

RESERVE BANK OF FIJI



Chief Manager Financial Institutions Group discussion points for the presentation to the Standing Committee on Economic Affairs on 20 September

Slide 1:

Honourable Chair and Honourable Members of the Standing Committee, the Reserve Bank of Fiji as the administrator of the Insurance Act 1998 is required on or before 30th June of each year, to prepare and submit a report to the Minister on the working of the Act during the previous calendar year. This is a statutory requirement under section 165 of the Insurance Act 1998 which we are happy to report that the Reserve Bank has been meeting adequately over the years.

By way of a background, the requirement to produce the Insurance Annual Report started in 1977 after the passing of the 1976 Insurance Act. Over the years, the format and information contained in the Report continue to be enhanced to what it is today and the statistics published in the Report are now a source of good information for decision making by our insurance companies, and for academic research by regional and international institutions.

Key to the preparation of the Insurance Annual Report is the submission of annual audited statistics by licensed insurance companies and insurance brokers as mandated under section 60 of the Insurance Act. While you may notice the comprehensive set of statistics contained in the Report, for the purpose of this presentation we will only briefly cover some key soundness indicators as listed on the slide.

Apart from the statistics, the Insurance Annual Reports also provide for the reporting period, commentaries on the international insurance market, an overview of the economy, a report on the activities in the domestic insurance market, and an update on the regulation and supervision role of the Reserve Bank.

Slide 2:

We would like, at the outset to just provide an overview of the importance of the insurance industry. While there is more awareness of the banking industry and the important role it plays in the economy, we find that the insurance industry's role is always less understood in this regard.

As insurance is all about covering for risk, the insurance industry plays a vital role in transferring risks within the economy. This it does through providing safeguards at a premium, when a risk event occurs, for individuals, families, businesses and the economy in general.

The insurance industry also has an information role of indicating at any one given time the level of risks in the economy and such information helps businesses to

RESERVE BANK OF FIJI



compare the risk/return profiles of their projects thus assisting in the efficient allocation of resources.

An important role of developing the capital markets by mobilising savings for productive use is played especially by the life insurance industry.

Slide 3:

The insurance industry (as earlier shown by the Governor's presentation on share of financial system assets) held around 7.85 percent of the gross assets of the financial system as at June 2016. It is relatively small when compared to the commercial banking industry and the FNPF, but it is an industry that continues to grow amidst the challenges it faces.

We have also provided on this slide the market share information by net premiums as at December 2015. 7 general insurance companies and 2 life insurance companies are currently licensed to conduct business in Fiji, similar to the numbers of entities operating in 2013 and 2014.

Slide 4:

Honourable members, we provide in the next few slides trends in some key soundness indicators of the insurance industry over the 5 years to 2014, which cover the periods of the 2013 and 2014 Reports as you have requested.

You will note the consistent growth of the industry during these five years which we can also confirm continued to 2015.

On assets, it is vital for any insurance operation to have a strong asset base. Since insurance companies are in the business of taking on liabilities in the form of risks they cover, they need a strong asset base to support these liabilities and the Fiji insurance industry has been growing its asset base over the years especially in 2013 and 2014, when in 2014, the life insurance sector for the first time reported assets of more than 1 billion Fiji dollars.

Slide 5:

Solvency is the most important test of soundness used by regulators like the Reserve Bank to ensure that insurance companies have the ability at all times, to meet their liabilities when they fall due. Again an increasing trend of solvency surplus reported by the industry over the 5 years to 2014 as it holds more than sufficient good assets to meet expected and unexpected policyholder claims.



Slide 6:

The trend in gross premiums again reflects the growth of the insurance industry in 2013 and 2014 proving the increase in insurance take up both in the general and life sectors. While the growth in the gross premiums of the life insurance sector has been consistent, the general insurance sector gross premiums reported a significant growth of 10 percent in 2013 after consecutive growths of an average 6.5 percent in the last five years from 2009.

Slide 7:

While gross premiums are one side of the insurance coin, the other side is claims and policy payments. Although a growth trend was similarly experienced on the total claims and policy payments made over 2013 and 2014, the general insurance sector noted a reduction over the year to 2014 attributed to the significant absence of catastrophes over this period which led to a reduction in claims reported and settled.

Slide 8:

Honourable members, the profitability of the insurance industry is always a subject of discussion where the industry is seen by some as very profitable. The trends in this slide confirm that this may not be the case all the time, as the industry's bottom line is sensitive to events that are beyond its control. You only have to look at the picture showed by the general insurance sector in 2012 to understand the impact of the natural disasters of that year on the performance of the industry and the reduction of the after tax surplus of the life insurance industry in 2014 attributed to the significant downward revaluation of its assets which impacted on its after tax surplus.

Slide 9:

The last key soundness indicator is on policy numbers showing a consistent alignment to the trend in gross premium over 2013 and 2014.

Slide 10:

Honourable members, if we have to summarise the performance of the insurance industry as noted in the 2013 and 2014 Insurance Annual Reports, we would say that:

- the insurance industry recorded significant growth due to a significant absence of catastrophic events, but more importantly that the growth was a reflection of the period of sustained growth that the Fiji economy was also experiencing at the time and;
- The industry was also assessed to be safe and sound with satisfactory levels of capital and earnings.

RESERVE BANK OF FIJI



Slide 11:

In terms of the regulatory role of the Reserve Bank of Fiji, the 2013 and 2014 Insurance Annual Reports provided an explanation of how we continued to undertake our financial stability mandate through the administration of the Insurance Act 1998, with the key objective of protecting policyholders, and we do this through the powers provided to us under the Act, and the various regulation and supervision activities as listed on the slide.

Slide 12:

Honourable Members, by way of concluding this short presentation, we provide our supervisory assessment that 2015 was also a good year for the insurance industry. It was a period of stiff competition and you may note this from the market share statistics provided in the earlier slide of no real leader in the general insurance industry as all companies were aggressive in underwriting risks, but ensuring that these were supported by adequate solvency and reinsurance arrangements.

For the kind information of the Standing Committee, the Reserve Bank of Fiji had provided the 2015 Insurance Annual Report to the Minister of Economy on 30 June 2016, and we understand that the Report is awaiting tabling in Cabinet.

2016 however will be a different story as we all know, with the devastation of Severe Tropical Cyclone Winston in February of this year. We have already seen the downside impact on the performance of the general insurance sector in the first quarter of 2016.

Claims from TC Winston and the subsequent floods in the Western Division are still being assessed, and the Reserve Bank of Fiji continues to monitor this. As at 10 August 2016, estimated insured losses from TC Winston were reported at \$232.7m with a total number of 1, 517 claims reported. The Western Division floods which followed TC Winston have reported claims of about 800k.

We however expect the solvency surplus accumulated over the years and the effective reinsurance arrangements that most of our Fiji companies have to provide the required buffers to settle the claims arising from these 2 disasters and ensure the continued safety and soundness of the insurance industry in Fiji

...and on that note Honourable Chair and members of the Standing Committee, we thank you for the opportunity to discuss with you the RBF Annual Reports of 2014 and 2015 and the 2013 and 2014 Insurance Annual Reports.

Vinaka.