



Office of the Commissioner
Received 09 10 2007

**MINISTRY OF TREASURY
OFFICE OF THE MINISTER**

Level 4, Vulupindi Haus, Waigani Drive
P O Box 710, Waigani, NCD, Papua New Guinea
Website Address: www.treasury.gov.pg

Telephone: (675) 328 8870
(675) 328 8878
Facsimile : (675) 323 2239

6 December 2006

Mr. Thomas Abe
Commissioner and Chief Executive Officer
Independent Consumer and Competition Commission
1st Floor, Garden City
Angau Drive
P O Box 6394
BOROKO
National Capital District

Dear Commissioner,

RE: INQUIRY INTO FIRE AND GENERAL INSUREANCE

I refer to my previous letter dated 28 August 2006 foreshadowing a review of the fire and general insurance sector. I further note the Government's 2007 Budget includes a commitment to undertake a comprehensive review into this sector.

Consistent with Section 123 of the *Independent Consumer and Competition Commission Act 2002*, I hereby refer you to the terms of reference attached, against which you should undertake the inquiry.

I look forward to receiving your final report and of hearing of your progress in the interim through the consultation arrangements outlined in the terms of reference.

Yours sincerely

RABBIE L. NAMALIU, CSM KCMG MP
Minister for Treasury

cc: **SIMON TOSALI**
Secretary
Department of the Treasury

Mr. Salamo Elema
Insurance Commissioner
PO Box 122
PORT MORESBY, N C D

Mr. Joshua Kalinoe CSM, CBE
Chief Secretary to Government and
Chairman, CACC
Department of Prime Minister and National Executive Council
P.O. Box 639
WAIGANI, N C D



**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