

26 April 2007

Mr Thomas Abe  
Commissioner & CEO  
Independent Consumer and Competition Commission  
P O Box 6394  
Boroko NCD  
PAPUA NEW GUINEA

Dear Mr Abe

## **REVIEW OF THE GENERAL INSURANCE INDUSTRY IN PAPUA NEW GUINEA**

### **Introduction**

This submission is to address the issues paper 'Review of the General Insurance Industry in Papua New Guinea' released by the Ministry of Economic Development in March 2007.

### **Discussion**

The Commission seeks comments on whether the current licensing arrangement for Lloyd's of London should continue. Lloyd's values its status as a licensed insurer but would submit that the surplus lines restriction which has been maintained by the OIC renders Lloyd's no better than any other non-licensed foreign insurer. We therefore submit that this restriction be removed.

#### *Licensing Arrangements*

At page 17, the Commission notes:

*"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 of the OIC)"*

This is the position taken by the OIC to date and to date Lloyd's has been prepared to restrict its activities accordingly.

#### *Licensing Requirements*

Lloyd's current licensing arrangements require a fixed deposit of K2.3m, the submission of annual returns and quarterly submission of Papua New Guinean policy registers. Additionally, Lloyd's is also required to pay an annual licence fee and insurer's levy to the OIC. We would suggest that these requirements are suitable for a licensed insurer and remain unchanged. However Lloyd's observes that it must compete with unlicensed foreign insurers in relation to business which the Papua New Guinea market is unable or unwilling to write, unlicensed insurers have an unfair competitive advantage in that they do not have to provide any deposit nor lodge quarterly submissions and annual returns.

### *Surplus Lines Restriction*

Section 36 of the *Insurance Act* provides:

*"All risks situated in Papua New Guinea and for which insurance, including reinsurance, is required shall be insured with a licensed insurer unless exemption is granted under section 37"*

Lloyd's was a licensed insurer at the time the *Insurance Act* commenced operation and has maintained that licence since. It complies with all licensing requirements. As such it is submitted that it is in fact not subject to the restriction applicable to unlicensed foreign insurers.

The position taken by the OIC to date is that Lloyd's market access should be limited to that of a non-licensed foreign insurer. This results in a lessening of competition in the Papua New Guinea market. Lloyd's is a fully licensed insurer in Papua New Guinea, and we submit that it should be permitted to compete in the Papua New Guinea market with other licensed insurers and not be restricted to writing business that other licensed insurers are not prepared to write. If necessary the *Insurance Act* should be amended to permit that.

The restriction imposed by the OIC is also unfair. Lloyd's accepts that the OIC should be able to impose conditions on licences, but not so as to render them nugatory. Such a condition in fact amounts to a de facto revocation of a licence. Moreover none of the other foreign licensed insurers which operate in Papua New Guinea are subject to this restriction. To enable a competitive market to exist the restriction should be removed.

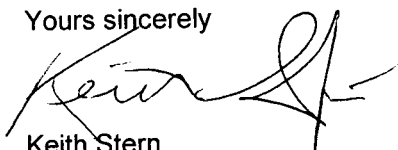
Further, we believe that the surplus lines restriction maintained by the OIC is unnecessary. Lloyd's specialises in niche insurance solutions, which we believe complement the local insurance market, both in terms of capacity provision and product. By removing the current restriction maintained by the OIC, Lloyd's would be better placed to work with Pacific Re and other local insurers/reinsurers to enhance the expansion of the local market. We do not believe that allowing customers increased access to Lloyd's would be in any way detrimental to the local market, and would cite our position as licensed insurers in Vanuatu, New Zealand and Australia as clear evidence of this.

### **Conclusion**

In light of the above, we believe that Lloyd's position as a licensed insurer allows Papua New Guinea to benefit from Lloyd's capacity and renowned expertise as market leaders in the global specialist insurance markets. We submit that this should continue, but believe that the surplus lines restriction maintained by the OIC is both inconsistent with Lloyd's position as a licensed insurer, and is a barrier to the development of a competitive local insurance market. We would therefore request that this restriction be removed.

We will welcome further dialogue during the drafting of any legislation. Please do not hesitate to contact me should you have any questions regarding this submission.

Yours sincerely



Keith Stern  
Lloyd's General Representative in Australia