

Savenaca Narube: Brief look at the insurance industry and the economy in Fiji

Address by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, at the Launch of Life Insurance Corporation of India Fiji Operations' New Bula Gold product, Suva, 4 July 2007.

* * *

Mr. N Krishnan, Chief Manager Fiji Operations:
Distinguished Guests:
Management and staff of LICl:
Ladies and Gentlemen:

Introductory remarks

Good evening.

Thank you for the invitation to participate in the launch of LICl's new insurance product. I always welcome the opportunity to attend this type of functions to launch new products or services to the financial system. This helps create a competitive environment and most importantly better address the needs of the customer.

I congratulate the Directors, Management and team at LICl for this initiative. I am sure that this initiative will take you closer to your vision ***"To be the preferred life insurer of the people of Fiji by providing innovative life insurance products and world class service at affordable rates"***.

LICl's global operations

LICl has a long and rich history. The other day in preparation for this event I went to their website and I was very impressed with what I found. I learnt that LICl came into existence on 1 September 1956 as a statutory corporation after the Indian parliament nationalised 200 or so private insurance companies. Today, apart from India, LICl operates in over 10 countries such as Nepal, Sri Lanka, Mauritius, Fiji, Kenya, United Kingdom, Saudi Arabia, UAE and Oman. It is the largest financial institution in India with an asset base of US\$1.1 billion.

Let me mention a few other issues on their website. As at 31 March 2006:

- LICl is the world's largest life insurance company in terms of number of policies served;
- It sold the largest number of policies in the world in a year. LICl sold about 24 million policies in 2005 alone;
- LICl has the world's largest agency force network. LICl has over 1 million agents which is more than Fiji's population;
- It holds the world's highest claims settlement record. Interestingly, LICl claims to settle a claim every time you breathe and that is a lot of claims. In 2005, LICl settled about 10.3 million claims to its policy holders or their families; and
- LICl has over 114,000 employees and 2,050 branches worldwide.

LICl's Fiji operations

From that impressive global record, let me say something about their Fiji operations. It started in 1956 with the newly formed statutory corporation taking over New India's life insurance portfolio. So they have been in Fiji for over 50 years. I congratulate them on this milestone.

Statistics show that LICl Fiji:

- Services about 50,000 policies;
- Has total premium income of F\$21.85 million in 2005;
- Settled claims totaling F\$15.8 million in 2005;

- Distributed F\$5.8 million as bonuses to policy holders in 2005; and
- Has a total asset of F\$164.75 million as at 31 December 2005.

As you can see, LIC has contributed significantly to the growth of the insurance industry in Fiji and to the development of the country. Insurance as you know is an important aspect of personal and corporate life. I am glad to say that LIC is at the forefront of the industry and I hope will continue to play this lead role in the future.

Insurance industry in Fiji

As the regulator of the insurance industry in Fiji, the Reserve Bank is satisfied with the overall performance of the industry. Insurance companies are well capitalised and adequately meet their solvency requirements. As you would expect of the long term nature of business, the bulk of their assets is invested in Government securities and term deposits with commercial banks.

But the insurance industry faces several challenges.

The first is the impact of the economic climate that the country is currently facing. As the economic decline reduces real incomes, policyholders may default on premiums and even surrender their policies. This comes at a time when the risks to businesses may be growing. I am informed that insurance companies including LIC have introduced measures to address this challenge. I wish them well in this regard.

The second challenge comes from abroad in the form of natural and man made disasters. The world insurance market is still reeling from the impact of the devastation of nine eleven, the hurricane in New Orleans and Tsunami in Asia. In addition, the increase in terrorism activities poses a huge challenge for the insurance industry. The recent bombings in London and Scotland are a worry. As a result, the hardening of world premiums is bound to affect the domestic insurance markets.

The third challenge is the introduction of new international financial reporting standards. As a result of these new standards, we have seen a fall in asset values of insurance companies, which has reduced their solvency surplus in 2006. Those affected by this development will need to revalue both sides of their balance sheets and take immediate measures to bring their solvency surpluses to the required level.

As the regulator, I must say that the Reserve Bank has enjoyed a very collaborative relationship with the industry. We continue to meet once a year with individual companies. The Insurance Task Force has helped resolved many issues and I would like this Committee to meet more often in 2007. I am glad to say that the insurance industry is sound and the financial system is stable. On our part, the Reserve Bank will continue to develop new policies and progressively move towards enhancing its supervision based on sound risk assessments.

The Fiji economy

On the economy, the Macroeconomic Policy Committee made up of officials from the Reserve Bank, Ministry of Finance, Bureau of Statistics, Ministry of Foreign Affairs, Ministry of Commerce, FIRCA and the Prime Minister's Office will review the 2007 projection this month. In this review, the Committee will need to take into account the following:

- Firstly, where will the tourist numbers be in 2007? The tourist arrival numbers was down by 5.5 percent up to March. The good thing is that this number is better than what we expected. But we obviously need to have more up-to-date data on this important industry. From our selected survey, occupancy rates are still low.
- Secondly, will the trade unions go on strike? If they do, this will have a very significant impact on the economy.
- Thirdly, where is inflation heading? At 6.6 percent at the end of May, inflation is at its highest level for many years and in my view, we have yet to see the peak. The impact of the recent floods on inflation appears to be taking a long time to correct itself. Market food prices have remained persistently high due to a growth in supply for export markers. Because of this, we are now revising upwards our inflation projection for 2007. We will announce this figure soon.

- Lastly, what is happening to exports? The Reserve Bank has emphasized numerous times that the Fiji economy needs to be export led. In this round of review, we will need to reassess the trend in exports.

In summary, economic management has never been as complicated in my experience then what we are facing now. I do not for one moment pretend to know all the answers. But a few things that we need to keep in mind as we collectively search for solutions:

- First, we need to develop a total economic program. This holistic approach is extremely critical to ensure that all policies are pulling in the same consistent direction all the time. It will also bring transparency, certainty and predictability to economic policies.
- Secondly, we have to adopt a medium term view rather than a short term one. We all know that economic statistics come at a lag and they do fluctuate from month to month. In my view, we will secure more dividends if we develop a medium term policy approach.
- Thirdly, we need to protect our financial stability at all times. And we have done that in terms of domestic and external. Government budget is stable and foreign reserves are holding. Sustainability is the key. We should resist the temptation to go for short-term gains, which may create more serious problems for us in the future. Building a good economic platform takes time. But it will help us in the long term.
- Finally, let us take action where we are clear of what we should do. Often, we know what we need to do. Even overseas analysts tell us what we already know. But unfortunately, we take our time getting those things done. I believe that we are now in a situation that we must act. We need to do all we can to build confidence, remove barriers to investment, raise exports, execute reforms, resolve the land tenure issue and so forth.

We are currently projecting an economic turn around in 2008. We should be able to achieve this. Moreover, we should aim to exceed the 2 percent growth estimated for 2008 and we can easily do what we need to do now.

On monetary policy, as I said, foreign reserves have stabilized. This implies that our policies are working to slow down consumption. But it can also be the result of the economic downturn and the delay in major investment projects which have sizeable import contents. Exports are still not performing. So we are still concerned about the medium term. In such a time like this we have to be pragmatic about what we can do. Our credit ceiling will be in place for some time. We have allowed liquidity to rise which has led to commercial banks reducing their lending rates. And we have announced that only applications for advance payments for imports more than F\$15,000 will require Bank approval. The Bank believes that this policy measure will facilitate trade payments and assist importers meet their overseas commitments.

Let me add here that the Bank is not considering any devaluation of the currency.

New Bula Gold

Of course, today, we are here to celebrate the launch of the New Bula Gold product. I understand that this product has been developed in response to customer demand. Customer, and that is you and me, are key to any business these days. It is therefore extremely encouraging that LICl is listening to our voice.

I understand that New Bula Gold is a money-back type of plan. It supplements most of the features of LICl Fiji existing money-back plans like the "Money Tree" range of products. But this New Bula Gold product goes beyond the existing products. It has three new features. These are auto cover, extended term cover and funeral expenses benefit.

I will end there lest I say something wrong about the product. I will leave Mr Krishnan and his team to explain to us all the good features of this new product. They are even ready to sign on customers. I wish LICl and Mr Krishnan every success.

Concluding remarks

In concluding, I would like to thank Mr. Krishnan again for inviting me here this evening. I congratulate you on this initiative and wish you every success.

Official launching

I now have much pleasure in launching the New Bula Gold product.

Thank you.