

RESERVE BANK OF FIJI



GOVERNOR ARIFF ALI'S PRESENTATION TO THE STANDING COMMITTEE ON ECONOMIC AFFAIRS ON THE RESERVE BANK OF FIJI INSURANCE ANNUAL REPORT 2016 ON 4 OCTOBER 2017

1. Introduction

Thank you Honourable Chair and Honourable Members for the invitation to present the 2016 Reserve Bank of Fiji's Insurance Annual Report to the Standing Committee on Economic Affairs.

Let me first introduce my colleagues who are here today: the Acting Deputy Governor Mr Esala Masitabua; the Chief Manager Financial Institutions Group Ms Vilimaina Dakai, Manager Policy and Research Mr Seci Taleniwesi and Manager Financial Institution Supervision Three Mr Shanil Totaram.

Please allow me to make some brief introductory remarks before we seek to answer your questions.

The Reserve Bank of Fiji is the supervisory authority for the Fijian insurance industry and by virtue of this supervisory role, has the responsibility of administering the Insurance Act 1998 ("the Act"). We are therefore mandated under section 165 of the Act to submit the Insurance Annual Report by 30 June of every year.

Honourable Chair, we wish to report that we have not failed in meeting this provision of the Act, and I am pleased to also highlight that our Insurance Annual Report has been commended by various local and international experts as one of the best repository of insurance statistics for any country. Needless to say that we are the only supervisory authority in the region, which produces such a report.

2. The Fijian Insurance Industry in 2016

I wish to provide an overview of the Fijian insurance industry in 2016:

2016 is now etched in every Fijian's memory as the year in which we faced the most devastating natural catastrophe in our nation's history. Tropical Cyclone (TC) Winston has defined the year for us as such, and brought to the fore the importance of having a robust insurance industry.

Honourable Chair, in our last presentation to the Standing Committee on the 2014 and 2015 Insurance Annual Reports, we had highlighted the significance of the insurance industry to the economy.

The risk transfer role that the insurance industry plays is key to the growth of our economy. It provides the necessary safeguard for the financial health of individuals, families, communities, businesses, financial institutions and the economy as a whole.

The industry also plays an information role in providing an indication of existing risks in the economy and probability of loss, and a developmental role in the capital markets, by mobilising savings for productive use.

In 2016 therefore, the Fijian insurance industry remained sound despite the significant damage caused by TC Winston. The combined gross premium income of the industry stood at \$311.9 million in 2016, the first time year that the annual premium has gone past the \$300 million mark. This, Honourable Chair, is reflective of a growing industry even in a year of a severe catastrophe.

Net policy payments for the life insurance sector and net claims paid for the general insurance sectors totalled \$185.9 million. The industry continued to be assessed as solvent and its earnings performance assessed as satisfactory.

Honourable Chair, the Reserve Bank of Fiji continues to liaise with individual companies on the sustainability of their operations and like any other business during times of crisis, some companies' underwriting capacity have been challenged by the impact of recent loss events. As the regulator, the Reserve Bank has the necessary powers to enforce requirements to ensure that individual companies remain safe and sound, and the insurance industry as a whole continues to be stable.

3. Conclusion

Honourable Chair, we note from the list of questions circulated by the Committee, the increased interest in what the insurance industry is doing to increase its visibility and promote the important role it plays. We in fact welcome this long list of questions as this gives us an opportunity to explain these issues and clear any mis-understanding or mis-conception.

We admit that while there is a view that we have not been pushing the industry that strong, we are happy to report that various development work were being undertaken behind the scenes in the last three years, of which we are now beginning to see the results.

I will therefore conclude by providing some brief information on a number of recent developments that now prove a more collaborative approach by the Reserve Bank, the insurance industry and development partners in seeking to increase the Fijian insurance industry's capacity to offer new and innovative products:

(i) Inclusive Insurance Bundled Product

In March 2015, the Reserve Bank of Fiji, in collaboration with the United Nations Pacific Financial Inclusion Program, embarked on a project to facilitate the expansion of inclusive insurance in Fiji. Inclusive insurance (or micro-insurance) refers to the provision of insurance products to the low income and vulnerable sectors of the population.

While the Reserve Bank's intention of involving all general insurance companies did not really come though, we were pleased to note that in July 2017, FijiCare Insurance Limited came forward and offered the first bundled micro insurance product to 11,606 registered cane farmers who now have access to some form of insurance.

The bundled micro insurance product provides a sum insured of \$10,000 with an annual premium of \$52 (\$1 per week) and is allocated as follows:

- Term life - \$3,000.00
- Fire - \$3,000.00
- Personal Accident - \$3,000.00
- Funeral - \$1,000.00

Since its launch, FijiCare has paid 18 claims amounting to \$64,000.00. Of these claims, two were for fire related events while the rest is for death.

We wish to also mention another micro-insurance product that has increased the take-up of insurance in Fiji in the last 12 months. BIMA is a mobile insurance initiative by Dominion Insurance and Digicel offering a life insurance cover and a hospitalisation insurance cover at 15c per day (which equates to \$1.05/week). BIMA has just reported to the Reserve Bank that after completing a thorough assessment of its impact on the Fijian insurance market, it can comfortably confirm that it has increased the insurance penetration in Fiji from 12 percent to 15 percent.

(ii) Crop Insurance

The Reserve Bank has been part of discussions with the Food and Agriculture Organisation of the United Nations (FAO) and the Fiji Crop and Livestock Council in the design of a crop insurance product for specific crops such as sugar cane, dalo, cassava and yaqona. The cover is for perils such as cyclone, floods and droughts.

The product is a purely parametric insurance cover, meaning that loss payments respond to the occurrence of a pre-agreed trigger event or movement in a reference index rather than the normal principles of indemnity.

Honourable Chair, we are actually meeting the Acting Prime Minister and Minister for Economy this afternoon to brief him on the progress so far on crop insurance. Government support will be needed in the form of subsidy of premiums or tax incentives. Discussions are ongoing with relevant stakeholder agencies on the finalisation of a product proposal.

The crop insurance scheme aims to reduce the rehabilitation costs borne by farmers and the Government after a natural disaster.

(iii) Household Insurance for Fijians

This project is currently undertaken with the technical assistance of the World Bank to establish a disaster risk insurance cover for the household sector, specifically the low income and uninsured population in Fiji.

The World Bank in its first round of technical assistance and assessment has been able to come up with a classification of the proposed covers for the different levels on households:

- Gold standard – those who can afford insurance and are currently paying (15k households);

- Silver standard – middle income who can afford but do not have insurance because of the high cost of meeting insurer requirements such as the Engineer’s Certificate (36k households);
- Bronze standard– low income who can afford some form of insurance cover but are not offered the relevant products to meet their capacity to pay and the need that they have (121k households);
- Microinsurance – considered uninsurable and will need support as they cannot afford to pay for insurance (68k households).
- The target group at this time is the Bronze standard and we have now reached a stage where a product proposal has been put together for a sum insured of \$7,000 to be offered as household insurance for majority of the households in Fiji with a low level of compliance, and a premium of around \$200.
- The World Bank will present the final product proposal to the Government with the aim of soliciting international aid to assist in reinsuring this insurance portfolio.

Honourable Chair, I hope those remarks are helpful background for the Committee’s review of the Reserve Bank of Fiji 2016 Insurance Annual Report, and we would be happy to answer your questions.

Thank you

4 October 2017