

Report on

Micro-Insurance Assessment Prospects for Fiji



Submitted to

UNDP Pacific Centre
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Submitted by



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List of Abbreviations

ANZ	The Australia and New Zealand Banking Group Limited
CU	Credit Union
FGD	Focused Group Discussion
FIBOS	Fiji Island Bureau of Statistics
FJD	Fijian Dollar
FLP	Fijian Labour Party
FNPF	Fiji National Provident Fund
GDP	Gross Domestic Product
HIV	Human Immunodeficiency Virus
ILO	International Labour Organisation
LICI	Life Insurance Corporation of India
MFI	Micro Finance Institution
NGO	Non Governmental Organisation
NLTB	Native Land Trust Board
NMFU	National Micro Finance Unit
PIC	Pacific Island Countries
PFIP	Pacific Financial Inclusion Program
PNG	Papua New Guinea
RBF	Reserve Bank of Fiji
UN	United Nations
UNDP	United Nations Development Program
USD	United States Dollar

Executive Summary

Introduction: Micro-insurance is being considered as one of the options for addressing the vulnerability of the poor and is being experimented world-wide. The successes of micro-insurance, in a limited way, have been observed in matured micro-finance markets, such as in India and Philippines. In the sparsely populated Pacific Island Countries (PIC), micro-finance markets are in its nascent stage and hence the provision of micro-insurance services is negligible in the PICs. As it well recognized as a tool for livelihood security supplementing community and Governmental Support, Pacific Financial Inclusion Program (PFIP) is keen on understanding the scope of micro-insurance in these island countries and help them in achieving the goal of financial inclusion. Towards this, PFIP has commissioned a study of micro-insurance in two large pacific island countries, Fiji and Papua New Guinea.

Methodology: For the study, use of both secondary data on micro-finance and micro-insurance, semi-structured interviews with all insurance regulators, companies, Micro-finance Institutions as well as Focused Group Discussion with MFI clients was done in both the countries.

Study Background: As a backdrop, the key factors influencing the financial sector stability has been highlighted. The dispersed population of Fiji islands concentrated mostly on the urban centres, low political stability mainly due underlying ethnic divide, high poverty despite high per capita income, poor health infrastructure as well as low concentration of financial services in rural areas of two main islands and outer islands has been highlighted. The key issue is micro-finance sector is in nascent stage and hence there is less scope for them to enter into micro-insurance sector in the near future. This is despite of the fact that financial markets are well developed in Fiji urban centres where both commercial banks and insurance companies are conducting normal business. Hence there is case of financial exclusion in Fiji Islands when one examines the delivery of financial services in rural areas and outer islands.

Insurance Market: The industry is governed by the primary legislations laid out by the insurance act 1998. There are 2 life insurance companies 7 general insurance companies, 471 insurance brokers, 8 foreign exchange dealers and 3 money changers also who participate in the sector. In the year 2007, the total gross premium collected by the insurance companies was FJ\$ 192 million and the total assets held by them amounted to FJ\$ 825 million of which 70% belonged to the life insurance companies. The penetration of life insurance in 2007 stood at 1.4% while for general insurance it stood at 2.0% of GDP. The global penetration of insurance in the same time was around 7.5% and hence is quite low and is limited to urban areas.

Risks faced and perceived by the Population: The perception of risk is quite low among the population due to strong social bondage, subsistence rural economy and absence of small and micro-enterprises. Thus unforeseen events are treated as a huge loss or a risk by the people. Some of the major expenses incurred are for burial

expenses, critical health care and natural disasters. But these are not addressed by appropriate insurance products, especially in remote rural areas and outer islands.

Potential for Micro-Insurance: From the current employment statistics, the potential for insurance has been estimated. Since most of the employment in Fiji is the major cities, the market has the capacity to serve about 40% of the employed with greater thrust on innovative products and distribution channel. With some effort, the market can reach about 50% of the employed class. This amounts about 150,000 employed class, who mostly work in the informal sector. There is also scope to work with the MFIs in servicing rural clients through appropriate products and delivery mechanisms.

Supply Side Issues: Being urban centric, products in insurance cater to only formal class of employed persons and high end businesses. The outreach is limited due to poor infrastructure, limited distribution through brokers, servicing only institutional clients, lack of critical mass in micro-insurance sector are some of the key issues inhibiting growth of insurance sector in Fiji islands.

Recommendations to PFIP: Given the goal of financial inclusion and need to address the vulnerability, the following has been recommended as a roadmap for promotion of micro-insurance in Fiji Islands:

- I. Stress on Financial Literacy: Low level of awareness financial products and its benefits. The financial literacy has to be attempted strategically and periodically with all stakeholders.
- II. Constant dialogue with Regulators: PFIP has to have a constant dialogue with the regulator for bringing new perspective and international experience in the micro-finance sector.
- III. Facilitate adoption of ideas: PFIP can bring international experience through its network but can support in promoting new ideas in collaboration with financial institutions and other stakeholders
- IV. Creation of Risk Pool Fund: Creation of risk pool fund for insurance companies can give a fillip to invest in the informal sector economy.
- V. Funding of Pilots in Micro-insurance: PFIP can support the development of the sector through pilot funding of innovative projects in micro-insurance.
- VI. Creation of Actuarial database: PFIP can fund developing a database by sourcing them from Government department and other relevant sources for use by insurance companies and re-insurer will be equipped to make more informed decisions.

Introduction

The growth and initial thrust in micro-finance was primarily in credit and savings in which different products and processes has been experimented world-wide with a reasonable level of success. In the past decade, micro-finance sector has also been looking into provision of micro-insurance services to the poor and thereby addressing partially the vulnerability faced by them. Micro-insurance services have been offered by the MFIs through collaboration with insurance companies in both life and general insurance. Some experiments of community managed insurance services have been tried in various places. The success of the same has been limited to the community or a particular neighbourhood and its widespread replication is not very evident. Moreover, the collaboration with insurance companies for re-insurance is another important area, which has rarely been observed in mutuals or community based insurance.

It is also interesting to note that all the major MFIs have worked closely with insurance companies to offer variety of products in life, health, livestock, weather indexed insurance, etc. Although such products have been developed and implemented by various MFIs, the scale and outreach is limited. From the micro-perspective, such products are being offered through micro-finance products, often through bundling of products. The retail sale of standalone micro-insurance products is not particularly observed in the Asia- Pacific region. From the macro-perspective, the penetration of both life and general insurance is quite low in most developing and least developed countries due to various reasons. The upshot is that the access to insurance services by the poor is quite negligible across these countries.

The success of micro-insurance products has been observed in matured micro-finance markets, often seen in highly dense population such as in India and Philippines. As the micro-finance market has steadily grown in size, new financial products have been offered to micro-finance clients in such markets. This has been facilitated by higher financial literacy and exposure to financial products and the felt need on the demand side. On the supply side, the MFIs through such product offering have often tend to protect their portfolio against such risks while some of the insurance companies is looking it as a business opportunity in these matured micro-finance markets.

However, the development of the micro-finance sector in the Pacific island countries (PICs) is not as expected mainly due to high transaction cost of serving dispersed population, subsistence livelihood portfolio in rural areas, absence of small and medium enterprises and a high dependence on internal and external remittances. While strictly looking into insurance, the need and understanding of insurance is low in PICs due to strong cultural tradition of communal support and obligation. In addition, there is also a Government social security program, which supports the poor in such exigencies.

Thus there are challenges to development of both micro-finance (savings and credit) and micro-insurance in the PICs. The opportunities for developing micro-finance markets is high with presence of several leading global financial institutions, developing telecom markets and more receptive financial regulators who are more than willing to try innovative methodologies and put in effort to reach low-income and rural households.

Given the above scenario and opportunity and the goal of achieving outreach of micro-finance for another 250,000 households in the Pacific islands, PFIP is keen on understanding the micro-insurance sector in two large Pacific island countries, namely, Fiji and Papua New Guinea. This will enable PFIP to develop a strategy and road map of developing the micro-insurance sector in the Pacific island countries.

1. Methodology

A rapid assessment of the micro-insurance sector was done in both Fiji Islands and Papua New Guinea. The broad methodology followed is outlined below:

- Analysis of secondary literature: This was done to get an understanding of micro-finance sector in general and micro-insurance sector in particular in these two countries.
- Semi-structured Interviews: These interviews were conducted with various stakeholders such as:
 - Insurance Regulators: To understand the current development of the insurance sector and the views on micro-insurance sector and issues
 - Life and General Insurance Companies: This was done to understand their products and outreach, current view of serving low end customers, future growth and strategy and issues confronted by the sector in general. Interviews were done with both life and general insurance companies
 - Micro-finance Institutions: To understand their current views on micro-insurance, knowledge and current and future strategy of expanding into micro-insurance sector.
- Focused Group Discussion (FGDs): FGDs were conducted with MFIs clients in both urban and rural areas. The discussions were mainly focused on understanding their knowledge and felt need for insurance, current coping mechanisms, ability and willingness to pay for micro-insurance services.

Analysis of the data and the ensuing report focused on giving a snapshot of the current situation for overall insurance and micro-insurance sector, current regulation and support for development of micro-insurance sector, role played by the various stakeholders, present constraints and opportunities. The report also captures the potential demand for such micro-insurance and also consumer preferences. Finally, the report also will focus on the role that can be played by PFIP to propel the micro-insurance sector in the Pacific Islands.

2. Background

a. Country profile:

Fiji is an archipelago of 332 islands, about one-third of which are inhabited on a permanent basis. The total land area is 18,333 sq km, with major islands being *Viti Levu* accounting for 57% of the land and *Vanua Levu*, 30% of the land area. The population density is about 46 per square kilometer and hence it is sparsely populated. While there are pockets of high density population in the urban areas, the rural areas has very low density of population, which is much lower than the average figure indicated.

Being an island country, Fiji continues to face several concomitant challenges of territorial fragmentation, remoteness from major markets and a high exposure to natural disasters and external shocks. All these have implications on the lives and livelihoods of the inhabitants in the island who have adapted to these conditions in various ways.

The Human Development Index rank of Fiji is 103 among 179 countries in 2008 as per Human Development Statistics, UNDP. This is despite of high per capita GDP of USD 3900 in 2008. This also gives an indication of high disparity in the population and across regions, i.e. the main islands and smaller outer islands.

b. Demography

The most distinguishing feature of Fiji is its multi-cultural society with a mix of native Fijians, Indo-Fijians, Chinese, European and other communities. Based on the recent figures from the Fiji Islands Bureau of Statistics (FIBOS), the population of Fiji is estimated to be 837,000 in 2007. The ethnic Fijians accounts for 55% of the population, followed by Indo-Fijians (40%) and other ethnic groups of various immigrant origins (5%). Some of the key demographic trends are:

- There is an increasing trend of urbanization in Fiji. The ratio of rural to urban population in 2007 census is 49: 51 and it is expected to be 30:70 in the year 2030.
- The other important demographic feature is that population growth has been severely curtailed in recent decade by emigration, mainly of Indo-Fijians due to uncertain land tenure systems and political instability in the country.
- Low population growth rate (1.38%), especially in the rural areas between 2005 and 2010 (-0.5%- World Statistics Pocket Book, UN Statistics Division).

c. Current social political scenario

The political scenario in Fiji has been influenced by the ethnic division and skewed landownership pattern. Around 86% of land in Fiji is under native ownership, and most ethnically Indian farmers are reliant on leases from indigenous Fijian owners. This lease process is administered by the Native Land Trust Board (NLTB). The land is leased out for a fixed period (10-99 years) mainly to Indo-Fijians. In the recent times, the uncertainty of renewal of lease at micro-level has been one of major livelihood issues for the Indo-Fijians.

In addition to land ownership, its unique ethnic make-up has been at the source of singularly difficult politics. The Fijian politics is characterized by strong divisions between the indigenous Fijian population and Fijians of Indian decent, who were brought in by the British colonial administration in the second quarter of 19th century. Since the colonial rule, native Fijians by law control land tenure, which has been frozen since 1909 and managed through a collective clan-based system of ownership. This separation directs the political agenda and is roughly mirrored in political parties, with the United Fiji Party, representing native Fijian interests, and the Fijian Labour Party (FLP), representing Indo-Fijian interests. The upshot is political uncertainty due to four military coups since 1987 that, while not causing much loss of life or property has over the years adversely affected the consumer and investor's confidence as well as major economic sectors like tourism.

d. Economic Scenario

The economy of Fiji recovered marginally by 0.2% in 2009 following a year of significant contraction of 6.6 percent. The contribution of agriculture, industry and services to GDP is 8.9%, 13.5% and 77.6% respectively. The industries which contributions to growth were tourism, wholesale and retail trade, hotels and restaurants, transport, storage and communication sectors, while finance, insurance, real estate and building & construction also played significant roles in the growth of the economy. Sugar and garments are the major avenues of export from Fiji whereas principal imports are foodstuffs, machinery, mineral fuels, beverages, tobacco, and manufactured goods.

e. Employment Sector

In 2004-2005, about 40% of the total population was economically active in Fiji (Narsey, 2005). Extrapolating the same to current population, the total number of economically active population is about 340,000. ***Among them, about the 289,000 (85%) are employed in the informal sector and are potential target clients of micro-finance sector.***

Table 1: Employment Statistics of Fiji

	Total	Women
Total Population	850000	
Economically Active population	340000	105400
Wage earners	149600 (44%)	40052 (38%)
Self Employed	95200 (28%)	24242 (23%)
Salaried	51000 (15%)	18972 (18%)
Family worker	37400 (11%)	18972 (18%)
Total Informal sector	282200 (83%)	83266 (79%)

As can be seen in Table 1, out of the total employed population about 85% of the economically active population is employed in the informal or semi-formal sector constituted by wage earners, self employed and family workers. Women constitutes 31% of the total economically active workforce, mostly as wage earners (38%), followed by self employed (23%), 18% each employed as salary earners and family workers. Again it is interesting is that 79% of the total women employed are in the informal sector.

Sectoral employment data reveals that 28% of the total workforce is engaged in agriculture, forestry and fisheries followed by 21% in hotel, retail and restaurants. Out of the total women workforce, 56% were employed in hotel, retail and restaurants, community, social and personal services. Moreover, 50% of the total workforce is employed in rural areas.

Analysis of the above statistics shows that employment is dominated by service industry and mostly in urban areas. On the other hand, there is practice of subsistence agriculture except for sugarcane production in the rural areas.

f. Poverty

Poverty levels in Fiji have been on the rise, from 25% of the population living below the basic needs poverty line in 1991 to 35% in 2008 (FIBOS). However the striking feature about the poverty levels in the country is that it is not related with hunger as a large section of the population lives on abundant communal land and natural resources

Poverty in Fiji has several dimensions such as:

- (a) 'affluent subsistence for native Fijians' who have sufficient resources to meet most basic needs, but limited economic opportunities to move beyond that level.

- (b) For those not part of communal land holding systems, poverty is about not having access to land, being forced off the land because leases expire, and about (c) struggling to grow new cash crops in a sufficiently profitable way.
- Moving beyond land, poverty in Fiji is also about (d) being (under-) employed as a day labourer in seasonal agriculture and about limited job opportunities in cities with little economic activity beyond basic services such as retailing, transport and security for those forced or wishing to move there.

Thus the poverty is endemic to households practicing subsistence agriculture in the rural areas and large section of population dependent in the informal sector in the urban areas.

g. Current health scenario

As per the non-communicable diseases survey in 2002, there is an increasing prevalence of non communicable diseases such as diabetes (11.9%) and hypertension (19.1%). The possible reasons are lifestyle changes, smoking, poor diet, changing patterns in physical activity and nutritional problems among women and schoolchildren. A rapid increase communicable disease such as HIV and sexually transmitted diseases has also been recorded in the recent census (ILO Study).

The quantum of public expenditure on health care has increased from FJD 89.19 million in 1999 to FJD 131.31 million in 2009, which is about 9-10 percent of total public expenditure in the last 10 years. The total health expenditure is 3 percent of GDP, which is the lowest rate among the Pacific island countries. Of the total Government budget on health, 65% is spent personal emoluments, 7.5% is earmarked for drug procurement and allocation for health care maintenance is minimal in the budget (ILO Study).

According to a survey by ILO, average number of primary treatment required per individual was 3.773 times and for household, it was 5.28. Most of the treatments were either at health centres or hospital but also a significant proportion of primary treatment was done using traditional method. Although Government provides bulk of the health care budget, significant out - of - pocket expenses (33%) were incurred by a household. This amount is significant when a poverty line estimate of FJD 140 is taken into consideration. It was also found in the survey that for some remote villages, transport was a major expense (FJD 150).

In the same survey, for secondary and tertiary care, household accessed 3 divisional hospitals. The incidence of secondary and tertiary health care of the household was estimated to be 2.15 and the out-of-pocket expenses was twice that of primary health care. These figures were estimated from the sample of urban and peri-urban areas. The figures for rural areas could be much higher to added transportation costs. But for high end treatments like heart and other ailments, people go to Australia and New Zealand. The insurance companies have necessary tie-up with hospitals and household who are insured ca avail such facilities.

The health sector is operated by the government owned nursing homes. Essential and basic health care is provided through a decentralized government-run service that is free. Most of these are adequate to provide routine medical care while there are only two hospitals (Lautoka Hospital in the Western city of Lautoka, and the Colonial War Memorial Hospital in Suva) which provide limited emergency and outpatient treatment. Reproductive health services are well integrated into the Government's primary health care system. There is only one private hospital in Fiji as of now, which is located in Suva.

The fundamental role of the Fiji health care system is to ensure that the citizens of Fiji enjoy a system that is accessible, affordable, equitable and of high quality.

Over the years the quality of health care has been affected by shortage of financial resources for preventive and curative care, shortage of pharmaceuticals and medical supplies, lack of appropriate maintenance leading to deteriorating health facilities and equipment and lack of proper and safe transportation aside from the perennial problem of shortage of human resources.

Currently the financial sources for health care in Fiji are general taxation for the public health sector, commercial health insurance and out of pocket payment, mainly for private health sector and a small proportion from donation

In 2003 WHO commissioned a consultant to work on exploring possible options for health care financing in Fiji including the scope for a social health insurance scheme. The proper building blocks for the establishment of a social health insurance scheme are not there for Fiji and the consensus view is to strengthen the current tax-based system and to reduce the proportion of out of pocket payments.

The Fiji National Plan for the Millennium (2001) outlines the priorities of the Health Ministry addressing the current constraints in the health care delivery systems. Some of the key features of the plan are re-organization of Ministry of Health, better internal co-ordination for better communication and referral services, increased relationship with communities and donor agencies, provision of primary health care systems, private sector participation, etc.

h. Access to financial and insurance services

Fiji has a well developed financial system consisting of commercial banks, non-banking financial institutions, credit institutions, insurance companies and emerging micro-finance institutions. The details of the various financial institutions are given in the table below:

Licensed Financial Entities in 2007	
Commercial Banks	6
Credit Institutions	3
Life Insurance Companies	2
General Insurance Companies	7
Insurance Brokers	5
Insurance Agents	471
Foreign Exchange Dealers	8
Money Changers	3

The total number of branches of commercial banks is 110 (RBF, 2008). The banking sector is also highly skewed to the urban population with its physical presence and product and services, which suit the high income urban population. It is estimated that about 33% of the population have access to formal banking services (Sharma and Reddy,). In the same study, it was highlighted that fifty seven percent for those employed in formal sector had bank accounts while same figures for those working informal sector is about 35%. The percentage of men having bank accounts was 40% while for female, the figure stood at 30%. The percentage of indigenous Fijian having bank accounts was 31% whereas about 42% of the non-indigenous Fijians have accounts.

Other formal financial Institutions: The other three formal credit institutions operating with their 11 branches in Fiji are:

- Merchant Finance and Investment Company Limited was given license in 1992 to mostly finance purchases of machinery, equipment and vehicles
- Credit Corporation of Fiji is another institution which is specializes in short term equipment and vehicle finance. It has almost 70 percent foreign ownership by Credit Corporation (PNG) Limited.
- Home Finance Company Limited was transformed into a credit institution in the year 1995 and provides housing loans to middle and upper income households.

It is evident from the name and activities that these financial institutions have been catering to need of the urban high income population.

Micro-finance: Micro-finance in Fiji has been a Government led initiative and has been used as a means of both poverty alleviation and provision of financial services to the poor and excluded population. National Micro-finance Unit (NFMU) from 1998 has been playing an instrumental role in developing the micro-finance institutions and till date has promoted and/or supported 9 micro-finance institutions. It has provided thrust on mainly routing of funds for both administrative and on-lending purposes instead of providing policy, strategic and capacity building support to the sector.

Other players which are doing micro-finance are ANZ bank with their pilot rural finance operations, Colonial National Bank in collaboration with Post Fiji offering savings services and traditional credit unions and co-operatives.

Savings and Loan Cooperatives are registered under the Cooperatives Act and administered by the Department of Cooperatives. In rural areas, there are basically two types of co-operatives, namely sugarcane co-operatives and other agro-based co-operatives served the interests of other farmers. The cooperative movement was very strong during 1980's but the movement lost pace as access to markets became easier for the farmer-members due to infrastructure development. The other reason for the decline was that the members had limited financial understanding and differences emerged as the cooperatives grew in size.

The Credit Unions (CUs) have been in decline in the recent past, especially in rural areas. The number of CUs associated with the CUL has declined from close to 180 in 1991 to around 45 in 2008. The reasons for decline is varied such as interest lost by members due to pulling out of Acuna insurance, poor record keeping done manually, official supervision was weak and low member education as well as those of management and Board.

There is a predominance of credit union of the salaried urban class workers. Among the 40 current credit unions functioning and associated with the Credit Union League, 35 belong to the salaried class whereas the rest are run by informal working groups.

Further there are some village banks and both formal and informal moneylenders who are catering to financial requirement of excluded population. In all these initiatives, the scale of operations is low and therefore insufficient to meet the demand. The estimated demand for savings and credit in the recent financial sector study has been estimated to be FJD 65 million and FJD 63 million respectively.

The recent directive of RBF to commercial bank to set up a micro-finance unit in every branch is a step towards integration of the micro-finance sector with the overall financial systems in Fiji. Instead of treating it as an imposition, the banks can take more proactive steps to identify ways to support the directive and implement it. This would mean several rounds of dialogue between RBF and banks to reach a common understanding of modalities of operations and possible change in directive, if any to suit the operations of the banks. The RBF's keenness is also exhibited from the fact that a special micro-finance cell within RBF is to be created to facilitate dialogues, more appropriate policy directives and creation of more enabling environment. Such directive is to be taken as a step towards more robust micro-finance sector in Fiji.

3. Overview of insurance sector

a. Insurance Industry

The industry is governed by the primary legislations laid out by the insurance act 1998 issued by the Reserve Bank of Fiji (RBF).

There are 2 life insurance companies 7 general insurance companies, 378 agents, 4 insurance brokers, 8 foreign exchange dealers and 3 money changers also who participate in the sector.

Life insurers, the companies are required to maintain:

- A share capital, paid up capital of not less than FJ\$ 1.0 million; or
- A surplus of assets over liabilities of FJ\$ 1.0 million or the sum of 5.0 percent of the amount of net liabilities under life policies up to FJ\$ 100.0 million plus
- 2.5 percent of the amount of net liabilities under life policies that exceed FJ\$ 100.0 million, whichever is the greater.

General insurers are required to maintain the greater of the following:

- A share capital, paid up capital of not less than FJ\$ 1.0 million and
- Surplus of assets over liabilities of FJ\$ 1.0 million;
- 20.0 percent of net premium income derived in the last twelve months; or
- 15.0 percent of net claims outstanding provision.

b. Legal and regulatory Institutions

The Reserve Bank of Fiji (RBF) is the overall regulator of the financial system in Fiji and oversees commercial banks, non-banking financial institutions, Fiji National Provident Fund and insurance companies.

RBF is the sole licensing agency for the conduct of insurance business in Fiji. The insurance act 1998 provides the primary legislative framework which governs the industry. It also empowers RBF to formulate and develop standards that direct the conduct of insurance companies, brokers and agents.

The RBF mainly supervises life insurance companies, general insurance companies, insurance brokers and agents. In order to supervise these players the RBF works on three fronts; licensing and de-licensing, supervision and finally regulation.

The insurance act of Fiji requires all players to be licensed by the RBF. There is a comprehensive set of international standard prerequisites and practices which have to be met before a license is granted. De-licensing or revocation occurs on withdrawal or merger of an existing institution or in extreme cases of non-obligation to policy holders or if any company has breached any of the regulations or legislation

administered by RBF.

Supervision is the core of the administration work which RBF has been undertaking under the Insurance Act. This work involves off-site monitoring and on-site examination of all licensed insurance companies and brokers. It conducts off-site monitoring by analysis of quarterly financial returns and annual audited returns and other prudential statistics provided by the company on a quarterly and annual basis or other times specifically requested by the Reserve Bank.

With the introduction of capital adequacy norms, offsite and on-site supervision, RBF continues to monitor the financial system in Fiji efficiently, leading to a well developed financial system in the Pacific islands.

There is no regulation which defines micro insurance and in absence of the same the insurance companies do not have any rural and social obligations to fulfill. However Fiji is progressing towards a pro-poor financial environment, where policies are being framed in order to benefit the underserved. The directive of RBF to commercial bank to set up a micro-finance unit in every branch is a step towards financial inclusion of the poor. However the regulators have no intention in the near future to frame similar guidelines for the insurance industry.

As per the insurance act of Fiji, separate license for conducting life and general insurance business is required. A single insurance company cannot transact both life and general insurance business. Different fees for each class of business are determined from time to time. Only those companies who are licensed to act as insurance companies can underwrite insurance policies in Fiji.

Insurance business is conducted through agents and brokers who act as intermediaries and also directly by insurer. For a license by a person to act as an agent of a nominated insurer, a document from the nominated insurer and approved by the Reserve Bank in writing is required. This certifies that the applicant has been appointed by the insurer and is satisfied about the person's knowledge and experience to carry on the business as an insurance agent. An agent cannot work for more than one insurance company for the same class of business. If the agent works for more than one insurer, then he will have to notify the insurers, the name of all other insurers for which he is the agent of and the classes of insurance business he/she has been licensed to arrange for each insurer.

Like the banking sector, the insurance sector mainly caters to the needs of the urban middle and high income group. From the discussions with insurance companies, it was quite evident that the companies do not have any immediate plan to venture into micro-insurance sector.

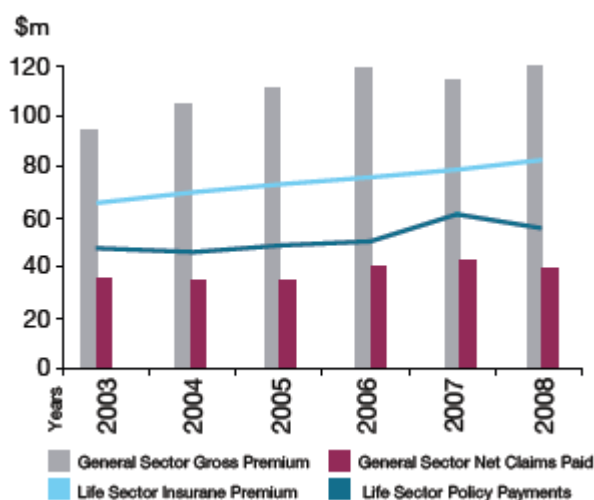
c. Performance of the sector

In the year 2008, the total gross premium collected by the insurance companies was FJ\$ 201.6 million. Among the general insurance companies portfolio, fire insurance

dominated with 26.4% of total gross premium, followed by Motor with 20.8% and by health with 12.6% respectively.

In life insurance portfolio endowment insurance policies accounted for 81% of the total gross premium written, followed by 6% by whole life policies, 3% by term insurance policies and 6% by other types of policies which includes single premium policies. In 2008, life insurance companies together sold 12,017 new policies and had together 86,193 policies in force.

The total gross combined premium of the insurance industry recorded a growth of 4.6% compared to a decline of 1.2% in year 2007. This growth was a result of increase in premium rates as well as an improvement in the new business.



Source: RBF Annual Report 2008

The industry also noticed a decline in the net policy payments by life insurance companies. The absence of major domestic catastrophic events resulted in decline of net claims paid of the general insurance sector.

The solvency surplus of the insurance companies declined in year 2008 due to signs of distress in the financial systems due to deteriorating international environment.

Total assets held by the insurance sector was FJ\$ 804.2 million which noted a marginal decline of 2.6% as the investments by life insurance sector declined by \$21.7 millions due to revaluation of their investment in government securities. This was a result of the high interest rates which prevailed during the end of 2008.

The general insurance sector continued to grow steadily. General insurance sector noticed a consistent growth however at a slow rate of 3.2% compared to 6.9% in year 2007.

The penetration of life insurance in 2008 continued to stand at 1.4% while for general insurance it stood at 2.0% of GDP. The global penetration of insurance in the same time was around 7.5%.

Market share of insurance companies in Fiji is difficult to estimate as the insurance companies are not required to publish their annual report and hence the public has no access to it. Most companies also produce consolidated annual reports of operations around the Pacific region, thus making it difficult to estimate the market shares of the various companies with accuracy.

The only publicly available information is the claim by the Colonial Fiji Life Limited that it has 70% of the life insurance business which means that the remaining market of 30% lies with LIC (Consumer Council of Fiji, Commissioned Report, May 2007).

Key Indicators of the Insurance Sector*:

Key Indicators of Life Insurance Sector in Fiji					
	2008	2007	2006	2005	2004
New Business					
Number of Policies	12,017	12,930	13,975	15,094	15,426
Sums Insured (\$m)	355.6	360	378.9	424.6	428.9
Business in Force					
Number of Policies	86,193	87,822	90,833	90,979	92,973
Sums Insured (\$m)	2,449	2,470	2,522	2,532	2,534
Distribution of Sums Insured for Policies in Force (%)					
Whole of Life	4.7	4.8	5.1	5.4	5.8
Endowment	45	43.8	42.5	41	40
Temporary	14.4	14.6	15.4	16.4	17.1
Others	35.9	36.8	37	37.2	37.1
Gross Premium Income (\$m)	83.7	80	76.6	74.2	70.5
Benefit Payment (\$m)					
Total	55.8	59.8	49.8	48.4	45.5
Death	6	7.7	8.3	8.1	8.7
Maturity	30.6	28	23.7	23.5	21.1
Surrender	18.9	23.8	17.6	16.6	15.4
Sickness and Accidents	0.3	0.3	0.2	0.2	0.3
Forfeiture Rate (No. of policies) (%)	65.7	76.8	59.6	75.4	63.9
Surrender Rate (No. of policies) (%)	5.3	5.9	4.6	4.8	4.7
Investment Income (\$m)	31.6	39	34.2	38.5	32.1

Key Indicators of General Insurance Sector in Fiji					
	2008	2007	2006	2005	2004
Premium Income (\$m)					
Gross	117.9	112.7	117.5	109.6	102.8
Net	92.9	88.7	91.7	83.8	77.3
Reinsurance	25	24	25.8	25.8	25.5
Net Earned Premium Income	91.1	91.1	87.2	80.3	73
Retention Ratio (%)	78.8	78.7	78	76.5	75.2
Claims (\$m)					
Gross Claims Paid	45.6	50.1	52.4	40.1	52.7
Net Claims Incurred	45.5	42.4	40.7	39.9	38.4
Distribution of Gross Premiums (%)					
Fire	26.4	25.1	23.4	23.1	24.1
Motor Vehicle	20.7	20.8	22	23.3	22.5
Marine Hull/Cargo	2.5	2.9	2.9	3.7	3.9
Householders/Burglary	8.3	7.7	7.2	6.9	6.6
Motor CTP	9.8	9.4	8.9	8.3	7.9
Liability*	2.8	3.1	3.2	4	4.1
Workers Compensation	5.3	5.6	6.1	6.5	5.9
Medical/Term Life	20	20.9	21.4	18.3	20.2
Others	4.2	4.5	4.9	5.9	4.9
Net Claims Ratio (%)					
Fire	36.2	45.1	17.8	29.8	66.8
Motor Vehicle	66.5	40.9	62	57.5	59.1
Marine Hull/Cargo	70.8	84.5	40	25.6	15.5
Householders/Burglary	50	57.5	41	45.3	39.4
Motor CTP	38.4	41.4	71.8	57.3	42.3
Workmen Compensation	26.2	24.1	17.8	39.8	43.7
Medical	58.2	48.6	55.1	81.9	70.8
Term Life	53.8	70.5	63.5	57.5	37.1
Total Business	49.9	46.6	46.7	49.7	52.5
Net Underwriting Results (%)					
Expense Ratio	17.5	16.5	18.3	19.7	19.3
Operating Results (\$m)					
Underwriting Gain/Loss	29.7	33.7	30.4	24.6	20.6
Investment Income	6.9	11.3	7.6	6.5	5.4
Operating Profit/Loss	18.1	23.8	18.6	14.9	12.6

* Source: RBF annual report 2008

d. Social safety net overview

Lack of adequate social security is one of the greatest challenges being faced by the countries in the Pacific islands. In the absence of comprehensive social security cover by the national system, the ultimate safety net is still provided by the traditional social practices and family support, which is weakening as the society is transforming into a modern one through urbanization. The absence of well-functioning social security systems is a major cause of poverty, ill health and high mortality.

Social security coverage in these countries is limited to workers in the formal employment sector which represents only a small fraction (15%) of working

population. In particular, a large majority of workers in the informal economy are excluded from social security systems.

Benefits under Social security in Fiji are limited only through National Provident Fund and workers compensation schemes. Workers compensation is still based on employers' liability, which does not ensure full compliance particularly by employees of small sized enterprise.

All employees within the age of 15 and 55 years contribute towards the FNPF unless they are members of an equivalent plan approved by FNFP. All employees working in the formal sector have a mandate to contribute towards this fund while self-employed workers, household workers, students, and informal-sector workers can voluntarily become its members and contribute.

The fund provides for pensions benefits, disability benefit, emergency withdrawals and death benefit. The employees contribute 8% of their earning while their employers make an equal contribution towards the pension related fund. For self employed person the minimum annual contribution to the fund is FJ\$84 to a maximum of 30% of his earnings. A contribution of FJ\$25 is deducted from the fund annually to finance the death benefit.

In any of the cases the maximum annual contribution towards pension purpose are FJ\$2400. Additional voluntary contributions are paid back as lump-sum benefit.

A member who is more than 2 years old in the fund and whose balance exceeds a minimum of FJ\$1000 can withdraw 66% towards house cost and 33% towards education and health care requirements. (<http://www.ssa.gov/policy/docs/progdesc/ssptw/2008-2009/asia/fiji.html>)

Basic medical care is provided free by the government for all nationals and includes confinement, professional services, laboratory examinations and medicines. However because of the inability of government to allocate enough budget, the quality of public health services is poor. In remote location the clinics are staffed by only trained nurses. Major treatments are available only in one or two hospitals in capital city and its vicinity while for emergency people are evacuated either to Australia, Hawaii and New Zealand.

e. Informal Social safety nets/Mataqali

Despite the drastic transformation of the Fijian society, there are still socio-cultural networks and mechanisms which act as a social protection and social safety nets to satisfy peoples' needs and maintain community cohesion.

These systems help an individual to satisfy one's basic socio-economic needs for the purpose of fulfilling certain social obligations. People may ask assistance for taro to be consumed for dinner, whale's tooth to present at a funeral ceremony, labour to build a house, money to pay for school fees or pigs for celebrating customary events.

85% of the lands in Fiji are native lands which are collectively owned by extended family units such as *mataqali* or *tokatoka*. A significant part of it is leased out for agricultural, tourism and other business purposes and money acquired through royalties and leases is distributed within the landowning unit based on one's traditional status within the socio-political hierarchy.

In the early days, it was socially dishonourable to accumulate goods for oneself. Individual saving was considered a culturally "deviant" act, a manifestation of greed and selfishness. Moreover the practice of offering help for people in need, even if they do not ask for it is prevalent in Fiji. This is in form of goods and services without any binding reciprocation. This takes place mostly during emergency but also under normal circumstances.

4. Major Risks Faced by Low Income Households

a. Death/permanent injury

It is not perceived as a major risk by the low income household in both rural and urban areas. The strong system of *mataqali* or community support is the most important reason for such a low recognition of insecurity around loss of a member of family. It was repeatedly mentioned during the discussions that immediate family relations take upon the onus of supporting the family under such unforeseen circumstances. In the villages, it is even stronger wherein the community also takes upon the responsibility under such a scenario. Thus the need for protection of the family through life insurance is often not felt in the low income households. It was also mentioned in the workshop in Micro-Finance that concept of the insurance is difficult to sell in the pacific region, especially in rural and low-income households due to strong community support.

b. Health Problems

Fiji faces number of health challenges which include an increasing prevalence of non communicable diseases such as diabetes and hypertension. A rapid increase in HIV and sexually transmitted diseases has also been recorded in the recent census. Health care costs cause significant stress among the poor. Health centres run by government are the only source of access to health care facility, which provide free treatment. As mentioned earlier, there are substantial out-of-pocket expenses for secondary and tertiary health care and also for emergency treatments requiring evacuation to other countries. The latter is usually covered by high valued insurance policies and these may not be affordable for the poor. Despite such high costs, the need for support in form of health insurance was indicated in the Focussed Group Discussions.

These are the risks which either the Government or suppliers of insurance services were highlighting. But from the discussions with micro-finance clients in both urban

and rural areas, the need for good health care facility and health insurance was not highlighted. On the other hand, from the discussions with the insurance companies, it was clear that the target population for health insurance was mainly the urban high income households. This is mainly due lack of health infrastructure in Fiji and dependency on Australia and New Zealand for high end treatment. This is also a reason for high premium, which is often not attractive for the middle income and low end customers. Interestingly, one of the companies has tied up with a few corporate hospitals in India (Delhi) for such overseas treatment and is working towards a lower premium rate for health insurance.

c. Property

The current Fiji land tenure system often creates uncertainty among Indo-Fijian community, who by law is not entitled to own the community land. This uncertainty has led to loss of interest of Indo-Fijian community in cultivation and investment in land in terms of development, inputs and houses. This however can not be addressed through insurance and would require more of a policy level initiative. The property insurance is limited to urban areas, including shops and establishments. From the discussions, there was no indication on the property loss or other wise from theft, etc. in the rural areas. This is particularly true for most of the low-income households.

d. Disaster/Natural Calamities

Small farmers who generally practice subsistence farming with very little investment are not much concerned about weather related risks in their crops. On an average, about ten to fifteen cyclones per decade affect some part of Fiji and two to four of them cause severe damage. During such times, it affects the standing crop. The dominant north-west to south-east tracks gives some increased risk of damage in the outlying north-west island groups. Most of the poor are involved in subsistence farming. In absence of proper markets, the farmers do not make investments in their activity. Thus they do not have any incentive to do insurance to avoid losses due to weather vagaries.

The loss of property due to earthquake, Tsunami and cyclones is one of the major risks faced by households, the occurrence of such events is infrequent but still insurance companies are insisting on a certification of meeting minimum standards of construction from a recognized certification agency, before property insurance is issued.

5. Overview of Current Coping Mechanisms and Prioritization of Risk

The analysis of the risks and their current coping mechanisms were deduced mainly from the FGDs and the semi-structured interviews with MFI officials and other relevant stakeholders, including insurance companies. Given the limited access to various financial services and its knowledge, the current coping mechanisms are primarily based on non-financial initiatives or processes among the poor and other inhabitants in the rural areas. Such coping mechanisms are however not planned by the individual or the community but come from voluntary participation by all the families in case of an unforeseen event in the village or community. Thus such practices have become integral part of their daily life, for which they generally do not plan. The actions are mostly voluntary and participatory in nature.

In the urban areas due to huge urban drift due to migration and consequent resource constraint has led to the weakening of the social security support system. It is practiced but in much less diluted form than that is observed in rural areas. Those living in urban areas and town, with access to financial services have resorted to services such as savings and accessing loans.

a. Individual/family

Given the simple way of living and subsistence economic activity, there is a little or very less exposure to risks. However, it was evident from the discussions that they are keen on savings, not only for consumption purposes (festivals, etc.) but also for emergency purposes such as health expenses. In absence of formal saving services, the limited services offered by the micro-finance institutions, have become one of the few modalities of savings for the rural people. The rural customers, in fact, are paying service charges for operating their savings account. However, the outreach of the MFIs is low¹ and hence most of the rural people depend on alternate methods such as keeping money at home.

In the FGDs, remittances from relatives working in urban or overseas are an important source of income for rural households. The remittances came from migration to urban areas as well as from those working in tourist resorts. This also acts as a way of diversification of employment of a household and thereby reduces the concentration risk. Many people in Fiji depend of remittances from their urban counterparts or from expatriates working overseas. This flow is utilised for savings and used for both consumption and emergency purposes. Overseas remittances accounts for around FJ\$400 million annually, which is not only an important source of revenue for the country but also acts a mechanism for stabilizing income of the family in both urban and rural areas. Moreover, the remittances from urban areas to rural households also are an important source of regular money flow for meeting

¹ The 9 MFIs has about 25,000 odd clients whereas the poverty statistics says that about 300,000 people are living below the poverty line.

both routine and emergency expenses. The total quantum of this flow has not been estimated, which can also give an indication of the support such financial services provide to household security.

b. Community

The idea of caring for and sharing with others is an important aspect of the value systems of the Fijians people and they are protected by the community they live in. In event of any risk to any particular family, the community contributes to the family to meet the immediate financial requirement. This is more so in case of death of any member in the family. The community contributes to meet the expenses of burial and the expected expenses. However the contributions are not enough to meet the long term needs of the family (children education, loan repayment etc). Moreover this strategy may not work in case of catastrophic or co-variant risks.

c. Informal Insurance Mechanisms

Micro Finance Institutions have designed in house insurance schemes to cover their members for instance Fiji Teachers Union Cooperative Thrift and Credit Ltd charges 1% of loan outstanding as an in-house mortgage protection scheme whereas the Credit Union League on the other side charges 1.2% of loan outstanding as a premium for its independent community insurance scheme. In both the cases the scheme provides life cover only to the extent of credit amount outstanding and in the event of death of a loanee, the loan amount is adjusted from the fund. As is evident from such examples, that benefit only flows to households who are employed in Government services and they have formed their own institutions and received various financial services, including insurance.

d. Formal Social Security

Social security as discussed earlier is limited only to people working in the formal sector. This cover provides cover for retirement, accident at work place, health and death. The eligibility extends to employees working in the military, civil services and private companies above a prescribed staff size. The rest of the population depends on private insurance.

In the absence of any policy on micro insurance, the poor generally are not able to access insurance services due to lack of knowledge and high pricing of the available products.

e. Governmental/External Assistance

The Government has always placed a high priority on its health services. Health services in Fiji are provided free of cost in village clinics, nursing stations, health centres, sub-divisional medical centres and divisional hospitals run by the Government of Fiji.

The elderly and those who are incapable of working are helped through the family assistance scheme of the government. Similar program for protecting children who are neglected, abused and orphaned are run under the family assistance schemes.

Foreign countries like Australia, New Zealand and Japan support people of Fiji by providing emergency assistance to victims of cyclone, flood and other natural calamities and extending grants to the Government of Fiji for cyclone relief and infrastructure redevelopment.

f. Gender Differences

There are no perceived gender differences in provision of services or even biasness against women in particular. The MF operations primarily deal with women clients, as was observed during the two field visits. In addition, women are well recognized in the society.

6. Attitudes toward insurance

a. Understanding

As the Fijian economy is predominantly subsistence in nature, with the strong community in place to provide immediate assistance in event of risk and due to lack of financial literacy, the rural poor do not understand the concept of risk, mostly perceived elsewhere. Poor people, who have some kind of functional and financial literacy, understand the importance of financial planning for future and save with the micro finance institutions and commercial banks in urban areas but have not ventured into using financial mechanisms to protect against uncertainties.

b. Appetite for risk

Fiji community is mostly risk averse and lack entrepreneurial skills mainly due to availability of abundant resources, lack of infrastructure and commercialization in rural areas². In the urban areas, educated youth are mostly employed in the service industry. On the other hand, indo-Fijians who do not have access to resources, especially land are more entrepreneurial in nature. They are more into commercial farming and also hold majority of the businesses in Fiji. In the urban areas, the business community perceives the various risks, especially property and inventory risks, life and health risks.

The various risks faced by the individual or the community were not highlighted during the FGDs. This can be attributed largely to the ignorance of available services

² From FGDs and discussions with various insurance and finance companies, one of the reasons stated are abundant natural resources with no basic food poverty and community support mechanisms.

which can cover other kinds of risk these people face. It was surprising to see that almost all respondents were willing to contribute for life and health insurance when questions were asked after putting forth hypothetical cases in group discussion. There were no clear details provided on the design, the expected contributions or the benefits that could be provided. Even with these uncertain terms, the respondents were interested in accessing risk protection mechanisms for life and health.

c. Trust in products

The high end corporate clients and the salaried customers have trust in the services offered by the insurance companies because of the proven association with the companies. On the other hand, the wage earners in urban areas and rural Fijians are unaware of insurance products and hence the trust on the product and services was not explicit. In fact, the knowledge of insurance companies and their product is very low, even in urban areas³.

d. Potential for Micro-Insurance Services

The potential for micro-insurance in Fiji islands has been taken from the employment statistics. From the current situations, the various assumptions of insurance market and its potential is enumerated in the following table.

Categories of employment	Current Status	Assumptions		
		Have Now	Market Can Reach Now	Market Can Reach in Future
Wage	146098	20%	40%	60%
Salary	48884	50%	70%	80%
Employer	3236	30%	40%	40%
Self employed	91818	0%	20%	40%
Family	37957	0%	5%	20%
Community	2235	0%	5%	20%
Total	330228	54632	133500	172826

From the current level of employment, it is only expected that about 16.5% have access to insurance services⁴. Since most of the employment in Fiji is the major cities, the market has the capacity to serve about 40% of the wage employed category with greater thrust on innovative products and distribution channel. With some effort, the market can reach about 50% of the employed class.

³ Only one person in urban area had property insurance as his family was running a restaurant. Others were not aware of insurance services and its benefits both in rural and urban areas.

⁴ With the assumptions, it is project that about 16.5 percent of the total employed personnel have access to insurance.

It also means that out of the 150000 households in Fiji, only 10,000 households have access to insurance services. The rest are yet to be tapped due to want of suitable products and distribution channels.

7. Conclusions about demand

a. Acceptance

As mentioned before, most of the people in Fiji are not aware of insurance and its associated benefits. There is an overall lack of exposure to need and benefits of various financial services, including that of insurance. But there is a latent demand of such services, especially for savings and insurance. For example, when a hypothetical case of insurance product was offered for life insurance during the Focused Group Discussion, there was an immediate acceptance of the same and villagers went to extent of even asking when it is being offered. This signifies that latent demand is there and people will be willing to take provided appropriate services can be given.

b. Ability/willingness to pay

As mentioned above, it was interesting to see that concept of insurance drew a lot of attention when discussed in a focused group. The ability to pay has to be deduced from the current savings pattern. The average savings per week in MFIs in rural areas was about FJ\$ 3 and therefore amounts to about FJ\$ 150 per annum. There is also a case of willful spending as there are no avenues of savings, which can be tapped through provision of savings and insurance services. However, a more detailed study on the willingness and ability to pay has to be done. Intuitively, it can be said that low income earners will be able and can be convinced to pay about FJ\$ 100-125 per annum for insurance services.

8. Overview of formal insurance market

a. Current providers

Life insurance companies

Life Insurance Corporation of India (LIC): LIC has been operating in Fiji since 1956. Life Insurance Corporation of India is a statutory company which came into existence through an act of the Indian Parliament in 1956. The global headquarters of the company is in Mumbai, India with operations across 10 countries. It presently operates from its three branches at Suva, Lautoka and Labasa and is also represented by more than 100 agents.

Colonial Fiji Life Ltd: Colonial Fiji pioneered the life insurance industry in Fiji in the year 1876 and bought National Mutual in the year 1994 to strengthen its life insurance business.

General Insurance Companies

Colonial Health Care (Fiji) Ltd: Colonial Fiji Ltd entered into the health insurance market by acquired Blue Shield (Pacific) Insurance Ltd in year 1990.

Fiji Care: Fiji care is the leading medical insurance company in the country underwriting about 70% of the total risk.

Dominion Insurance Limited: Dominion is a Fiji registered and domiciled insurance company and commenced business in 1987. It operates from its branches in Suva and Nadi.

New India Assurance Co. Limited: New India insurance was established in the year 1919 in India and is one of the largest general insurance companies in India. New India Assurance Company is operating in 27 countries and its operation in Fiji is now more than 50 years old. The company operates through its branches at Suva, Lautoka, Nadi and Labasa.

Sun Insurance Company Limited: Sun insurance Company Ltd initiated its operations in the year 1999 after taking over NBMF operations. It operates from its office in Suva and the rest and marks its presence in other towns through its agents.

QBE insurance company: QBE is an Australian listed company with a Group Head office based in Sydney, and has offices in 45 countries. The QBE Group started its operations in Fiji in the year 1899 with an agency presence. Later in year 1974, Queensland Insurance (Fiji) Limited was formed as a subsidiary of QBE. The company changed its name to QBE Insurance (Fiji) Limited in 2004.

Tower Insurance: The National Insurance Company of Fiji, Limited was established and began operations on 1st September 1974 taking over the operations of the Fiji branch of National Insurance Company of New Zealand Limited. The company portfolio increased after it acquired two insurance companies, Hartford insurance company limited in 1977 and Southern Pacific Insurance Company in 1980. In year 1999, the National Insurance Company of Fiji Limited changed its name to TOWER Insurance Fiji Limited in line with the demutualization of its parent company.

Brokers

As the formal insurance industry is run on brokers, there are about 6 insurance broker companies, namely, Aon Risk Services (Fiji) Ltd, Marsh Ltd, Unity Insurance, Connolly Insurance Brokers and Insurance Holding Fiji Ltd. These are mostly into dealing with corporate clients in the area of general insurance.

b. Micro-insurance providers

Micro Finance Institutions have designed in-house insurance scheme to cover their members. Some of the examples which came out from the discussions are highlighted below:

- Fiji Teachers Union Cooperative Thrift and Credit Ltd charges 1% of loan outstanding as a mortgage protection scheme
- Credit Union League on the other side charges 1.2% of loan outstanding as a premium for its independent community insurance scheme

In both the cases the scheme provides life cover only the extent of credit amount outstanding and in the event of death of a loanee the loan amount is adjusted from the fund.

9. Analysis of Current Products

a. Design

The various products offered are given in the following table:

Product	Colonial	Dominion	Fijicare	LICI	New India	Sun Insurance	QBE	Tower
Burglary		✓			✓	✓	✓	✓
Contractors		✓			✓	✓	✓	
Comprehensive Third Party					✓	✓		✓
Endowment	✓			✓				
Fidelity					✓	✓	✓	✓
Fire		✓			✓	✓	✓	
Health	✓	✓	✓				✓	
House		✓			✓	✓	✓	✓
House Content						✓	✓	✓
Loss of Profit		✓			✓		✓	✓
Machinery					✓		✓	✓
Marine Cargo		✓			✓	✓	✓	✓
Marine Hull		✓				✓	✓	
Money		✓				✓	✓	✓
Motor Vehicle		✓			✓	✓	✓	✓
Natural Disasters								✓
Personal Accident			✓		✓	✓	✓	
Product Liability					✓	✓	✓	
Public Liability		✓					✓	✓
Travel	✓				✓	✓	✓	✓
Workmen's Compensation		✓			✓	✓	✓	✓

Source: *The Insurance Industry in Fiji: Consumer Protection Issues; Fiji institute of applied studies*

These products and processes are designed with a focus of people engaged in formal economy and who live in urban or semi-urban areas. The penetration of insurance in rural and outer islands is very low and only few companies have made an effort to travel the extra mile to reach them through their agents.

b. Distribution

The business for the insurance companies largely comes from brokers and agents who primarily work in urban areas and major towns. The insurance companies also get into arrangements directly with corporate and sell various products to its employees and customers. Its presence in rural area is very skeletal and only a few companies invest in reaching the remote people.

c. Affordability/Cost

As per ILO's survey on Social Security, it was evident that there was a high need of social security and other risk mitigation product. From the same survey, it was also found that about 19% of the respondents were not in a capacity to pay anything for

social security or any other insurance program, while 72% of respondents could pay maximum of FJ\$10 per month and only 9% could pay more than FJ\$10 per month. The outcomes of the focused group discussion under this project also indicated that the poor in rural areas could afford a premium of not more than \$3 per week.

10. Conclusions on Supply

The current channels of distribution are not suitable to reach the rural people living in remote locations. Reaching these people through the current channel of agents would attract huge cost of distribution and if it is matched with their small contract value, the cost in relation to it would be too high making the product unattractive. If these risks are substantial and the consequences are as serious, there is potential for developing products suiting the needs of the rural consumers of insurance. One of the major ones is burial insurance, which can be tried out in Fiji.

a. Gap analysis

The potential as outlined before enumerates that the current market has tapped only about 15% of the employed class and has the potential to reach about 50 % of the same. The rural customers do not have access to any form of insurance services. Even if 30% of them can be tapped, it would amount to about 25,000 households. The gap exists due to want of customized products and distribution channels.

b. Opportunities

The Reserve Bank of Fiji has come out with directive for the banks to promote micro finance activities. It has asked all banks to open a micro finance cell in each of the branches which focuses only on micro finance services. Banks at present do not look at it as a viable proposition. It would be a win-win situation for both the bankers and insurance companies to work together. Micro insurance can be sold as an add-on to micro savings or micro credit products by banker thereby befitting from forming an alliance. The other opportunities of providing micro-insurance are working through the various credit unions and co-operatives in Fiji, formed mostly by the employed class. Several other informal co-operatives such as the sugar co-operatives of farmers and other in the value chain of sugar or even in tourism sector, micro-insurance services can be provided.

c. Constraints

The size of the market in Fiji is very small and relatively the assets of the poor are low in value. Insuring these assets would involve high transaction cost in relation to the size of the contract.

Moreover the poor find it easier to deal with frequent payment in small installments. This suggests that payments of premiums may also ideally occur in small installments, adding transaction costs to insurance provision.

As the poor who live in the rural and outer island have not had any kind of access to financial products, they lack functional understanding of any financial transactions. Hence provision of micro insurance services shall first require huge investment in creating awareness about the concept.

For promoting micro insurance in Fiji, the need of the hour is to develop appropriate products and bring down the cost of delivery. Considering the challenges of low population and low density, the channel of brokers and agents is not suitable/ viable for delivery of micro insurance services. Cost of micro insurance may come down by reworking on the value chain and with extensive use of information technology.

No bank accounts: In normal insurance schemes the premium is deducted from the bank accounts but most of the poor and the rural people in Fiji are unbanked which means that premium will have to be collected in cash and transferred to the insurance company. This also would create problems in settlement of insurance claims.

11. Recommendations to PFIP

A multi-pronged strategy has to be adopted for financial inclusion in the Pacific Islands, including Fiji Islands. Some of the recommendations for developing the micro-finance sector in general and micro-insurance sector in particular are enumerated below:

- I. Stress on Financial Literacy: One of the key challenges in Pacific Islands, including Fiji, is low level of awareness of various financial support mechanisms in form of savings and credit as well as protection mechanisms through insurance and pension. The financial literacy has to be attempted strategically and periodically with all stakeholders. The primary one is the customers or user of services but equally important is the need to build the capacity of various stakeholders, including commercial entities and micro-finance Institutions.
- II. Constant dialogue with Regulators: One of the key reasons for low penetration of insurance in rural and semi-urban agglomerations is absence of policy and strategic guidelines. The role of regulator is not only defining the policies and its supervision but also help in building the sector, creation of awareness among service providers and users, facilitative supervision. The constant dialogue with the regulator for bringing new perspective and international experience will be one of the key support areas which PFIP can offer to the regulators for promotion of the micro-insurance sector. This will help in development of the sector.

- III. Facilitate adoption of ideas: The major constraint in serving the sparsely populated Pacific island countries, including Fiji is development of appropriate product and processes, which is cost effective, attracts the customers in form of benefits and affordability and creates trust. This more true for insurance and savings services. Given the propensity of the financial institutions to serve high end customers in the urban areas, there is less chance of investment by these financial institutions in less remunerative high gestation markets. PFIP can bring international experience through its network but can also be an active stakeholder in promoting such idea in collaboration with financial institutions and other stakeholders

- IV. Creation of Risk Pool Fund: In the absence of actuarial data for product development as well as critical mass, the insurance companies is unwilling to tread into uncharted areas of micro- insurance in rural areas. Certain risk pool fund which can be accessed by various insurance companies can give a fillip to insurance companies to investing in the informal sector of the economy and in the rural areas.

- V. Funding of Pilots in Micro-insurance: PFIP can support the development of the sector through pilot funding of innovative projects in micro-insurance. This will also help all the stakeholders to understand the operational realities and constraints, which can be addressed later. Such pilot funding, its learning and success can help in removing the entry barrier of insurance companies, facilitators such as NGOs and MFIs and the customers also. This will help in the medium term in achieving growth and inclusion in Pacific islands, including Fiji.

- VI. Creation of Actuarial database: PFIP can fund developing a database by sourcing them from Government department and other relevant sources. This will help building confidence in the sector as both insurance companies and re-insurer will be equipped to make more informed decisions.