



Importance of Non - Bank Financial Institutions in Fiji

A commercial bank is usually the financial institution we deal with most often. People deposit and withdraw money everyday from the banks. However, they are not the only financial institutions that exist in our country. There are others, which are called Non-Bank Financial Institutions (NBFIs). When purchasing insurance from an insurance company, taking out an installment loan on your new car from a finance company, buying a share of common stock with the help of a broker, or contributing to the pension fund with FNPF, you are dealing with NBFIs.

In our economy, NBFIs also play an important role in mobilizing financial savings. However, such institutions differ from commercial banks in that they are not authorized to accept demand deposits from the public that can be withdrawn by cheques. Overtime, this sector has grown tremendously, reflecting developments in the financial system and the process of financial innovation witnessed in the late 1980s and early 1990s.

In Fiji, NBFIs include credit institutions, insurance companies as well as the Fiji National Provident Fund. Collectively, NBFIs account for 63 percent of the total financial systems assets.

Currently, there are 3 **licensed** credit institutions (LCIs) namely: Merchant Finance Limited, Credit Corporation (Fiji) Limited and Home Finance Company Limited. Non-licensed NBFIs include the Fiji Development Bank (FDB), Housing Authority (HA) and Unit Trust of Fiji (UTOF). There are 9 insurance companies¹ and 1 Fiji National Provident Fund. Basically, the LCIs operate to provide a range of services. While some are in the business of mostly financing purchases of machinery, equipment and vehicles, others engage mainly in providing mortgage lending for housing and other loans for personal purposes. Looking at the Non-Licensed NBFIs, the primary functions of these institutions vary, with FDB and HA

focusing solely on lending and UTOF being an investment vehicle for its unit holders.

Similarly, insurance companies exist to provide protection against the occurrence of certain catastrophic events that could lead to large financial losses. Apart from accepting premiums to cover for such events, the dues paid by policyholders have also contributed to employment and income for the people of this nation. Relative to total assets of the financial system, the insurance industry accounts for around 9 percent.

The largest single NBFI in the financial system as measured by asset size is the FNPF. It administers a superannuation fund to which employers and employees contribute, thus ensuring that workers have money when they retire at the age of 60. The FNPF accounts for more than \$2.8 billion or 42 percent of total financial system's assets and helps finance major projects and other business activities.

Apart from their principal activities, such institutions also buy or invest in shares with other stakeholders in the economy. This may range from investing in RBF Notes, Fiji Government bonds and other domestic securities that are currently available in the market. This is important as it ensures that NBFIs have a strong asset base to support its day-to-day operations as well as meet any obligations that may fall due.

The overall performance of the NBFIs has been satisfactory over the last 5 years. This is reflected in their profitability, as well as the expansion of their loan portfolio and asset base over the years. Through innovation, such institutions now compete more directly with banks by providing bank- like services to their customers.

Finally, it is these NBFIs and other financial institutions that make the financial system work. Together, they mobilize and allocate savings to companies and individuals who want to borrow for investment purposes. Hence, through their services, NBFIs contribute towards overall economic activity and growth.

¹ Colonial Heath Care (Fiji) Ltd., Dominion Insurance Co. Ltd., FijiCare Insurance Co. Ltd., New India Assurance Co. Ltd., Sun Insurance Co. Ltd., Queensland Insurance (Fiji) Ltd., Tower Insurance (Fiji) Ltd., Colonial Fiji Life Ltd., Life Insurance Corporation of India.

RESERVE BANK OF FIJI