements in PNG are somewhat constraining further market development and therefore the development of risk based capital and assessment systems will potentially increase market and consumer confidence.

¹⁸ FIRST was launched in 2002 by the Canadian International Development Agency (CIDA), the Department for International Development for the United Kingdom (DFID), the International Monetary Fund (IMF), the Ministry of Foreign Affairs of The Netherlands, the State Secretariat for Economic Affairs of Switzerland (SECO), the Swedish International Development Cooperation Agency (SIDA), and the World Bank.

Insurance Complaints Tribunal

Currently, insurance market participants are required to develop written procedures outlining how complaints and disputes involving third parties will be handled. The Insurance Commissioner must approve these procedures.

If a dispute cannot be resolved through these processes, then aggrieved parties can refer to the insurance complaints tribunal chaired by the commissioner or a nominated representative and consisting of four other members, two representing the general insurance industry and two the consumers.

A new insurance complaints tribunal is under consideration. It is anticipated that the tribunal will come into being in 2007, and will be financed by the insurance levy. It is proposed that the tribunal will have five members, including the Insurance Commissioner. The other four members will be elected every two years. The Commissioner will have the casting vote in case of failure to agree by the four elected members.

The Commission seeks comments on

- ***The proposed introduction of the following:***
 - ***Insurance Contract Law***
 - ***Risk Based Capital requirements***
 - ***Insurance Complaints Tribunal***
- ***The impact of these measures on the current operation of the PNG general insurance market.***

5.2 Current composition and structure of the PNG insurance industry

The general insurance sector in PNG comprises a relatively small group of companies. The current number of market participants in each category is as follows:

- One licensed reinsurer;
- Twelve licensed insurers;
- Six licensed brokers; and
- Five licensed loss adjusters.

An overview and description of each of the industry segments in which these participants operate was detailed in section 4.2.1 of this Issues Paper.

5.2.1 Reinsurance

To assist in retaining more premiums in PNG, the government incorporated Pacific Re in 1996 with operations starting the following year. In 2006, the shareholders were the state-owned Motor Vehicles Insurance Ltd (52 per cent) with industry investors owning the remaining 48 per cent.

Section 36 of the *Insurance Act 1995* makes it compulsory for insurance companies to offer all of their outwards treaty reinsurance and facultative risks to locally incorporated reinsurers (i.e. Pacific Re). However, there is not full compliance with this requirement, and there is no

obligation on Pacific Re to accept all treaties or risk offered. Further, as discussed previously, the Insurance Commissioner can issue exemptions from this requirement in specific circumstances.

As a result of these factors, in 2005, just 2 per cent of reinsurance premiums were placed inside PNG (i.e. with Pacific Re). In most cases, local subsidiaries of overseas insurers placed their reinsurance directly with their head offices in Australia, New Zealand, USA and Japan, and that domestic companies used the services of international reinsurance brokers.

The reason for such a large proportion of premiums being placed overseas is unclear. It may be a case of Pacific Re not being prepared or able to accept the risk, or alternatively, it may be a case of insurers choosing not to comply with the requirements of the Act.

The Commission seeks comments on:

- ***Is the PNG reinsurance market working effectively?***
- ***Does Pacific Re Ltd offer viable reinsurance in-country?***
- ***What is the level of compliance with the Article 36 of the Insurance Act in regard to reinsurance?***

5.2.2 Insurance companies

The general insurance sector in PNG comprises just twelve companies, of which seven are foreign owned, three are nationally owned, and two are joint ventures.

Once licensed by the Insurance Commissioner, insurance companies are entitled to write all classes of insurance products available within the general insurance industry. However, due to a number of factors, insurers normally choose to only write certain general insurance products.

These factors include:

- underwriting criteria that is being employed by the insurance company;
- availability (or lack) of expertise within the company; and
- capacity of the insurance company.

Amongst the twelve licensed insurers, only the Motor Vehicles Insurance Limited is doing just one class of business. It only provides Compulsory Third Party motor vehicle insurance because of a legislative restriction, meaning it is the sole provider of this class of business.

Due to a lack of capacity within the local market, most of the insurance cover classified as high risk is placed offshore. This includes:

- Aviation;
- Large Marine Hull and Cargo;
- Industrial Special Risks for large commercial companies;
- Professional Indemnity; and
- Directors and Officers liabilities, etc.

The Commission seeks comments on the following:

- *Is there sufficient competition amongst the existing insurance companies to provide an effective and efficient general insurance market?*
- *What areas or products would benefit from enhanced competition?*
- *How could the capacity of existing insurers be increased to limit the premiums placed offshore?*

5.2.3 Brokers / Loss adjustors

There are currently six licensed insurance brokers in PNG and five licensed loss adjustors. It is estimated that brokers control 70-80 per cent of all general insurance business in PNG.

While the Insurance Commissioner considers the level of competition to be fair between these participants, there is insufficient evidence to make a proper assessment of their competitiveness. For example, it is unclear the extent to which these operators specialise in one particular area, or have established relationships with certain insurers.

The Commission seeks comments on the following:

- *Are the existing insurance brokers and loss adjustors adequately skilled and experienced to meet the needs of the market?*
- *Is there adequate competition in the market for insurance brokers?*
- *Is there adequate competition in the market for loss adjustors?*

5.2.4 Changes to current market structure and composition

The Insurance Commission believes that the way in which the Act is currently structured provides an incentive for potential investors to enter the industry. However, the general insurance industry faces the same country-specific issues as other sectors of the economy, which hinders its development. Despite this, the industry has been generally growing over the past three years. However, there are specific areas where new entrants are required to promote further competition.

As discussed, a lack of capacity within the local market has meant that insurance cover classified as high risk is often placed offshore. The Commissioner is seeking new entrants with sufficient capacity to capture or cover these risks locally. Alternatively, existing insurers should concentrate on building their capacity so that they may insure these risks in the future.

Another area for new entry is in the area of low to medium income group. Currently, the majority of nationals are not able to source insurance because of high premiums. The licensing of two new insurers recently, could improve the level of insurance in this area.

The Commission seeks comments on

- *To what extent do existing arrangements support the expansion of the PNG insurance industry, either through new entrants or increasing the capacity of existing operators?*
- *What other steps could be taken to expand the industry?*

5.3 Current operation of the PNG insurance industry

There are a number of external factors that impact on the operation and performance of the PNG general insurance industry, such as:

- Sovereign risk;
- Currency;
- Operation of the banking and financial sector;
- Political environment; and
- Economic conditions.

These factors impact the operation of the market in each of the areas discussed below.

5.3.1 Setting premiums and terms of coverage

Generally, PNG insurance premiums are not price controlled and are driven by the market. The only insurance product which is price controlled is the Compulsory Third Party Motor Vehicle Insurance operated by Motor Vehicle Insurance Limited (MVIL). This is regulated by the ICCC. For the remaining products, the pricing of insurance premiums and terms of coverage are determined by the market forces prevalent in the country.

Broadly, the pricing of general insurance products requires estimates of the frequency and quantum of events that are yet to occur. It also requires consideration of a number of issues, including¹⁹:

- Corporate objectives – target returns on capital;
- Legislative and regulatory environment – terms of cover, taxation;
- Reinsurance / capital – cost of capital incorporated in pricing (with the cost of shareholder capital measured by target return on capital and reinsurance measured by premium); and
- Competition – amongst products and segments within the market.

While competition is likely to be a key pricing issue in the general insurance market, current data limitations mean it is not possible to ascertain the extent to which this is the case. Currently, it is not possible to assess the extent of competition across insurance products and segments in the market.

Finally, similar to other PNG commodities, there are a number of additional country-specific factors that have a significant impact on insurance premiums in PNG, including:

¹⁹ Australian Competition and Consumer Commission, *Insurance Industry Market Pricing Review*, March 2002

- Sovereign risk;
- High costs of operation;
- Currency;
- Inflation; and
- Other global challenges.

A combination of some or all of these factors has meant that premiums in the PNG general insurance market are at a level that is considered high by international standards.

The Commission seeks comments on the following:

- ***Do premiums reflect risk or market concentration?***
- ***Are premiums for similar risks categories comparable to other markets?***
- ***Are the terms of coverage offered by insurers considered appropriate?***
- ***Are there risks that are not insured by the general insurance industry?***

5.3.2 Applicable Government charges

All general insurance products in PNG are subject to Government charges, which are eventually passed on to customers.

Government charges are set by the relevant authorities and include the following:

- Goods and Services Tax (GST) – 10 per cent is charged on the total of the base premium;
- Stamp Duty – charged on all classes of insurance products, with the rate applied varying depending on the insurance product;
- Workers Compensation Levy (WCL) – 13.5 per cent is charged on the base premium and paid to the Workers Compensation Office;
- Insurance Commissioners Levy (ICL) – 1 per cent is charged on the base premium. This was approved by Parliament in March 1998 in pursuit of Government’s Financial sector reforms;
- Non Residential Insurance Tax – charged for risks placed offshore (4.8 per cent except in cases where PNG has a double taxation agreement. This is the case in respect of the UK, with the tax of 3 per cent on business ceded to Lloyd’s and the London market.).

The Commission seeks comments on the following:

- ***Is the current Insurance Commissioner’s Levy necessary and if so, used appropriately and adequately accounted for?***
- ***Should the current licensing arrangements for Lloyds of London continue***

5.3.3 Setting broker fees

Currently, it is estimated that brokers control 60-70 per cent of all general insurance business in PNG. Brokers fund their operation through Fees and/or Brokerage / Commission.

- Fees are negotiated between brokers and their clients for the service they provide to place cover with a suitable underwriter that suits the clients business. The fee charged depends mainly on the volume of work, the nature of the business occupation and the market for that placement, e.g., within the local markets or in offshore markets. Under these arrangements, brokers do not collect commission/brokerage from the insurer, but negotiate for a reduction in the rate of premium.
- Brokers are paid brokerage or commission by the underwriter that they place their client's business with. The commission paid to the broker is determined by the insurer depending on the class of business.
- In some rare instances brokers may charge a fee to their client and charge a brokerage or commission to the underwriter. This may occur when a broker is assisting a client for a particular period of time (e.g. short term clients).

The Commission seeks comments on the following:

- *Are fees / brokerage for similar services comparable to other markets?*
- *Does market concentration have an impact on fees / brokerage charged?*
- *Is there an appropriate level of disclosure of broker fees and brokerage / commission?*

5.3.4 Accessibility of general insurance to customers

As previously stated, it appears a major proportion of insurance businesses are transacted by Brokers. Direct purchase of insurance products by consumers from insurance companies appears quite minimal.

The Commission seeks comments on the following:

- *From the perspective of the customer, how efficient is the process for accessing general insurance?*
- *Are there appropriate levels of price transparency in the general insurance market?*
- *Is there sufficient market information in relation to the availability of general insurance products?*

Appendices

Appendix A: Official Terms of References



**MINISTRY OF TREASURY
OFFICE OF THE MINISTER**

Telephone: (675) 328 8870
Facsimile: (675) 328 8878

Level 4, Vulupindi Haus
PO Box 710, WAIGANI, NCD

Terms of References Competition Review of the Fire and General Insurance Industry

The Government, as part of its 2007 Budget Strategy, has announced its intention to undertake a comprehensive review of competition and general market practices in the Fire and General Insurance Industry (insurance industry) in Papua New Guinea.

The review is to focus upon Fire and General Insurance including marine insurance, and special forms of insurance for other sectors of the economy (for example for the aviation industry), and insurance brokers, re-insurers, and underwriters servicing and operating in this industry. As the review will of necessity examine issues associated with the regulation of this industry, the terms of reference will include reference to the role of the industry regulator (the Insurance Commissioner), and any other regulatory requirements that apply to this industry.

The review is intended to look at a wide range of issues relating to the operation, composition, structure, and regulation of the insurance industry. The Government notes that the insurance industry in PNG is primarily comprised of PNG subsidiaries of international insurance companies and insurance brokers. It is unclear to what extent these businesses specialise in particular areas of insurance, have long-term business relationships within the industry (such as between brokers, insurance companies, reinsurers and underwriters), and compete between each other for fire and general insurance services. It is also noted that there are some regulatory requirements in PNG relating to the type of insurance that can be accessed from outside of the country. The provision of insurance cover in these areas is restricted to insurance companies registered in PNG. The Government is anxious to explore these types of issues to determine whether and to what extent competition may be being restricted by these practices and whether there are net economic benefits to the PNG economy that would justify the continuation of any restrictions on competition that might apply in the industry.

In response to the review's conclusions and recommendations, the Government will consider what if any policy response may be required to improve the overall efficiency,

effectiveness, and competitiveness of the Fire and General Insurance industry including adoption or revision of relevant regulatory arrangements.

Terms of Reference

The principal objectives and deliverables of the review are to:

- Report on the current operation of the Fire and General Insurance Industry in PNG with a particular focus upon
 - the size and other characteristics of the domestic industry
 - the competitive behaviour of participants in the industry,
 - impediments to competition, both regulatory and non-regulatory,
 - the role of insurance brokers and their relationship with the insurance companies themselves,
 - the role of reinsurance and underwriting businesses,
 - the interaction between the Fire and General Insurance industry in PNG and the industry overseas, and
 - the prudential control and supervision arrangements for the industry in PNG
- Identify issues and areas where Government action may be appropriate to improve the overall competitiveness, efficiency and effectiveness of the Fire and General Insurance Industry in PNG
- Make recommendations on what action may be appropriately taken by Government to rectify any problems in the current structure, regulation and operation of the Fire and General Insurance industry with a view to improving competition and cost competitiveness in the industry while maintaining appropriate due diligence and prudential requirements.

The review will:

1. Review and report on the current operation of the Fire and General Insurance Industry in PNG including but not limited to:
 - a. The existing structure, size, ownership and operation of the industry;
 - b. The degree of competition between suppliers of services within the industry including insurance brokers;
 - c. Likely developments or changes in the existing structure of the Fire and General Insurance industry including entry of new service providers, in the foreseeable future.
2. Review and report on the current regulatory arrangements within or applicable to the industry, including but not limited to:
 - a. The licensing requirements for insurance companies, insurance brokers, reinsurers and underwriters;
 - b. The prudential supervision requirements;
 - c. Any regulatory requirements/restrictions relating to the issuing of Fire and General Insurance policies in PNG including the participation of overseas insurance companies in the PNG market.

3. Review and report on current premium rates and other conditions relating to the issuing of fire and general insurance cover in PNG, including but not limited to:
 - a. The relative cost of insurance in PNG versus other countries in the region;
 - b. The use of surcharges or other special charges to reflect the perceived insurance risk profile of PNG;
 - c. Any special conditions or limits on coverage applied in PNG by comparison to other countries in the region;
 - d. The rationale for the setting of premiums and special conditions in the PNG market by comparison to the approaches adopted in other countries in the region;
 - e. The extent to which price competition occurs between participants in the industry;
 - f. The impact of government charges/fees and regulatory requirements on the premium/coverage conditions provided in PNG;
 - g. The pricing of insurance broker charges and the way in which these charges are determined.
4. Advise on the opportunities and potential for the entry of new competitors into the Fire and General Insurance Industry including:
 - a. Likely areas for new entry;
 - b. Potential impact on the industry;
 - c. Pre-requisites for the entry of new participants;
 - d. Likely benefits for the national economy.
5. Advise on the efficacy of the current prudential supervision arrangements for the Fire and General Insurance industry in PNG, including but not limited to:
 - a. The form of prudential regulation consistent with world's best practice and whether current arrangements provide the necessary protection for policy holders;
 - b. The independence and transparency of the current regulatory arrangements;
 - c. The trade off between regulation and competition in the industry;
 - d. Potential for synergies and operating efficiencies in staffing skills' requirements and operational arrangements from some form of rationalisation of prudential regulation across the finance sector as a whole.
6. Make recommendations on what if any action can be taken by Government to address regulatory impediments or enhance the prospects for increasing competition in the Fire and General Insurance industry in PNG, including but not limited to:
 - a. Reforming regulatory requirements and arrangements while retaining appropriate prudential safeguards;
 - b. Removing other barriers to entry by new competitors into the industry;
 - c. Enhancing the countervailing power of consumers and users of the industry's services.

Deliverables

The deliverables from this review will encompass the following:

- Verbal presentation with overheads and other summary material on the findings from stages 1 to 3 of the terms of reference as outlined above and preliminary comments on stage 4
 - To be made to the authorising department and to occur prior to the finalisation of the Draft Report and in ample time for the authorising department to make comments on the findings of these initial stages
- Preparation and presentation of a written Draft Report for consideration and comments by the Government and other interested parties
 - The presentation to be by way of a public presentation to a select audience and discussion on the Draft Report
 - Opportunity for submission of written comments on the Draft Report
- Preparation and presentation of a fully documented written Final Report to Government

oOo