

RESERVE BANK OF FIJI



WRITTEN SUBMISSION TO THE STANDING COMMITTEE ON ECONOMIC AFFAIRS

RESERVE BANK OF FIJI INSURANCE ANNUAL REPORTS 2019 & 2020

A. Introduction

1. We wish to thank the Honourable Chair and Honourable Members, for the invitation to make a written submission to the Standing Committee on Economic Affairs, on the Reserve Bank of Fiji's Insurance Annual Reports for 2019 and 2020.
2. It is well known to the Honorable Chair and members of the Standing Committee that the Reserve Bank of Fiji ('RBF') is mandated under section 165 of the Insurance Act 1998 ('Act') to submit the Insurance Annual Report to the Minister for Economy by 30 June of the following year, a requirement that the Bank continues to effectively meet.
3. Honourable Chair, given the timing of this submission, we wish to propose that we provide the highlights of the two Reports in this document, to be followed by some high-level commentary on the contribution of the insurance industry to the sustainable development goals, and conclude with a more recent outlook for the insurance industry in the next 12 months. We would however wish to begin by again highlighting why the insurance industry is important to Fiji, and the rationale for why it is supervised by the RBF.

B. Importance of the Insurance Industry and its Supervision by the RBF

4. The insurance industry remains an important part of Fiji's economic sector. In a time of heightened uncertainties and risks to every aspect of our lives, insurance has continued to be an important safeguard for mitigating losses at household, business, national and global levels.
5. **Insurance companies offer financial protection for consumers.** Consumers have become so accustomed to routine that they often do not realise the barrage of risk and uncertainty they face every day. Whether it is a vehicle accident, an accidental house fire, a flooded home or an injury at work, unexpected hardships can come up at any moment.

Insurance can help manage these uncertainties and potential losses by providing vital financial protection. Without it, many individuals in these situations would be financially strained.

6. **Insurance companies help businesses mitigate risk.** As with consumers, helping businesses mitigate risk can have a lasting, positive impact on the economy. Similar to consumers, businesses can also face financial duress due to disasters and unforeseen challenges. When disasters strike, insurance is one of the best financial tools businesses can call upon to help tackle these challenges.

Business insurance also helps drive growth. At its core, the protective safety net of insurance enables businesses to undertake higher-risk, higher-return activities than they would in the absence of insurance. These actions help businesses run successfully, which translate to more jobs and an increase in economic activity.

7. **Insurance companies help finance economic development projects.** Licensed insurers operating in Fiji have more than \$1 billion invested in the economy. Insurance companies typically invest premiums not used to pay claims and other operating expenses. Through government bonds, real estate investments and investments in listed/unlisted entities, these investments are often circulated in the economy to finance building construction and provide other crucial support to economic development projects around the country.
8. The supervision of the insurance industry is an important role that the RBF undertakes under its financial stability mandate. Insurance companies collect premiums with the promise that they will pay for claims when called upon. To ensure that insurance companies remain safe and sound, to be able to keep this promise, they need to operate in a prudent manner and this is confirmed through supervisory oversight.

C. The Fijian Insurance Industry in 2019

9. 2019 was assessed as a good year for the Fijian insurance industry as it maintained an adequate solvency position, and registered a positive earnings level. The insurance industry made up around 8.7 percent of the total assets of the financial system in 2019,

noting a growth in total assets by 7.5 percent to \$1.9 billion, largely underpinned by the life insurance sector.

10. The life and general insurance sectors' combined gross premiums recorded a growth of 5.4 percent to \$366.7 million, attributed to stronger results from the general insurance sector. A marginal pick-up in the industry's contribution to GDP was noted, as it registered 3.1 percent in 2019 compared to 3.0 percent in 2018, measured by gross premiums as a percentage of GDP.
11. Gross premiums for the general insurance sector grew by 5.4 percent to \$216.8 million, on the back of increases in the medical, fire and motor vehicle classes. The motor vehicle class being the most competitive since 2017, dominated gross premium income at 30.8 percent, followed by the fire class at 27.7 percent.
12. Similarly, gross premiums of the life insurance sector grew by 5.4 percent to \$149.9 million, underpinned by the higher premiums received from the uptake of investment-linked endowment products.
13. In 2019, net policy payments and claims paid by the industry stood at \$223.1 million, a slight decline from \$223.3 million in 2018. Life insurers reported an increase of 9.3 percent to \$129.9 million in net policy payments as a result of higher maturities, surrenders and death related payments. General insurers on the other hand, recorded a decline in claims paid by 12.2 percent to \$93.2 million, due to the reduction in major insurance losses arising from the absence of major catastrophes during the year.
14. Both the life and general insurance sectors reported strong solvency positions in 2019. Complementing this was the overall growth in profitability, largely due to the performance of the general insurance sector, which registered an improved underwriting performance. On the other hand, the life insurance sector recorded a decline in its after tax earnings, underpinned by a lower asset value appreciation and an increase in policyholder liabilities.
15. In terms of safeguarding the sustainability of insurance companies, effective reinsurance arrangements are essential. In 2019, reinsurance premiums paid by general insurers amounted to \$51.0 million, of which reinsurance recoveries totaled \$18.9 million.

16. In 2019, the life insurers' investment portfolio grew by 6.4 percent to \$1.3 billion, dominated by Government securities (\$744.9m), listed and unlisted equities (\$342.0m), and land and buildings (\$114.0m). Licensed insurers also contributed to the commercial banks' ability to provide loans through their deposit holdings which amounted to \$236.4 million as at 31 December 2019.
17. Despite 2019 being assessed as a good year for the insurance industry, the challenges of the COVID-19 pandemic was imminent. Amidst the 'new normal', the effects of climate change was another area that was expected to persist with its own set of challenges, specifically for small developing countries like Fiji. Therefore, efforts to work with the insurance industry in reviewing their portfolios to increase coverage for disaster risk, remains a priority.
18. A new supervision policy was issued for all RBF's supervised entities, including insurance companies. This policy was the RBF's first system wide prudential statement specifying the *'Minimum Requirements for Corporate Governance of Licensed Entities'*. The new policy was effective from 01 April 2019 and requiring full compliance by 01 April 2020. Moreover, the revised Solvency Guidelines continued with its trial implementation, while awaiting the finalisation of the review of the Insurance Act 1998.

D. The Fijian Insurance Industry in 2020

19. The Fijian insurance industry remained resilient in 2020, registering a positive growth despite the shock brought about by the global impact of the COVID-19 pandemic. The two natural disasters which occurred during the year incurred minimal losses, with marginal increases recorded in total claims paid.
20. The industry demonstrated both operational and financial resilience, reflected in available capital resources (solvency positions) remaining well above prudential requirements with all licensed insurance companies recording net profits after tax.
21. Total assets of the insurance industry continued with its growth momentum from 2019, increasing by 9.4 percent to \$2.1 billion, attributed to the life insurance sector. The industry made up around 8.0 percent of the total financial system assets.

22. The impact of the economic slowdown was more evident in the number of new business and renewals recorded in 2020, with the general insurance sector reporting a decline of 7,235 policies underwritten during the year. The life insurance sector recorded the lowest ever growth in new business since the year 2000, declining by 4,114 policies from 2019.
23. The combined gross premium income of the insurance industry noted a marginal growth of 0.7 percent to \$369.3 million in 2020, underpinned by the life insurance sector. Gross premiums as a percentage of GDP registered a marginal pick-up at 3.8 percent compared to 3.1 percent in 2019.
24. Gross premiums of the general insurance sector noted a decline of 7.1 percent to \$201.4 million, after five years of consecutive growth. This was attributed to the negative impact of the COVID-19 pandemic on business renewals, resulting from business disruptions and reduction in market related activities in 2020, particularly for tourism related businesses.
25. In contrast, the life insurance sector's gross premiums increased by 12.0 percent to \$167.9 million. The life insurance sector recorded its fifth consecutive year of growth in insurance premiums, underpinned by endowment single premium products. Strong returns from investment assets also saw the notable increase in policyholder liabilities in 2020.
26. Despite the minimal loss incurred from the two natural disasters experienced in 2020, the Fijian insurance industry paid out a total of \$224.6 million in claims compared to \$223.1 million in 2019. Life insurers paid out \$128.4 million, a drop of 1.1 percent due to lower payouts for matured policies. The general insurers recorded a higher payout by 3.3 percent, to \$96.2 million emanating mainly from claims settlement for fire, householders, marine hull and professional indemnity classes.
27. Despite the negative impact of the COVID-19 pandemic on the Fijian economy, the insurance industry recorded a positive growth in 2020. All licensed insurance companies recorded net profits after tax which strengthened their solvency positions and is indicative of a resilient and well capitalised industry that is more than capable to absorb claims obligations, as and when necessary.

28. The solvency positions were supported by the positive profitability position of both sectors, with the general insurance sector recording an improvement in its bottom line compared to 2019. Furthermore, effective reinsurance arrangements were in place for all general insurers during the year, reducing risk exposures and freeing up more capital, thus enabling economic growth and helping to create stability.
29. The life insurance sector's total investments grew by \$136.0 million to \$1.4 billion, mostly in government securities (\$851.6m) and shares in related persons (\$213.1m). Total deposits held by the insurance industry in the banking system totaled \$225.8 million in 2020, supporting economic growth.
30. In adapting to the challenges arising from the COVID-19 pandemic, the Reserve Bank re-prioritised its supervisory focus, and activities during the year. A supervisory guidance was issued to all supervised entities on 20 March 2020, where the Reserve Bank reminded institutions of the importance of ensuring adequate risk management during the pandemic. Key actions that institutions were required to undertake included the review of Business Continuity Planning arrangements, and effective controls for remote working in view of cybersecurity risk and infection control. The implementation of this guidance was closely monitored by the RBF, and continues in the duration of the pandemic.
31. Despite the challenges of 2020, the RBF was still able to undertake further development work for the insurance industry as follows:
 - a. **2020 Financial Services Demand Side Survey (DSS):** A second DSS was conducted by the RBF in partnership with the Fiji Bureau of Statistics, the Pacific Financial Inclusion Programme (PFIP) and the Alliance for Financial Inclusion (AFI), towards the end of 2020. The objective of the DSS was to measure the impact and progress made on the National Financial Inclusion Strategic Plan (NFISP) 2016-2020 and provide data that would assist in the development of the next NFISP 2022-2026 for Fiji. The new DSS provides a new focus on women, the resilience of Fijians to climate change events, and their knowledge of climate related insurance products.

- b. **National Financial Inclusion Strategic Plan (NFISP) 2016-2020 Target:** The 5-year NFISP introduced a target to increase the percentage of adults with an insurance product from 12.0 percent in 2015 to 25.0 percent in 2020. By 2019, data received from insurers showed that this target had been met as 41.0 percent of Fijians have had access to an insurance product.

- c. **Climate Insurance:** In December 2020, a Pacific Insurance and Climate Adaptation Programme (PICAP) was launched which was jointly developed, and will be implemented by the United Nations Capital Development Fund (UNCDF), the United Nations University Institute for Environment and Human Security (UNU-EHS) and the United Nations Development Programme (UNDP). The initiative seeks to develop affordable parametric and weather index-based climate risk insurance which is targeted at the agriculture, fisheries, retail and tourism sectors with specific focus on women, youth, migrants and the micro, small, and medium enterprise sectors.

E. The Insurance Industry's Contribution to the Sustainable Development Goals

- 32. It has long been believed that insurance has an important role to play in the achievement of the UN Sustainable Development Goals (SDGs). Research to date has mostly focused on the broad understanding of SDG's, rather than on their actual components. Given the worldwide relevance of SDGs and the commitment of countries to track progress annually by 2030, insurance supervisors and regulators like the RBF, recognise the need for clear links between insurance and development goals.

- 33. In one of its recent publications, the World has noted that "the role of insurance is multifaceted and includes strengthening household and business resilience and facilitating the flow of capital. Looked at from different angles, it is clear that insurance contributes to SDGs. However, for the most part, insurance is not well recognised as a tool in achieving these goals."

34. An assessment however of how insurance is believed to be contributing to the SDGs has been made through the transmission mechanisms which these contributions are made; through households; through the private sector; and through the public sector. In turn, each of these routes can have impact on multiple SDGs as below:

- for households, insurance can help with saving and borrowing (SDG 8 and 10), healthcare delivery and decreasing out-of-pocket expenditure (SDG 3);
- for businesses, insurance can solve issues with access to credit (SDG 9), agriculture development (SDG 2), innovation (SDG 9 and 17); and
- for governments, insurance contributes to economic growth (SDG 8), jobs and employment (SDG 8 and 10), financial stability (SDG 10), savings (SDG 8), as well as creating fiscal space in case of natural disasters (SDG 1; 11; 13; 17), playing a role as a supplement to social nets (SDG 1; 8; 10), attracting foreign direct investments, and facilitate export-import operations (SDG 17).

35. The World Bank has further identified the SDGs to which insurance makes significant impact; strong impact and moderate impact as follows:

- a. **Significant impact:** (SDG 13- Climate Action; SDG 11- Sustainable Cities and Communities; SDG 3- Good Health and Well-Being; SDG 10: Reduced Inequalities)
- b. **Strong impact:** (SDG 1- No Poverty; SDG 8- Decent Work and Economic Growth; SDG 2- Zero Hunger)
- c. **Moderate impact:** (SDGs 4, 5, 6 , 7 , 9, 12, 14, 15, 16, 17)

36. The Reserve Bank in its regulatory role has identified the importance of ensuring that its supervised industries including the insurance industry, continue to recognise, and play their roles in meeting the SDGs for Fiji.

F. Conclusion and Outlook for 2022

37. Honourable Chair and Members of the Standing Committee, while the RBF is now initiating work on the drafting of the 2021 Insurance Annual Report, we thought it relevant to conclude with some key highlights of how the insurance industry fared in 2021 with the outlook of what we expect in 2022.

38. While 2021 has been an economically challenging year for the Fijian economy with the continued impact of COVID 19, the insurance industry has shown its continued resilience with more than adequate solvency positions reported and positive, though reduced, profitability levels. Both sectors have registered increased premium levels, however, this has also been matched by a number of significant claims made, for which amounts are still being finalised.
39. Globally, the COVID-19 pandemic has forced insurers to leave the status quo behind. More change has occurred in the industry in the past year than in the previous several years combined, and its pace is only accelerating. The 2021 workplace was marked by more virtual meetings, web-based industry events, and online customer communications. By strategically implementing digital solutions such as automation, mobile solutions and remote network security software and hardware, insurers have tried to be better positioned to handle a wide array of working conditions, whether at the office, in the field, or working from home.
40. The COVID-19 pandemic has also created several new legal issues for the industry. Throughout 2021, business interruption claims and questions of liability have continued to play out in courts, with mixed results. Until such time as precedents are established, insurance providers can expect a bumpy road of ongoing litigation in the future.
41. Although ‘insurtech’ has been on the rise for nearly a decade, the pandemic accelerated the industry’s need for digital solutions. Cybersecurity, big data, digital payments, virtual claims management, remote work access, and many other trends of the past few years quickly evolved from a matter of business efficiency to one of necessity, as insurers and policyholders were suddenly cast into a socially distant world.
42. The global trends of 2021 are expected to continue in 2022 as the insurance industry seeks to adapt to the “new normal.” The Fijian insurance industry will align accordingly to global developments, and insurance companies are expected to refine their strategic direction in the current economic environment, to continue to meet customer needs in terms of pricing

and innovative products, ensuring at the same time their operational resilience and business continuity.

43. The Fijian insurance industry is therefore expected to sustain its positive performance in 2022, however with the downside risk of stronger natural disasters forecasted, the RBF will continue to work with the industry to not only promote insurance awareness to the public, but also develop innovative solutions that meets the needs and affordability of all Fijians, and ensure their resilience is sustained.

Reserve Bank of Fiji

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