



# SUPERVISION AND REGULATION OF FIJI'S FINANCIAL SYSTEM

RESERVE BANK OF FIJI

## OUR VISION

Leading Fiji to Economic Success

## OUR MISSION

Enhance our role in the development of the economy  
Provide proactive and sound advice to Government  
Develop an internationally reputable financial system  
Conduct monetary policy to foster economic growth  
Disseminate timely and quality information  
Recruit, develop and retain a professional team

## OUR VALUES

Professionalism...in the execution of our duties  
Respect...for our colleagues  
Integrity...in our dealings  
Dynamism...in addressing our customers' needs  
Excellence...in everything

# Contents

	Page No.
Foreword by the Governor	1
1.0 Introduction	2
2.0 What are the Objectives of Supervising the Financial System?	3
3.0 What Constitutes Fiji's Financial System?	5
3.1 The Banking Industry	6
3.2 The Insurance Industry	7
3.3 The Superannuation Industry	8
3.4 The Foreign Exchange Industry	9
3.5 Non-Bank Financial Institutions	10
3.6 The Stock Market	10
4.0 What is RBF's Approach to Regulating and Supervising the Financial System?	11
4.1 Licensing Process	11
4.2 Regulation Strategy	11
4.3 Supervision Strategy	11
4.4 Revocation of Licence	12
5.0 Reserve Bank of Fiji Website	12
6.0 Frequently Asked Questions (FAQs)	13
6.1 Does RBF accept deposits from the public?	13
6.2 Does RBF regulate fees and charges charged by Banks and Credit Institutions?	13
6.3 What is the structure of the Reserve Bank?	13
6.4 What is the RBF doing to further develop the Financial System in Fiji?	14
6.5 Does the Reserve Bank have a role to play in Anti-Money Laundering and Combating the Financing of Terrorism?	15

# Foreword by the Governor



A financial system is that part of the economy which includes all the institutions involved in moving savings from savers to borrowers, and in transferring, sharing, and insuring risks.

In the event of a catastrophe or shock in the financial system, the effects would be felt, not just by the wider Fiji economy or financial entities, but would filter down to the every day person, you and I. In this light, the functions of the Reserve Bank of Fiji (RBF) are extremely important to the welfare of the nation. But most people are still unaware of the role of the Reserve Bank in the financial system.

This booklet focuses on the Reserve Bank's responsibilities in particular to promoting a sound financial structure and thus facilitating financial stability. It explains RBF's objective and approach in carrying out that purpose.

This booklet is part of the Reserve Bank's efforts to improve public awareness of the financial system supervisory and regulatory functions and operations of the Reserve Bank of Fiji. I trust that this booklet would lead to a better understanding of the importance of financial system stability and the role of the Reserve Bank in bringing about this stability.

A handwritten signature in black ink, which appears to read 'Savenaca Narube'. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Savenaca Narube  
Governor

March 2006

# 1.0 Introduction

The functions, powers, and responsibilities of the Bank are specified in the Reserve Bank of Fiji Act (rev. 1985).

"The principal purposes of the Reserve Bank as stated in Section 4 of the Reserve Bank of Fiji Act are as follows:-

- to regulate the issue of currency, and the supply, availability and international exchange of money;
- to promote monetary stability;
- to promote a sound financial structure; and
- to foster credit and exchange conditions conducive to the orderly and balanced economic development of the country."

The Banking Act (1995), Exchange Control Act (rev. 1985), Insurance Act (1998) and the Insurance (Amendment) Act 2003 provide the Reserve Bank of Fiji the power to regulate and supervise the financial institutions that fall under its supervisory ambit.



## 2.0 What are the Objectives of Supervising the Financial System?

An unstable financial system can do enormous damage to a country; savings can disappear, businesses can go bankrupt, people can lose their jobs, there will be low confidence level by the public and these can all in turn reduce the level of economic growth. Thus, maintaining a stable financial system is fundamental to any country's wellbeing.

The Reserve Bank of Fiji is charged with promoting a sound financial structure. In undertaking this role, the Reserve Bank regulates and supervises the financial system.

The Reserve Bank supervises the financial system with the aim to:

- protect the interests of depositors, creditors and policyholders of banking and insurance businesses and members of the Fiji National Provident Fund (FNPF), by establishing, promoting, monitoring and enforcing international standards and best practices to maintain financial soundness of these institutions;
- maintain confidence in the financial system by promoting its strength and integrity and ensuring that the failure of individual financial institutions does not undermine the overall stability and soundness of the system.

In order to better understand how the RBF promotes a sound financial system, it would be appropriate that we first define what a financial system is and what makes up Fiji's financial system.





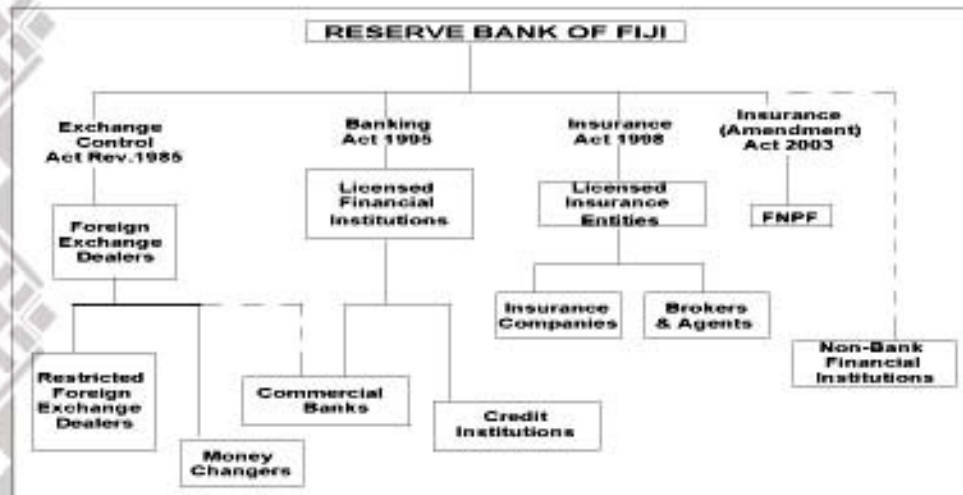
# 3.0 What Constitutes Fiji's Financial System?

As at 31 December 2005, Fiji's financial system includes the following:<sup>1</sup>

- I The Banking Industry: This comprises 5 commercial banks and 3 credit institutions;
- II The Insurance Industry: This is made up of 9 insurance companies, 4 insurance brokers and around 320 insurance agents;
- III The Superannuation Industry: This currently comprises the Fiji National Provident Fund;
- IV The Foreign Exchange Industry: This includes 8 restricted foreign exchange dealers and 4 money changers;
- V Other Non-Bank Financial Institutions: currently includes institutions such as the Housing Authority and the Fiji Development Bank; and
- VI The Stock Market or the South Pacific Stock Exchange.

Of the six groups identified above, only the first four are under the direct supervision and regulation of the Reserve Bank. Diagram 1 shows the institutions that the Reserve Bank regulates and supervises and the legislations that provide the Bank with the power to do so.

Diagram 1



Refer to the RBF website ([www.rbf.gov.fj](http://www.rbf.gov.fj)) for an updated list of licensed financial institutions



The following sections provide more information on each industry.

## 3.1 The Banking Industry

The Reserve Bank regulates and supervises the banking industry to look after the interests of depositors and creditors of the financial institutions and to ensure the stability of the financial system.

The Banking Act (1995) gives the Reserve Bank the powers to:

- issue licences to financial institutions carrying out the business of banking; and
- regulate, as well as supervise, these financial institutions.

In simple terms, commercial banks and credit institutions are doing “banking business” if they:

- (a) accept deposits of money from the public and use these funds for loans and investments; and
- (b) engage in any other activity recognised by the Reserve Bank as normal banking practice, which a licensed financial institution engaging in the activities described above, may additionally be authorised to do by the Reserve Bank.

The two main differences between a commercial bank and a credit institution are:

- Commercial banks accept three types of deposits - Savings, Demand (Cheque Account) and Time (Term Deposits) while credit institutions only accept Time Deposits; and
- Credit institutions can only accept deposits of F\$1,000 or more.



**Bank of Baroda**



**Habib Bank Limited**



**Colonial.**

**National Bank**

**Westpac Banking Corporation**



**Merchant Finance**

*Talk to us first*

## 3.2 The Insurance Industry

The Reserve Bank's role under the Insurance Act (1998) is to formulate "standards governing the conduct of insurance business and insurance broking business" and to supervise the "conduct of agents, brokers and insurers in Fiji".

The insurance industry in Fiji is made up of four main players:

- (a) *Life insurance companies* who conduct business that consists of the issuing of life policies, including business relating to the investment, administration and management of the assets of a statutory fund;
- (b) *General insurance companies* who conduct insurance business of any class or classes not being life insurance business;
- (c) *Insurance brokers* who may be persons or entities who buy insurance products on behalf of a person wishing to be insured and who is paid by the insured person or company by way of commission or fee, etc; and



- (d) *Insurance agents* who are persons or companies who are paid a commission by an insurer to sell its products.

### 3.3 The Superannuation Industry

Since 1966, the Fiji National Provident Fund (FNPF) has been the primary player in the Superannuation Industry in Fiji. The FNPF provides a compulsory savings plan where members could withdraw their savings at age 55, or for death of members' relatives, emigration, medical, housing and education purposes.

Since its establishment, the Fund's assets and operation have continuously expanded over the years. The Fund accounts for nearly half of the financial market in Fiji and its assets are



greater than those of all the commercial banks. Formal supervision of the Fund by the Reserve Bank of Fiji was formalised by the Insurance (Amendment) Act 2003.

### 3.4 The Foreign Exchange Industry

Persons who are permitted to conduct foreign exchange business are referred to as “Authorised Dealers” under the Exchange Control Act (rev. 1985). Section 3 of the Act states that only foreign exchange dealers that are authorised by the Minister for Finance and National Planning are allowed to conduct business as such. In November 2002, the power to licence, control and monitor foreign exchange dealers was delegated to the Reserve Bank of Fiji.

There are three categories of authorised dealers in Fiji:

*(a) Money Changers*

The money changer business is restricted to foreign exchange dealings in travel related transactions only. Money changers are allowed to convert travellers’ cheques and foreign currency notes to Fiji currency and vice versa, remit proceeds of repatriated Fiji currency notes and issue bank drafts.

*(b) Restricted Foreign Exchange Dealers*

Transactions allowed under this category include those permitted for money changers as well as additional transactions such as telegraphic or electronic transfers for payment and receipt of funds, and any other payments as specified by the Reserve Bank.



*c) Fully Authorised Foreign Exchange Dealers*

This business is open to all types of foreign exchange transactions. Commercial banks fall under this category.

### 3.5 Non-Bank Financial Institutions

Non-bank financial institutions (NBFIs) are those financial institutions that do not accept deposits from the public and, therefore, do not carry out “banking business” as defined by the Banking Act. Examples of these are the Fiji Development Bank and Housing Authority.

At present, RBF does not regulate but supervises several NBFIs upon the direction of the Minister for Finance and National Planning. The Reserve Bank only receives voluntary submissions of returns from these institutions for the purposes of financial sector data consolidation.

### 3.6 The Stock Market

The Stock Market is the place where you can buy and sell your shares in the listed companies. Fiji’s stock market is called the South Pacific Stock Exchange and currently has 15 companies listed. The main players of this industry are securities professionals such as brokers, dealers, investment advisers, unit trusts and their representatives, securities exchanges and central depositories. These entities are regulated by the Capital Markets Development Authority and not by the Reserve Bank of Fiji.



# 4.0 What is RBF's Approach to Regulating and Supervising the Financial System?

## 4.1 Licensing Process

An applicant intending to conduct banking business, insurance business or foreign exchange business must obtain a Checklist of Licensing Requirements for the respective business. The Checklist can be obtained from the RBF website or directly from the Reserve Bank. Requirements for each business vary but would include a letter of intent, an application fee, minimum paid-up capital and copies of the past three years annual balance sheet, as well as financial projections for the first three years of operation. All requirements laid out in the Checklist must be fulfilled and submitted to the Reserve Bank of Fiji for assessment.

Upon evaluation, the Reserve Bank will inform the applicant of the result of its application. Whilst the Reserve Bank encourages competition and new entry of institutions to the financial system, licences will only be granted after all requirements are satisfactorily met.

## 4.2 Regulation Strategy

The Reserve Bank has developed specific prudential supervision guidelines for the respective financial sectors it supervises. In addition to the requirements under the various Acts outlined in Diagram 1 and the RBF legislation, licensed institutions are required to comply with prudential policies and guidelines issued by the Reserve Bank. The guidelines are developed in accordance with the international practices recommended by the Switzerland-based Basel Committee on Banking Supervision and the International Association of Insurance Supervisors, taking into account the domestic realities.

## 4.3 Supervision Strategy

RBF monitors the activities of licensed financial institutions through off-site monitoring and on-site examinations.

- Off-site supervision is conducted through the analysis of financial and other prudential statistics provided by licensed entities. In monitoring their condition and performance, due regard is paid to capital adequacy, large exposure concentrations, asset quality, profitability, liquidity position, foreign exchange exposures, money laundering policies and their risk management practices.

- On-site supervision involves visits to licensed financial institutions. During these visits, Reserve Bank staff closely examine the institution's operations, policies and procedures. Checks on compliance with the Reserve Bank's prudential policies and prescribed regulations are also an integral part of on-site supervision.

## 4.4 Revocation of Licence

RBF has the power to revoke licences of licensed financial entities when Conditions of Licence and Provisions of the respective Legislations are breached.



## 5.0 Reserve Bank of Fiji Website

The Policy Statements and Guidelines issued by the Reserve Bank to the institutions it regulates and supervises can be found on the RBF website ([www.rbf.gov.fj](http://www.rbf.gov.fj)) or obtained from the Reserve Bank. Other information available on the RBF website include the Checklist of Licensing Requirements, the financial statements for commercial banks and credit institutions, the RBF Annual Report, the Insurance Annual Report, Quarterly Reviews, Economic Reviews and speeches.



## 6.0 Frequently Asked Questions

### 6.1 Does RBF accept deposits from the public?

The Reserve Bank of Fiji does not accept deposits from the public nor does it give loans to the public. The RBF is not a commercial bank to the public but acts as a bank for commercial banks and for Government only.

### 6.2 Does RBF regulate fees and charges charged by Commercial Banks and Credit Institutions?

In attempting to maintain a sound financial system, the Reserve Bank expects financial institutions to deliver their products and to provide services in an efficient and in a cost-effective manner.

RBF does not regulate fees and charges for banks and credit institutions but has issued a Disclosure Guideline on Fees and Charges for Banks and Credit Institutions. The Guideline ensures that licensed banks and credit institutions fully disclose its fees and charges levied on its offered services and products. The policy also requires the standardisation of the disclosure to ensure transparency and comparability of the fees and charges by members of the public.

### 6.3 What is the structure of the Reserve Bank?

The Reserve Bank's structure comprises six groups: Corporate Planning & Assurance, Currency & Corporate Services, Economics, Executive Services, Financial Institutions and Financial Markets.

The Executive Services Group comprises the Governors, Advisor to Governors, Advisor Corporate Affairs and the Governors' Secretaries. Core functions of the group include achievement and the overall management of the Bank; carrying out the Bank's statutory responsibilities; and provide support and administration to Board and Executive Management.

Core functions of the Corporate Planning & Assurance Group include corporate compliance and assurance, annual workplan, local and international liaison, middle office, settlements, Quality Performance Management (QPM), media and public relations.



The Currency & Corporate Services Group is responsible for ensuring the issue of an adequate supply of quality currency and also looks after the Bank's internal services including accounts and financial reporting; budget coordination, human resources; information technology; plant and properties; security; records management; corporate projects; library and general administration.

The core functions of the Economics Group include economic analysis and research, monetary and macroeconomic policy, forecasting, financial and economic statistics and publications.

The major functions of the Financial Institutions Group include financial systems supervision, development and implementation of prudential supervision policies, licensing and examination of licensed financial institutions.

The Financial Markets Group is responsible for setting exchange rates, foreign exchange dealings, market monitoring, foreign exchange reserves management, exchange control, open markets operations, registry and liquidity forecasting.

## 6.4 What is the RBF doing to further develop the Financial System in Fiji?

The Reserve Bank is presently undertaking two financial system special projects. These are the Modernising of Fiji's Payment & Settlement System and provision of banking services in the rural areas.

RBF is working closely with the Association of Banks in Fiji in establishing a high value Real Time Gross Settlement System for inter-bank transactions in Fiji which is expected to go-live towards the end of 2006. Regulations were issued in August 2004 giving the Reserve Bank formal oversight over of Fiji's payment and settlement systems. The payment system consists of "a set of instruments, banking procedures and, typically, interbank funds transfer systems that ensure the circulation of money".

The Reserve Bank, together with the commercial banks, Government and other stakeholders are working towards improving the provision of banking services in the rural areas.

## 6.5 Does the Reserve Bank have a role to play in Anti-Money Laundering and Combating the Financing of Terrorism?

Established under a Memorandum of Agreement (MOA) signed in July 2003 by the Ministry of Justice, the Director of Public Prosecutions, the Fiji Police Force and the Reserve Bank, the creation of the Financial Intelligence Unit (FIU) was a move towards Fiji's commitment to meet international standards in the area to counter money laundering and the financing of terrorism. The enactment of the Financial Transactions Reporting Act in December 2004 established the FIU by law. At present, the FIU is being housed in the Reserve Bank of Fiji.

The FIU is the central agency in Fiji responsible for receiving, analysing and disseminating, to the relevant law enforcement authorities, suspicious transaction reports and other financial information concerning suspected proceeds of crime and other related serious offences in order to counter money laundering and the financing of terrorism in Fiji.



## TAGAGA

The great double-hulled ocean going canoes (Drua) of the ancient Fijians were remarkable craft capable of long voyages. The tagaga (pronounced "tanganga"), or masthead, was crucial for holding in place the sails, woven from the leaves of the pandanus tree. It was the tagaga, which enabled navigators to keep their drua sailing towards their destinations.

For the Reserve Bank of Fiji, a logo based on the tagaga masthead symbolises the Bank's role in contributing towards a sure and steady course for the Fiji economy.

**For more information contact:**

The Chief Manager  
Financial Institutions Group  
Reserve Bank of Fiji  
Private Mail Bag  
Suva, Fiji  
Telephone: (679) 331 3611  
Facsimile: (679) 330 1688  
330 2049  
Email: [info@rbf.gov.fj](mailto:info@rbf.gov.fj)  
Website: [www.rbf.gov.fj](http://www.rbf.gov.fj)  
March 2006