Insurance industry in Papua New Guinea

Ten things to know
Insurance industry in Papua New Guinea*

In conjunction with Leahy Lewin Nutley Sullivan Lawyers

*as at 4 March 2013

1 The regulator

The two regulators of the insurance industry in Papua New Guinea are the Insurance Commissioner and the Bank of Papua New Guinea.

The regulator for general insurance business is the Insurance Commissioner who administers the Insurance Act 1995 and issues licences to insurers, brokers and loss adjusters. The Insurance Commissioner is responsible to the Ministry of Treasury.

The regulator of life insurance is the Bank of Papua New Guinea (Central Bank) which administers the Life Insurance Act 2000 and issues licences to life insurance companies and brokers.

The following entities/persons require authorisation: insurers (life and general), reinsurers, insurance agents (persons who provide marketing, administration, management or any other services to any licensed insurer), insurance brokers and loss adjusters.

Insurers must reapply for their licences annually. Pursuant to section 64c of the Insurance Act insurers and brokers must pay an amount not exceeding 1 per cent of premium income to the Commissioner’s Fund. Life insurers pay an annual licence fee only.

2 Subsidiary/Branch

A life insurer must be a locally incorporated corporation.

A general insurer may be a locally incorporated corporation or a branch of a foreign insurer provided it is certified under the Investment Promotion Act 1997 to carry on business in PNG.

3 FDI restrictions

Nil, other than satisfying the Investment Promotion Authority requirements noted in 2 above.

4 Control approvals

Section 36 of the Insurance Act provides that all risks situated in PNG are to be insured with PNG licensed insurers.

No entity shall become a “shareholder controller” or “indirect shareholder controller” without the prior approval of the Insurance Commissioner/Central Bank. A person is a “shareholder controller” when that person accumulates more than a 15 per cent stake in a licence holder and an “indirect controller” means a person in accordance with whose directions the directors are accustomed to act.

Each corporate shareholder controller (and each of its executive officers and shareholder controllers and indirect shareholder controllers) and each executive officer of an insurer must satisfy fit and proper criteria.

5 Minimum capital

Yes, which amounts must be deposited with the Central Bank:

General insurers: PGK2,000,000

Life insurers: PGK4,000,000 plus, the Central Bank may require that the life insurer be entitled to the benefit of an approved guarantee of not less than PGK4,000,000.

A life insurer shall also establish a statutory fund for all policyholder assets (separate funds for PNG policies and offshore policies).

PGK2.11 = US$1.00 at 4 March 2013

6 Risk based capital

General Insurers have a risk based capital regime modelled on the Australian Prudential Supervisory Authority’s risk based capital model as at 2008:

Minimum Capital Requirement = Liability Risk Charge + Asset Risk Charge + Excessive Exposure Risk Capital Charge

Life Insurers have a risk based capital regime:

A Solvency Requirement is intended to ensure solvency in the event that a company ceases writing new business.

A Capital Adequacy Requirement is intended to ensure solvency on a going concern basis for the next three years assuming future experience is in line with Best Estimate Assumptions.
7 **Group supervision**

No. But the Central Bank may exercise its powers against any parent, controller or controller of any subsidiary of a life insurer.

8 **Policyholder protection**

There are no separate policyholder protection funds.

Policyholders have the benefit of the deposits and guarantees.

Life insurance policyholders also have the benefit of the statutory fund relating to the life insurance business. The fund gives priority to the interest of the policyholders and has restrictions on its liabilities and expenditure.

9 **Portfolio transfers**

Under the *Insurance Act* any licensed insurer wishing to transfer any insurance business is required to make an application to the National Court. Prior to making the application, the insurer must have lodged with the Commissioner a copy of the proposed application, the scheme of transfer and any reports pertaining thereto.

10 **Outsourcing**

There is no restriction on what activities an insurer may outsource and no requirement for regulatory approval for outsourcing. However the outsource service provider will need to be “registered” as an insurance agent as it is performing services on behalf of the insurer.

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**Offices worldwide – from 1 June 2013**

*associate office  **effective June 3, 2013*
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