The Financial Stability Report (FSR) is prepared by the Financial Systems Regulation Department (FSRD) of the Central Bank of Solomon Islands (CBSI).

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This report is based on data and information of banks and non-bank financial institutions available up to December 31, 2019 unless stated otherwise in the relevant chapters/sections.

TABLE OF CONTENTS

APPENDICES

Pages

LIST OF CHARTS

GOVERNOR'S FOREWORD

Governor Dr Luke Forau

The Financial Stability Report (FSR) captures information on developments that are relevant for financial stability both at global and domestic fronts for 2019. It further provides insights into the vulnerabilities, risks and policy responses in mitigating the said risks in the domestic financial sector, with the aim of ensuring stability in the financial system.

Over the past twelve months, the domestic financial sector witnessed subdued growth in lending activities, investment activities, and premium receipts. Besides weak global market conditions, the decelerating trend underpins the slowdown in domestic economic activities emanating from slow fiscal supports, limited investment opportunities, and the continued aging legislative framework.

Going forward, the overall financial sector growth could contract further given the projected economic growth of around minus 5% for 2020. This unfavourable growth is likely to stem from the impacts of the coronavirus (COVID-19). The magnitude and extent of which is unknown, although initial evidences have shown that the impacts could halt the normal financial sector performance in 2020. This will certainly put pressure on the financial institutions to explore for new ways to deliver financial services and at the same time enhance management and controls to remain profitable.

Despite the slowdown in the financial sector growth, the sector remained fundamentally strong during 2019.

The FSR has been prepared by Financial Systems Regulation Department (FSRD) with the assistance of CBSI Financial Stability Committee and the Executives of the Central Bank.

I hope this edition will provide you with insights into Solomon Islands financial sector performances, vulnerabilities and risks affecting the domestic financial system, and actions that CBSI had taken in 2019 to maintain stability in the system.

Dr Luke Forau
Governor

CHAPTER 1: SUMMARY

The global economy, according to the International Monetary Fund, expanded in 2019, albeit at a slower pace. It grew by 2.9 percent compared to the 3.6 percent growth recorded in 2018. Growths in the US, UK and the Chinese economies slowed down in 2019 while the Japanese economy recorded another expansion during the year.

Meanwhile, banks around the world have positioned themselves to withstand such unprecedented shock as that of the COVID-19 pandemic. In the UK, results from annual stress test conducted by the Bank of England affirmed that the UK banks are capable to weather a disorderly Brexit and any economic recession experienced in the UK and the global economy. On the other hand, relaxing of financial conditions along with a slowdown in interest rates in developed economies contrived a rebound in portfolio flows to the emerging markets.

In Asia, China and Japan had implemented some control measures to mitigate risks associated with few financial activities. The former undertook the measures to contain growth of its thriving non-bank financial sector while the latter to control activities of high frequency trading (HFT) trading firms. Australia and New Zealand banking system remained fundamentally strong in spite of elevated household debts in the housing markets for both countries and increasing level of debts in dairy farming sector for New Zealand. Banks in the Pacific remained profitable and operated within their regulatory and prudential bounds during the year, but risks associated with the fragile correspondent banking relationship, high levels of household debts, and limited onshore investment opportunities persisted.

Solomon Islands financial system remained vulnerable to corporate debt burdens; conduct risk; fintech developments and associated cyber threats; and vulnerabilities associated with the financing gap left behind by Republic of China (ROC), which has potential to undermine developments of agroindustry and sustainability of small agribusinesses in Solomon Islands.

Risks to financial stability remained at elevated level and the system remained exposed to: (i) credit risks arising from narrow loan portfolio composition, asset quality and credit concentration; (ii) liquidity and credit concentrations; (iii) investment risks stemming from investment concentration and narrowed investment opportunities; and (iv) underwriting risk arising from geographical concentration due to narrowed opportunities, natural hazards due to changing environment, and from frail policy framework.

Solomon Islands banking sector maintained its strong performance. Despite limited expansion opportunities, the sector recorded a net surplus of $125.8 million and its total assets reached $6.1 billion at end of 2019. Banks continued to provide banking services to their customers, but credit remains the major risk of the banking sector.

Similarly, the superannuation and insurance sectors maintained positive performances. The former recorded a net profit of $31.8 million and total assets of $3.8 billion while the latter registered a net profit after tax of $15.1 million and total assets of $137.6 million at end of 2019. Nevertheless, ageing legislation remained a prudential concern for these two sectors while low insurance penetration rates further adds to the insurance sector's list.

In 2019, only one credit union remained in the watch list of the Central Bank and risks highlighted in the 2018 edition of the Financial Stability Report remained at an elevated level. Governance, credit, and operational risks are key risks affecting the sector.

Actions that the Central Bank has taken in 2019 to lessen the impact of the risks in the system are discussed in Chapter 3 of this Report.

CHAPTER 2: OVERVIEW OF INTERNATIONAL AND DOMESTIC FINANCIAL ENVIRONMENT

The global economy, according to the International Monetary Fund, slowed down in 2019 by 2.9 percent from the 3.6 percent registered in 2018. This subdued growth is a consequence of rising trade barriers, elevated uncertainty surrounding trade and geopolitics, idiosyncratic factors causing macroeconomic strain in several emerging market economies; structural factors such as low productivity growth and aging demographics in the advance economies.

In the United States (US), real GDP grew by 2.4 percent in 2019, down from 2.9 percent in 2018, and the financial conditions had remained broadly accommodative. Interest rates remained low, one of the lowest since the last Global Financial Crisis, risk-taking appetite had remained firm, and asset valuations had risen in major markets.

In Europe, the United Kingdom economy grew by 1.2 percent in 2019, down from 1.4 percent registered in 2018. Across euro area, growth has been downgraded from 1.9 percent in 2018 to 1.2 percent in 2019, due to weak exports, while Brexit related uncertainty continues to weaken growth in the United Kingdom. The main driver of the sluggish growth in UK is their exposure to slowing growth in China and spillovers from US-China trade tension. Moreover, the Bank of England annual stress test result has shown that the banks in UK were capable of withstanding a disorderly Brexit and any deep recessions associated with any catastrophic event occurring in UK and the global economy.

The easing in the financial conditions and low interest rates in advance economies, more particularly the US economy, had supported rebound in portfolio flows to Emerging Market Economies (EME). Debt flows has risen as higher yielding dollar denominated bonds have become increasingly more attractive than bonds issued by advanced economies. Increased appetite for EME dollar debt has supported a pick-up in issuance by EME sovereign bond market, these inflows of capital have supported additional borrowing offshore by EMEs. This opens up the exposure of EMEs to external vulnerability risks and the increased borrowing could expose them to rollover and debt sustainability risks.

Within the Asia-Pacific region, Chinese economy grew by 6.1% in 2019, down from 6.6% in 2018, but the financial conditions remained stable overall as Chinese authorities had eased monetary policy to counter the effects of external pressures and tighter regulations. China's regulators introduced a number of control measures to contain the growth of its thriving non-bank financial sector. Report filing rule, which compelled peer-to-peer lenders' strict compliance, was one of the control measures that had been introduced. Unfortunately, peer-to-peer lenders had described the rule to be complicated and the rule had so far forced fintech firms to shelve their plans to float on stock market. In addition to the report filing rule, China's regulators had also launched a formal licensing regime for lenders and furthermore had imposed limits on loan sizes and barred platforms from guaranteeing investors' capital. Notably, these reforms were aimed at containing financial integrity and reputational risks to the financial system that may be associated with illegitimate operators' outlandish activities. Those operators had made outlandish promises to investors.

The Japanese economy grew by 0.9% in 2019, up from 0.8% in 2018. During the year, the Japanese authorities had tightened the rules surrounding high frequency trading. This review was aimed principally at correcting the perceived deficiencies about the HFT activities where the market participants had viewed the HFT firms to be the potential source of financial instability due to their high-speed trading activities. Moreover, the market participants had also viewed the HFT activities to be the potential headspring for disadvantaging retail investors given that 70 percent of the firms trading in the Tokyo Stock Exchange are HFT firms. Altogether, HFT firms are now obliged to register with Financial Services Agency, and to demonstrate their risk management mechanisms and processes' effectiveness.

Closer to Solomon Islands, the Australian financial system remained resilient and fundamentally strong, despite slower economic growth and the prolonged low global interest rates. The banks in Australia remained profitable and had built adequate capital and liquid assets to withstand global economic and financial crises. Despite the positive performance, risk emanating from external shocks, high household debts, risks in housing markets and risk stemming from the banking sector's non-financial risks persists. The Australian Prudential Regulation Authority (APRA) had taken some measures to improve the resilience of the financial system, more particularly, the implementation of the framework for loss-absorber capacity (LAC), the tightening of culture and conduct risk framework, and the strengthening of lending standards for residential mortgages in recent years has appropriately improved the quality of new lending.

Across the Tasman Sea, the New Zealand financial system remained resilient and fundamentally strong overall. The banking sector maintains buffers of capital and liquidity over their regulatory requirements and has recorded strong profitability but risks to the financial system persisted. In particular, the high levels of indebtedness in the household and dairy farming sectors remained a concern given their potential to elevating financial risks. Meanwhile, new risks have emerged in the insurance and credit union sector. Some insurers have low solvency buffers below the threshold requirement set by the Reserve Bank of New Zealand. Reported solvency ratios have declined for many life and general insurers, leaving low buffers over minimum requirements. Affected insurers are preparing plans to increase their solvency ratios and are subject to enhanced supervisory engagement. Pressures are emerging for some credit unions with a number operating at a loss. The main driver is on low economies of scale and have faced significant cost overrun in updating core banking systems. Several credit unions have merged over the years in order to boost economies of scale and further improve the sector.

In the Pacific, the banking system of the small island economies had remained resilient and largely stable since the last issue of the Financial Stability Report (FSR). They remained profitable and met their minimum capital adequacy and other prudential requirements. Nonetheless, risks associated with slower GDP growth, fragile correspondent banking relationship, limited onshore investment opportunities, growths in personal lending, emergence in impersonating activities, cyber risks, and rising levels of household debts persisted. Other risks have emerged since the last issue and are associated with climate change issues, increased shadow banking activities and lack of re-insurances in some small island nations.

Domestically, the Solomon Islands economy contracted in 2019. Gross domestic product fell by 1.5 percentage points from a provisional estimate of 2.7 percent to 1.2 percent by the end of 2019. This backdrop mirrored weak economic performances at both the international and domestic levels. On the international front, proceeds from round log exports was notably low, this pointed to the spillover effects of the China-US trade war which weakened China's demand for round logs – the country's largest export commodity. Total inflows from other exported domestic products also declined during the year, rippled down by a general reduction in international commodity prices, which to an extent disincentivized local producers from increasing production output. Domestically, the slow performance was also attributed to low income from round log exports and agricultural crop - underpinning a general cutback in domestic income. Temporal disruptions in some economic activities mainly on wholesale and retail as well as the production sector during the course of the national general election in April 2019 also contributed to the sluggish economic performance. This also led to a slowdown of the agricultural performance in the country. More so, government revenue subdued, constricting the government's ability to provide subsidies to the local economy thence. This outcome resulted from drop back in tax income as a result of the frail economic condition.

In the financial sector, banks and non-bank financial institutions are grappling with the impact of the slowdown in economic activities. This has put a drag on money creation processes of banks and has not only led to weak debt-servicing capabilities of financial consumers but has also crystalized into a high volume of non-performing loans (NPLs), mainly in the personal and construction sectors. The increase in NPLs witnessed across 2019 fueled further buildup of toxic assets in the system, putting pressures on some of the banks', credit institutions', and credit unions' capital. Meanwhile, insurance and superannuation fund maintained positive growths but at a relatively slower pace.

Overall, licensed banks and non-banks financial institution maintained profitability across 2019, despite the weak economic out turn. This has helped them to maintain adequate capital and liquidity buffers. The introduction of supervision levy on banks and credit institutions at the beginning of 2019 as well as the application of risk-based supervision framework will further strengthen corporate governance and risk management and compliance culture of these financial institutions (FIs). In addition, it should also induce FIs to operate within the bounds of their risk-taking appetite and to produce and maintain desirable financial soundness indicators going forward.

CHAPTER 3: DOMESTIC FINANCIAL SECTOR DEVELOPMENTS

Generally, Solomon Islands financial sector performed reasonably well in 2019, in spite of the sluggish economic growth witnessed during the year and persistence of vulnerabilities and risks to the country's financial system.

3.1 Vulnerabilities

Vulnerability stemming from rising corporate debt burdens

The banking sector is vulnerable to risks stemming from rising corporate debt burdens. Banks and non-bank financial institutions (NBFI) operating in Solomon Islands are either branches or subsidiaries of foreign banks and NBFIs. In practice, parent banks and NBFIs are expected to inject capital or equity funding into their branches and subsidiaries operating in Solomon Islands during stress period so that they do not breach CBSI's regulatory and prudential requirements. These requirements promote responsible corporate citizenship and stability of domestic financial system.

Currently, banks hold sufficient capital to withstand any economic risks. However, their viability may be threatened by rising levels of corporate debt burdens associated with subdued business activities and the unknown scale and duration of the COVID-19 pandemic. Importantly, these events have constricted the revenue generation capacity, undermined the debt-service ability and increased the debt burden of private corporations. Usually, the level of toxic assets in the system is high when such events occur, and as such is a contributor to financial sector vulnerability. The banks and credit institutions once fail to meet their financial commitments when fall due can cause very large economic and social costs to the overall financial system.

Vulnerability emanating from conduct risk

Domestic financial system is vulnerable to risk emanating from culture and conduct risk. Resilience of financial institutions is underpinned by a sound understanding and management of the risks that they face. There are signs of culture and conduct risks emerging within the banks and non-banks[1]. The recent reviews of the culture and conduct of banks and non-banks have found weaknesses in processes for managing culture and conduct risks. For example, there are signs of some financial institutions taking actions that are detrimental to customers which could potentially expose their institutions to reputational risks. Similarly, there are also signs of slackness in the ownership of risk culture within some frontline business units and as such are exposing their institutions to operational and financial risks in the future, if not addressed now. Further risk management weaknesses include vulnerability in computational errors pertaining to calculation of asset quality, valuations of fixed assets, and compilation and submission of prudential returns to CBSI on time.

CBSI expects institutions to improve their own assurance processes and controls, and the Central Bank will work closely with the concern FIs to ensure this does not reoccur in the future.

Vulnerability to risks relating to Fintech Development

Solomon Islands will soon access new financial innovating opportunities created by the Fintech evolutions. These evolutions will not only bring on benefits and immense opportunities but also risks to the regulated FIs, customers and the overall financial stability. Some of the obvious benefits for customers, similar to the current *youSave Lo-Mobile* platform includes; (i) less time standing at counter queues and cash handlings (ii)access of financial services by informal sectors, (iii) ability to send transactions from any location within the coverage area, (iv)and safe and secure means to deposit savings.

Despite the potential benefits and opportunities, it is worth considering that the adoption of such technological innovations could exacerbate existing risks and even create new ones. To name a few, consumer protection, data privacy, anti-money laundering, counter-terrorist financing issues and cybersecurity issues rank at the top of the concerns.

In the fintech related innovations like *youSave LoMobile*, data and technology are critical features, while information security arrangements and infrastructure involved are prone to be fragile. Therefore, it should be a priority for participating FIs to consider measures and controls to identify, mitigate and overcome cyber threats as well as maintaining robust personal data protection frameworks.

The emergence of fintech in the country, with its potential opportunities and risks, should also prompt all stakeholders to reassess the adequacy of legal frameworks to embrace these developments. In this process, the stakeholders may wish to consider carefully the need for specific regulatory intervention, since there is no existing legal framework that covers such innovations. This also presented another challenge for the regulator to develop policy and regulatory responses to promote innovation while preserving sound and safe financial systems. It is therefore, important that all key stakeholders must play an active role in attuning the regulatory framework to the extent that fintech developments in the country can effectively bring opportunities with risks under control.

It is crucial to stress that in view of the significant transformation of the financial system given the fintech phenomenon, CBSI as a regulator will continue to closely monitor the fintech developments and its implications to the financial system and the overall economy to ensure the financial sector remains stable.

1 Non-banks include insurance companies, credit unions, and the superannuation fund (SINPF)

Vulnerability stemming from political diplomatic switch

Following the national general election in April 2019, the newly formed Democratic Coalition Government for Advancement (DCGA) switched diplomatic relationship to the People's Republic of China from the Republic of China (ROC). The switch has instigated a huge public outcry and caused major divide on opinion among the political leaders and the civil society at large. Like any new development, the new switch has its benefits and challenges. The switch has caused fiscal shock in terms of government revenue, more particularly, the revenues collected from Taiwanese fishing companies and the donor support provided by ROC have all ceased after the switch.

Moreover, weak government revenue and delayed funding from the new diplomatic partner disrupted the government's commitment to provide funds to its creditors on time. This caused the financial institutions to become highly vulnerable to financial risks as corporate and household borrowers who depends on government to settle loans became vulnerable to default risk. This is a concern because unpaid loans affect the quality of assets in the system.

3.2 Risks and Microprudential Policy Responses

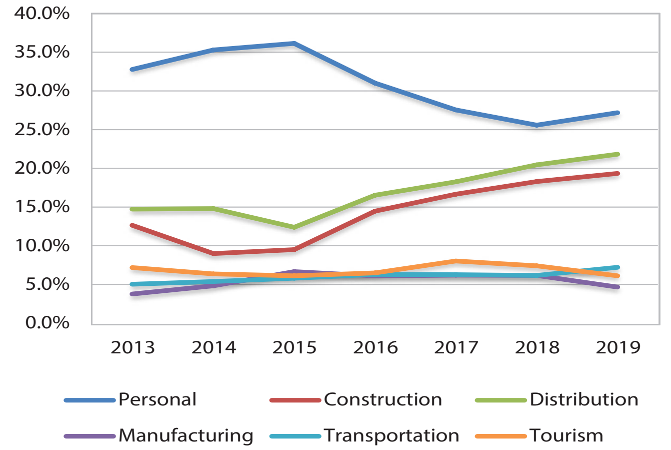
Despite the overall stable financial system resulting from positive performances recorded by the banking, superannuation, insurance and credit union sectors in 2019, it was not entirely a free ride for the FIs. The FIs had faced headwinds emanating from mounting pressures from both the internal and external environment. Notably, these pressures posed risks to the financial system's stability. Among others, credit risk, liquidity risk, investment risk and underwriting risk have been the obvious risks witnessed in 2019.

Fortunately, these risks have been identified, and with diligent work outplayed by the board and management teams of the FIs and supervisory role performed by the Central Bank, these risks were contained within bay. The risks and microprudential policy responses are outlined below.

Credit risks arising from narrow loan portfolio composition, asset quality and credit concentration remained a concern for some banks, credit institutions, and credit unions.

For the banking sector, the limited portfolio composition for some banks and credit institutions is largely owed to the thin economic opportunities coupled with effort to maximise returns throughout 2019. While portfolio composition may vary across banks and credit institutions, it becomes clear that credit to personal sector maintains a steady lead ahead of other sectors. Other emerging economic sectors are distribution and construction sectors amplifying the current economic climate of the country (Chart 3.2.1).

Chart 3.2.1: Composition of Loans by Sector; Banking sector



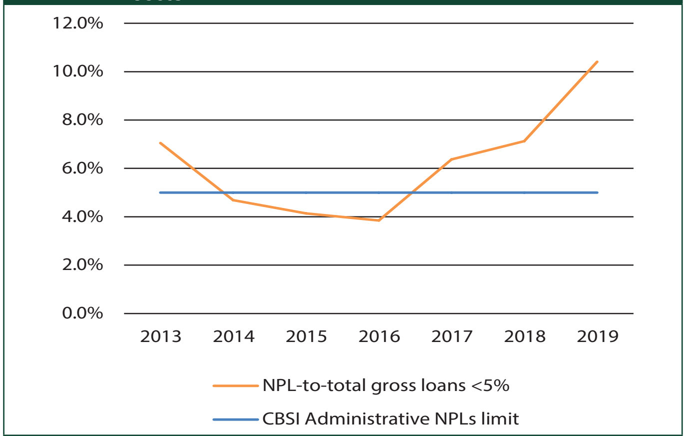
Source: CBSI

During 2019, the level of toxic assets in the financial system remained a key concern for the financial system stability. With current high level of capital within the financial system, the level of non-performing loans-to-total loans (NPLR) may be viewed as relatively lower but it can deplete capital if the trend persists. The rising NPLs are founded on weak underwriting standards and competition to gain market with hope to maximise earnings. On the external side, the slowdown in economic growth, the continuous high level of debt burdens, and the limited domestic growth opportunity have contributed equally to the deterioration of the quality of loans in the financial system.

Similarly, the high level of NPLs continued to be seen in most of the large credit unions in the credit union sector. This resulted from a blatant disregard by credit committees to effectively implement their lending policies. Furthermore, the high NPLs stemmed from the following: lack of proper management information; lack of loan tracking system; and weak board oversight. Despite efforts of the board and committees of some of the credit unions to minimize the rising unsecured loans and to reduce the level of emergency loans, these products continued to pose prudential concern for the Office of the Registrar of Credit Union. Records have shown that members of some credit unions who obtained credits from these two loan products had done so in excess of their savings and repayments' ability, thereby resulting in loan defaults.

For the banking sector (Chart 3.2.2), the NPLR, which measures the level of loans that do not generate income for banks and non-banks, accelerated further above the Central Bank's administrative NPLR ceiling of 5 percent respectively in 2018 and 2019. The NPLR grew by 10.4 percent in 2019 from 7.2 percent in 2018. The persistency in the level of NPLR is jointly associated with delays by the central government to release payments to government's contractors and service providers on time in order for the government creditors to be able to repay their respective loans, combined with subdued economic growth, and behavioural factors stemming from corporate and retail customers, weak underwriting standards, and weak loan recovery framework of some of the banks and credit institutions. Similar to 2018, retail and corporate borrowers had been diverting funds meant for loan repayments to other purposes and this complicates the efforts of banks and credit institutions to reduce their level of exposure to non-performing assets.

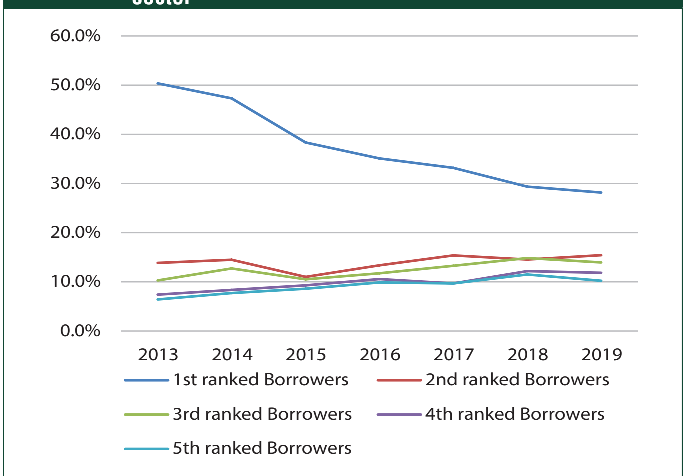
Chart 3.2.2: Non-perfroming loans -to-total loans ratio; Banking sector



Source: CBSI

Notwithstanding the general decline in top borrowers-to-total regulatory capital ratio (Chart 3.2.3) at end of December 2019, some banks and credit institutions' credit concentrations remained high in respect of their capital. For the banking sector, and as per the Central Bank requirement, the prudent exposure ceiling limit rests at 25 percent for a single borrower. While some of the banks and credit institutions have maintained lower thresholds, some have significantly exceeded the prudential exposure ceiling limit during 2019, threatening their level of capital.

Chart 3.2.3: Top borrowers-to-total regulatory capital ratio; Banking sector



Source: CBSI

Overall, the narrow portfolio composition, deterioration in asset quality, and high credit concentration in the system expose banks, non-banks and credit unions to risks since they depend on a few sectors as their major sources of income. Obviously the high NPLs reduce income earnings from original loan contracts, and creates additional administration costs, and volatility in income if one of the large borrowers becomes default. Reduction in anticipated income and profitability could encumber efforts of FIs to reverse a declining profitability trend and to augment liquidity and capital buffers. In an effort to minimize credit risk, some FIs reduced lending to high-risk sectors and applicants or businesses with a single source of income, particularly income from the Government. Such actions are warranted because single source of income easily inhibit businesses from obtaining additional working capital to expand activities.

Microprudential policy response to mitigate credit risks arising from narrow portfolio composition, asset quality and credit concentration.

The Central Bank, as part of its supervisory role, strongly reminded FIs to enhance their underwriting standard and not to increase their portfolio unnecessarily so that borrowers' capacity and ability to repay debts are always maintained. This is in addition to controls FIs employed throughout 2019 to curtail the impacts of the above-mentioned credit risks on the financial system. Similarly, in 2019 the Central Bank reminded FIs to adhere to requirements under Prudential Guideline on Asset Quality and Minimum Provision Requirements (PG2) and Prudential Guidelines on Large Credit Exposure (PG5). Compliance with the provisions of the prudential guidelines should see containment of toxics assets in the system.

For the credit union sector, the Central Bank has held bilateral meetings and onsite examination programs, and informed credit unions of the importance of engaging in secured lending practices. This lending strategy will mitigate loan losses and restrain further depletion of capital and reserves going forward. Hence, credit unions had been advised to quit from unsecured lending and granting of emergency loan practices. The Central Bank believes that awareness is one of the pillars to help credit unions understand their credit risks, therefore the Bank continued to use moral suasion to change the behaviour of credit unions toward risky lending practices.

Furthermore, the Central Bank had reminded the affected credit unions to review their recovery plans and enhance their debt recover plans. And despite reluctance shown by credit unions to adopt the loan amortization table, the Central Bank continued to remind credit unions to use it to improve their loan underwriting practices, monitoring and recoveries. The simple spreadsheet aims to assist credit unions with their day-to-day financial and liquidity planning.

To further enhance the overall loan underwriting practices for credit unions, the Central Bank has commenced a fact-finding review on possibility of identifying a reasonable management information system (MIS) software or platform especially for loan underwriting, approval, funding, and monitoring. Having management information system is critical for the credit union sector to provide coherent approach towards decisions making for problems and combating issues facing the credit unions. Such information would be vital for board to make quality decision making and control use of members' funds. Credit Union movement is growing and owning appropriate IT system to manage, evaluate and report data for board effective oversight remains a challenge for the credit unions throughout the country. Given exuberating cost of technology, a cost sharing arrangement between current credit unions is considered as the best possible option.

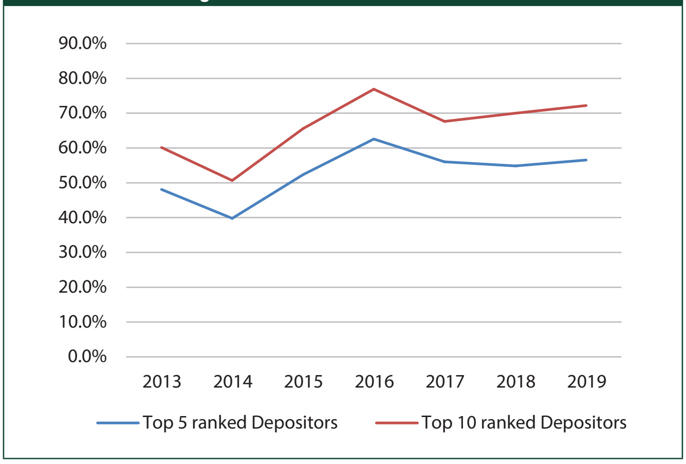
Liquidity risk arising from liquidity concentration remains a concern for some banks, the credit institutions, and some credit unions.

Tight concentration of wholesale deposits held by some banks, credit institutions, and credit unions is a notable concern given the absence of clear liquidity concentration risk appetite in terms of large depositors. While work on determining most relevant limits is in progress, the Central Bank expects FIs to thoroughly review their liquidity portfolios and establish their appropriate limits in terms of their large depositors.

For the banking sector, there has been significant reduction in liquid assets as a result of lumpy withdrawals by corporations to directly fund their projects. While the decline does not lead to liquidity crisis, further outflow of the corporate deposits or wholesale deposits due to unexpected shocks may lead to liquidity crunch for a few of the banks and credit institutions. For them to withstand such situation they would be forced to get additional funds from their parents and shareholders or borrow from other banks within the financial system.

Despite the high liquidity in the financial system, , some banks and credit institutions continued to experience tight liquidity positions throughout 2019. This is because the bulk of their funds had been provided by either the top 5 large depositors or the top 10 depositors. Interestingly, the top 5 large depositors constituted 56.6 percent while top 10 large deposits made up 72.2 percent of total customer deposits respectively at end of December 2019 (Chart 3.2.4).

Chart 3.2.4: Top depositors-to-total customer deposits ratio; Banking sector



Source: CBSI

Nonetheless, the liquidity pressures have been contained by the concerned banks and non-banks, although they are still vulnerable to any unexpected shock to the financial system. It is anticipated that liquidity risk could lead to reduction in earnings and capital as these concerned FIs might not have complete control over deposits of customers who would want to withdraw their deposits to meet their financial commitments in the future.

For credit unions, around 50 percent of all registered and reporting credit unions experienced a liquidity crunch during the year. This emanated from high levels of non-performing loans (NPLs) given that the majority of NPLs were unsecured loans, coupled with excessively high operating expenses. The rise in the level of NPLs and weak administration of loan repayments had been constricting the main income sources of credit unions and the stock of available funds to lending to members and meeting operational expenses of credit unions. This issue is, however, slowly improving as board members and committees of credit unions are seeking ways to strengthen controls and instil confidence in members.

Microprudential policy response to enhance liquidity management frameworks.

In response to the concentration risk, the Central Bank continued to direct banks, credit institutions, and superannuation to follow Prudential Guideline Number Six (PG6) on Liquidity Management. PG6 provides minimum requirements for banks, credit institutions, and superannuation to maintain prudent liquidity practices not only through diversifying their deposit base but also documenting prudential limits such as concentration limits, and effective tools for measuring and monitoring liquidity risk which can greatly assist in maintaining adequate level of liquid assets in the banking and superannuation sectors especially during period of liquidity crisis.

Additionally, to minimise the impact of high liquidity concentration in the banking sector[2] and superannuation sector, the Central Bank has conducted both off-site and onsite reviews during the year and instructed the FIs to enhance their liquidity concentration framework as required under PG6. They were also accentuated with the importance of asset profiling and liabilities profiling to minimise mismatch between maturing assets and liabilities.

For credit unions, the Central Bank through the onsite examination programs throughout the year recommended to board and management of credit unions to review and strengthen their liquidity policies and procedures. This is to ensure stable sources of funding are maintained through the maintenance of stable membership. Similarly, to reduce the impact of the liquidity crunch on the credit union sector, the Central Bank continued to main-

2 Include the banks and credit institutions

tain the various stabilization measures it had introduced in 2018. In particular, it maintained overall administration of payments for problematic credit union and worked closely with boards of other credit unions to effectively oversee the administration of their credit unions. In addition, with inadequate knowledge on budgeting and cash flow projections, the Central Bank had organised a symposium on corporate governance, credit risk, liquidity risk and operational risk for all board and committee members toward last quarter of 2019. The symposium was to equip board and committee members to identify gaps within their risk management framework and enhance controls within their respective credit unions. Some of the obvious gaps include (i) documentation of credit and liquidity policies and updating them to mitigate credit, liquidity and investment risks respectively.

Investment concentration risks stemming from narrowed investment opportunities remain a concern for the superannuation sector.

In terms of financial instruments, shares and equities continue to dominate the investment portfolio of the superannuation sector. They claimed 49.4 percent ahead of time deposits 18.4 percent, and investment properties 13.2 percent at end of December 2019 (Table 4.2.4). Similarly, single investment-to-total capital ratio of the Fund remain with top 5 investments representing 459 percent of total capital of the Fund after it decelerated from 501.0 percent in 2018. The investment concentration risk exposes the Fund's capital in the event that one of the top investments is disrupted by economic shocks or under weak management. While it is not easy to quickly spread this concentration risk, having internal limits for all the investment portfolio could be seen as a drive towards prudent investment management.

Microprudential policy response to strengthen the existing investment framework of the Fund.

To mitigate this risk, the Central Bank had provided offsite and onsite reviews during 2019. Further, the Central Bank continued to remind the Fund of its investment and asset valuation guidelines. These guidelines aim to ensure investments are fairly distributed to minimise sudden losses from one huge investment. Likewise, to ensure all investments earn fair returns for the Fund and its members. Several offsite and onsite reviews had been carried throughout the year. Additionally, the Fund board is aware of this risk and with support of the management, the Fund continues to drive towards spreading the Fund's investments fairly across its investment portfolio. The Fund's rebalancing strategic plan underpins this effort even though this was not achieved at end of December 2019.

Underwriting risk arising from geographical concentration due to narrowed opportunities, natural hazards due to changing environment, and from frail policy framework remained a concern for the insurance sector.

For the insurance sector, the underwriting risk occurs where a premium is not correctly priced to reflect the risk given uncertainty on severity of damages arising from an event therefore resulting in losses to insurance companies. This risk remained a concern for the insurance sector in 2019.

That said, amongst others, natural catastrophic events and geographical concentration have been seen as backing for underwriting risk. Solomon Islands, according to the World Risk report (2019), is ranked fourth in terms of risk disaster hotspot in the world. This means that the local industry is susceptible to financial losses due to natural catastrophes and other weather perils. On top of that, almost all large insured properties are located on the island of Guadalcanal. Hence, simultaneous catastrophic strikes on Guadalcanal will likely cause huge financial losses that might cripple the industry.

Similarly, the underwriting risk is associated with climate change. Coastal erosion resulted from the rising sea level exposes insured properties situated along the coast to financial loss thus, reduces their insurability. This posed significant risk to the industry as risk associated with climate change are very difficult to quantify and lack of historical data on climate change risk makes it difficult for insurer to assess such risk. With due respect, local insurers are currently reassessing their appetite for insurable risks or classes of insurance that are highly exposed to climatic variations. For some, these types of risks or classes are now put off their books while others reluctantly accept the risk at a higher premium due to limited market opportunities.

Furthermore, weak enforcement of regulatory policies by other regulatory agencies within the country also compounds the underwriting risk to the local insurance industry. Failure to uphold appropriate building guidelines and adherence to regulatory building codes may expose properties to risk of underinsured. This will expose property insurers to risk associated with the failing property. More so, this may not only affect the constancy of the insurance sector, but also will expose property owners and financiers to unbearable financial losses. On another note, lack of adequate regulatory enforcement on work safety standard has also affected the local insurance industry. While it is mandatory for business owners to insure their employees, lack of work safety enforcement will cause negligence among employers thus increase the risk of work-related accidents. This exposes the insurers' to the risk of solvency drain as mounting claims payout from work related injuries would eventually erode the industry's premium pool thus weakened their financial position.

Microprudential policy response to curb underwriting risk arising from geographical concentration, natural hazard, and frail policy framework.

In order to mitigate the underwriting risk to the insurance sector, the Office of the Controller of Insurance (OCI) continued onsite and offsite surveillance on business affairs of insurers and intermediaries operating within the country throughout 2019. These supervisory activities are critical to ensure local licensed insurers and intermediaries maintained sound financial standing and to ensure early detection of any adverse movement that may negatively impact the sector's stability. In 2019, the supervisory office undertook twenty-eight off-site surveillances (one each quarter for each insurers and intermediaries) on the business affairs of both insurers and insurance intermediaries as well as continued dialogue with the players within the market on matters affecting the industry. The OCI also issued two directives on i) Business conduct of insurance intermediaries, and ii) Reinsurance management. These two directives are purposely to strengthen the regulatory compliance of the players in the industry. The former ensures that intermediaries conduct their businesses in a fair and honest manner that does not detriment their policyholders while the latter accentuate insurers to maintain appropriate reinsurance arrangements to ensure apposite protection for its policyholders as well as the stability of the insurance industry.

CHAPTER 4: DOMESTIC FINANCIAL SECTOR DEVELOPMENTS

4.1 BANKING SECTOR PERFORMANCE

The structure of the banking sector remained with four commercial banks and two credit institutions at end of December 2019. Amplifying from the subdued growth, the size of the sector remained flat in 2019 (Table 4.1.3) but its total assets claimed 60 percent of the total assets of the overall financial system. In the same way, it is worth noting that the banking sector remains resilient despite pressures caused by the weak enabling environment that resulted in increasing operating expenses, non-performing loans, and decelerated economic growth.

Furthermore, given the banking sector in Solomon Islands is foreign owned and with aim to maintain a business model driven by strategic directions tailored to advanced economies where enabling environment and compliance are key drivers for growth and competitiveness, it has been a huge challenge for these banks to broadly serve consumers' needs of the country in 2019. That said, there is still a general expectation from the public for banks and credit institutions operating in the country to extend their services to other remote regions in the provinces where the mass population lives. But by doing so could disrupt their own business models to maintain profitability and this poses risk to the system.

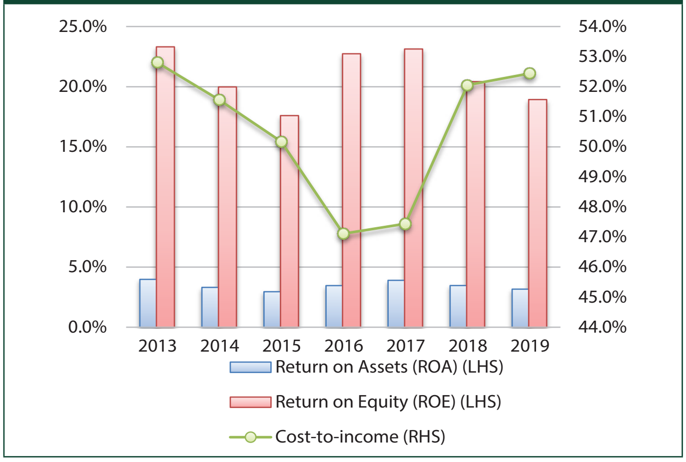
Despite the pressures arising from the business environment, the banking sector remained profitable with an annual net profit after tax of $125.8 million and a total asset[3] size of $6,062 million at end of December 2019.

4.1.1 Profitability

The profitability underscored the desirable return on assets (ROA) and return on equity (ROE) (Chart 4.1.1 and Table 4.1.1) albeit the deteriorating asset quality. The profitability largely emanated from the improvement in the gross income. Furthermore, the upturn in gross income is underpinned by the adequate level of net interest income from loans and advances and non-interest income, which stemmed mainly from foreign exchange revaluation gains. Both incomes had been maintained at 53.4 percent and 46.6 percent of total gross income respectively (Table 4.1.1). These outcomes showed the banking sector was able to contain the operating expenses even though the cost efficiency ratio, which reflects salaries, wages and benefits as well as administrative & occupancy to income, drifted higher to 52.4 percent at the end of the year compared to 2018. The compounding expenses which reflected in the efficiency ratio mirrors commitments of some banks and credit institutions to expand and enhance their operations through recruitment of additional officers to their workforce, office spaces, and information technology platforms.

Performing loans continued to contribute more than 50 percent of the banking sectors' total gross income throughout the year. Subsequently, the level of gross income was adequate, not only to meet operating expenses, but also to absorb the provision for loan losses throughout the year.

Chart 4.1.1: Profitability

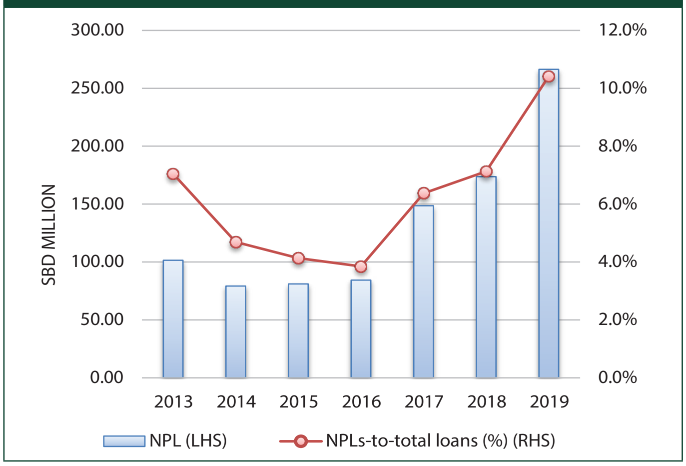


Source: CBSI

4.1.2 Asset quality

Unfortunately, not all loans had been performing as per their credit contracts throughout the year. In spite of the deterioration of NPLs throughout the year with a 3.3 percentage point increase to 10.4 percent at end of December 2019 from same period in 2018 (Chart 4.1.2), the level of NPLs mentioned above exerted insignificant force on the banking sector capital. But this does not mean that the sector should retire its corrective measures to bring NPLs lower because the trend could increase further into 2020 due to the impact of COVID-19 pandemic and it may drain its capital to fall below the total capital prudential limit of 15 percent.

Chart 4.1.2: Asset Quality



Source: CBSI

The soaring NPLs are results of loan defaults experienced during the year from key economic sectors, with construc-

3 Total Gross Assets minus Interest in suspense on loans and advances, specific provisions for losses on loans and accumulated depreciation

tion accounting for 25.5 percent of the total NPLs, trailed by personal 21.8 percent, transportation 19.7 percent, distribution 17.6 percent, and manufacturing 4.1 percent (Table 4.1.6).

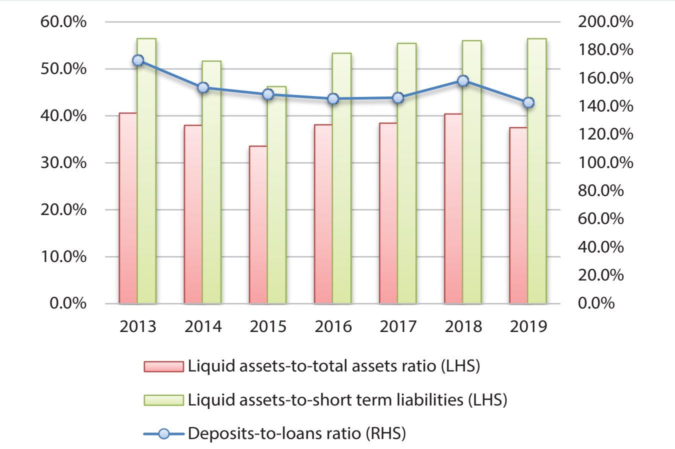
Moreover, the banks' and credit institutions' core banking business (gross loans & advances) slightly grew by 5 percent over the reporting period, with total of $2.55 billion. Personal sector was the key driver for credit growth in the short to medium term. It constituted 27 percent of total loans & advances as at end of December 2019, followed by the distribution sector, with 22 percent and construction 19 percent.

Notwithstanding efforts provided by banks and credit institutions to educate their customers on financial discipline, the rising NPLs are evidence of delayed payments by Solomon Islands Governments to contractors, mismanagement of business and low personal cash flows by borrowers, unemployment, and disregard to loan contracts by certain customers.

4.1.3 Liquidity

For the liquidity level, the banking sector maintains ample liquidity to fund loan needs in 2020 despite falls in deposits by 2.8 percent to $4.8 billion at end of December 2019 (Table 4.1.3). The decline reflects the sector's commitment to service its customers' payment needs throughout the year even though it resulted in a drop of 9.7 percentage points in deposits-to-loans ratio from 158.4 percent in 2018 to 143 percent at end of December 2019 (Chart 4.1.3).

Chart 4.1.3: Liquidity



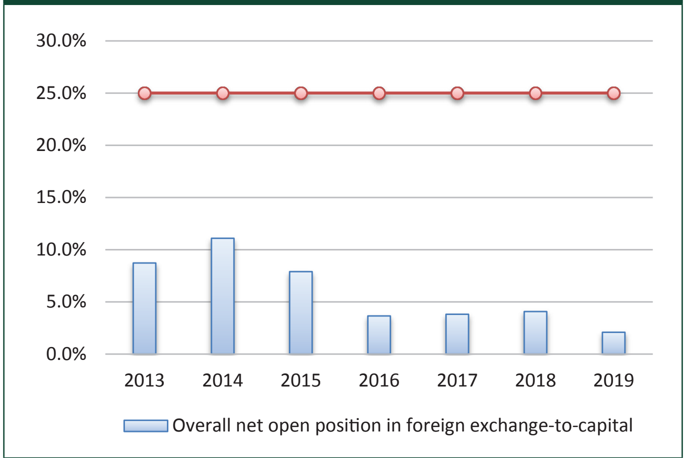
Source: CBSI

On the upside, the banking sector liquidity remained above the Central Bank's minimum cash reserve requirement (CCR) of 7.5%. The CCR is measured as demand balances held at Central Banks to total deposit liabilities. The CCR stood at 33.6% at end of December 2019. Further to the CCR, the banking sector maintained reasonably higher excess liquidity in terms of liquid assets, which include cash and other assets that can be easily converted to cash without incurring additional costs, to total assets and liquid assets-to-short term liabilities maturing within 3 months from end of December 2019 (Chart 4.1.3)

4.1.4 Sensitivity to market risk

There were no adverse movements witnessed during the year for all tradable currencies despite the trade tensions between China and United States, subdued economic growth and decelerating economic activities. Consequently, there had not been threats to the capital of the banking sector. Furthermore, with the high capital level held by the banking sector, both the net overall foreign currency open position and net single foreign currency open position as percentage of total capital remained relatively lower than the prudential limits of 15.0 percent and 25.0 percent, respectively (Chart 4.1.4).

Chart 4.1.4: Sensitivity to Market Risk



Source: CBSI

As at end of December 2019, overall net foreign currency open position reduced to 2.1 percent of banking sector's total capital from 4.1 percent at end of December 2018 (Chart 4.1.4). Same as 2018, no breach has been recorded, indicating banks are conducting business in a profitable, yet prudent manner throughout the year.

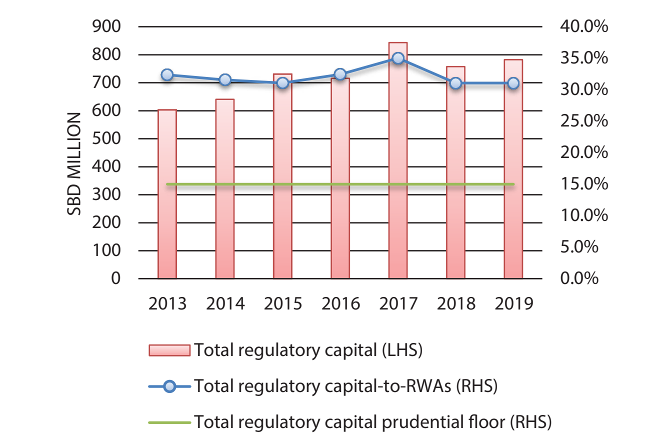
The total net foreign currency open position went two folds down, from $41.3 million in 2018 to $21.8 million at end of December 2019, reflecting slowdowns in both export and import activities (Table 4.1.4). The United States Dollar (USD) and the Australian Dollar (AUD) had been the common trading currencies in 2019.

4.1.5 Capital adequacy

The banking sector maintained adequate level of capital in 2019. The sector's total capital-to-total risk weighted assets ratio amounted to 31.1 percent, well above the total regulatory capital requirement of 15 percent (Chart 4.1.5), reflecting decision to accumulate capital through retained earnings.

The decision to build up capital now is a step in the right direction because it will help the banking sector prepare to absorb losses from any unexpected shocks in the future (Table 4.1.4).

Chart 4.1.5: Capital Adequacy



Source: CBSI

4.2 SUPERANNUATION SECTOR PERFORMANCE

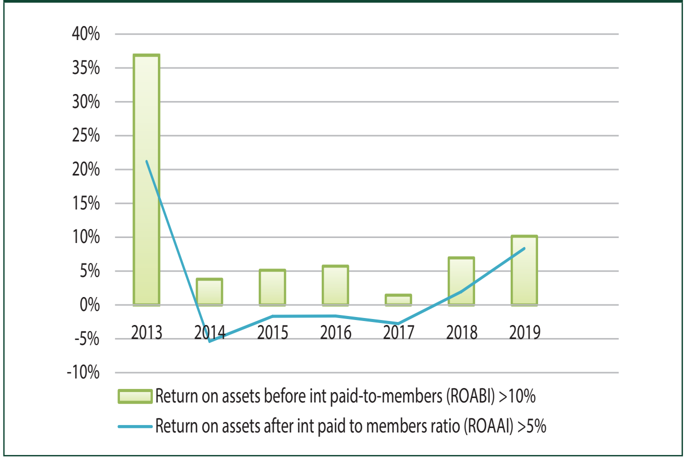
Trailing behind the banking sector is the superannuation sector. The structure of the superannuation sector remained with one superannuation which is the Solomon Islands National Provident Fund (the Fund). The Fund accounted for 37.9 percent of the total assets of the financial system. It remained the sole deemed licensed superannuation fund operating in Solomon Islands that provides savings and retirement benefits to its members. With the introduction of the *YouSave* products for the informal sector in 2018, which represents a fair self-employed population of the labour force and children at or above 16 years old, the membership of the Fund has picked up dramatically since its lowest drop in 2017. At the end of December 2019, total membership has reached 158,616 after an additional 18,221 members were added to 140,395 members in 2018 (Table 4.2.5).

While the Fund aims to provide safe and secured savings for its members to support them financially when they reach age 50, this mandate, though not easy, requires commitments of the Fund's board and management to ensure the Fund operates in a prudent and profitable manner so that it truly rewards life time savings of its members. Amidst existing and emerging challenges, 2019 was another profitable year for the Fund. It recorded a net profit of $31.8 million supported by total assets of $3.8 billion at end of December 2019.

4.2.1 Profitability

With the current level of investment assets portfolio, the Fund claimed an additional 3.1 percentage points in its return on assets before interest expenses were paid to members (ROABI) to reach 10.1 percent at the end of December 2019. Likewise, the return on assets after interest expenses were paid to members (ROAAI) remained positive at 8.3 percent in 2019 since it rebounded from a negative 2.8 percent in 2017 (Table 4.2.1). The upturn in ROAAI was founded on improvements in both the interest income and gains on the financial instruments, especially time deposits and shares & equities (Table 4.2.4).

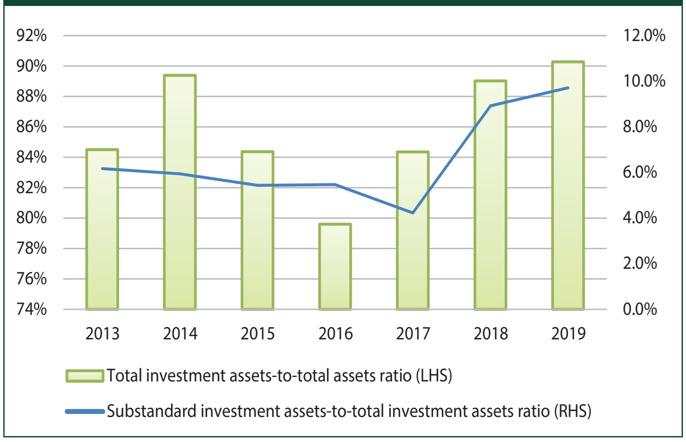
Chart 4.2.1: Earnings and Profitability



Source: CBSI

Since 2013, the trend in the Fund's ROABI has been largely controlled by fluctuations in the movements in unrealised gains / (losses) of the financial instruments. This is an area that needs rigid control to ensure gains are stabilized and not overstated.

Chart 4.2.2: Asset Quality



Source: CBSI

4.2.2 Asset quality

The composition of investment assets determines the Fund's profitability. To ensure the Fund remains profitable, the board and management aimed at minimizing the level of its substandard investment assets[4] as much as possible.

However, due to the slow economic growth and limited investment opportunities, the superannuation sector recorded a negligible growth in terms of total investment assets. The substandard investment assets (SIA) to total investments assets saw a 0.8 percentage point increase from

4 Investments that are not generating adequate returns

2018 to 9.7 percent at the end of December 2019 (Chart 4.2.2). Despite the deterioration in investment assets in the level of SIA, it remained relatively lower than the level of performing investment assets (PIA) over the last 7 years. The steady rise was largely a result of additional funds the Fund injected into the investment properties and equities portfolio which underpins the Fund's effort to maximise returns on its investments.

Total assets of the superannuation sector grew 10.4 percent to $3.8 billion from 2018 to 2019. This growth came from growths in premises (non-financial assets), time deposits, and shares & equities during the year.

Investments assets are broadly spread across various financial instruments. Likewise, the composition of investment assets remained unchanged since 2018 with shares & equities dominating the investment assets portfolio with 55.2 percent, trailed by fixed term deposits 21.6 percent, investment properties 13.4 percent, debt securities 6.6 percent and loans & bonds 3.2 percent at end of December 2019 (Table 4.2.4). Given the limited investment opportunities locally, the Fund sought for opportunities abroad during the year and fortunately was able to secure two additional investments both in fixed term deposits and equities, which subsequently resulted in an annual growth of 12.0 percent to $3.6 billion at end of December 2019 from same period in 2018.

Relative to the fund's investment assets, PIA continued to dominate the asset portfolio after it rebounded in 2016. At the end of 2019, total investment assets soared slightly to reach 90.3 percent of total assets of the Fund from 89.0 percent in 2018. Strategically, to minimise consistent increase in the level of substandard investment assets, the Fund has been embarking on the investment strategy that attempts to rebalance the current investment portfolio to achieve its investment portfolio objective.

4.2.3 Liquidity

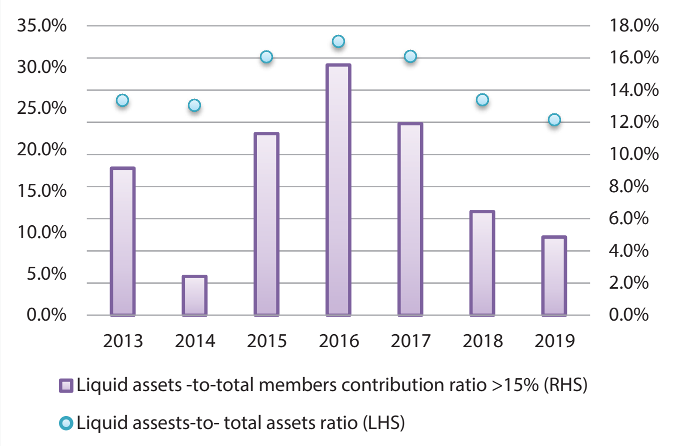
The liquidity of the superannuation sector somewhat received mixed results in 2019. While time deposits recorded a positive growth of 5.1 percent from 2018 to reach $747.4 million, total cash and demand deposits on the other hand dropped by 17.5 percent to $158.6 million in 2019 (Table 4.2.3).

Liquid assets-to-total assets ratio fell from 26 percent in 2018 to 23.7 percent in 2019 (Chart 4.2.4), in spite of the positive retained earnings recorded at end of the year. The general fall in the ratios was largely owed to the depletion of cash and demand deposits held with commercial banks not only to settle retirees' claims but also pay lenders' claims (Table 4.1.2), and the persistent growth in total benefit payments as shown by a 56.7 percent from 2018 to $281.9 million at end of December 2019.

Despite the fall in the level of liquidity, the Fund continued to maintain adequate liquidity to meet benefit payments.

While the Fund builds on its rebalancing strategy to maximise returns on its investments, it should also put in place appropriate controls to monitor members' aging (Table 4.2.5) and pledges so that claims arising from these core payment streams are paid on time.

Chart 4.2.3: Liquidity

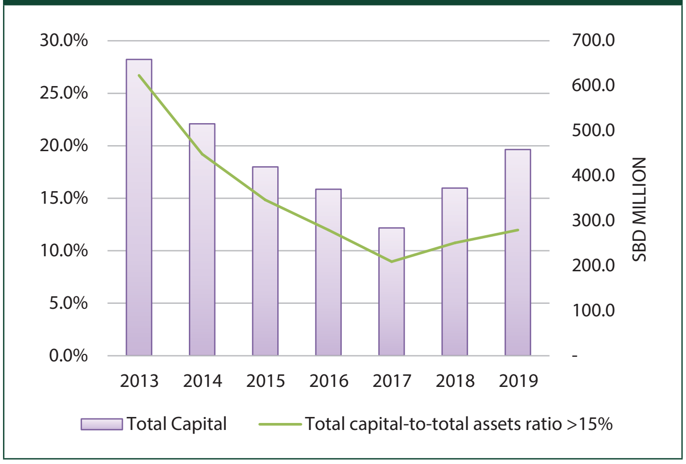


Source: CBSI

4.2.4 Capital adequacy

Capital plays a pivotal role in cushioning losses that might arise from the Fund's operation and shocks from the external environment. Fortunately, there had been no presence of external shocks during 2019.

Chart 4.2.4: Capital Adequacy



Source: CBSI

The superannuation sector witnessed a further improvement in its capital adequacy ratio to 12 percent following a 10.7 percent rebound in 2018 (Chart 4.2.4). The improvement in the capital adequacy ratio was a direct result of further improvement in total capital & reserves by 22.2 percent to $458.3 million at end of December 2019 from the same period in 2018 (Table 4.2.3). The growth was largely driven by growth in retained earnings and asset revaluation reserves at the end of December 2019. Furthermore, the improvement in capital adequacy ratio underpins the superannuation sector's drive in ensuring adequate capital is always available to support the sector's operation.

Notwithstanding the level of capital, the availability of capital to absorb any immediate shocks might not be adequate given 20 percent of the total capital represent asset revaluation reserves. In the absence of any economic shocks, it is desirable that the sector maintains a threshold above 15 percent in terms of its capital adequacy ratio.

4.3 INSURANCE SECTOR PERFORMANCE

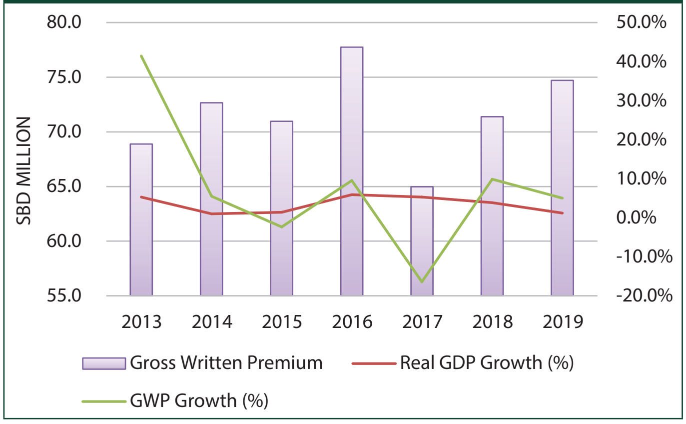
Like the banking and the superannuation sectors, the insurance sector witnessed a vigorous resilience throughout 2019. That said, insurance sector which comprises two (2) general insurers5, and composite licensed insurer6 made up 1.4 percent of the total assets of the financial system. Further, the sector played a significant role in the economy by providing financial security against risk of financial losses to households and businesses in 2019. Insurance, however, remains an alien concept to many Solomon Islanders, as it is deemed by many as an unnecessary cost with additional financial burden rather than a source of financial security. This is due to the general lack of knowledge and understanding on insurance business, along with their products and the engrained benefits. Indeed, such obliviousness has been a major constriction to the growth of the insurance industry in the country. Nevertheless, the domestic insurance sector continued to maintain strong performance in 2019 with its total assets pointed upward by 12.0 percent to $152.6 million from $136.6 million at end of December 2018.

4.3.1 Insurance gross written premium performance

To support the growth in total assets, the insurance sector maintained positive growth albeit slowdown in business activities experienced across 2019. Overall premium income for the sector grew by 5 percent, up from $71.4 million to $ 74.7 million. Contrastingly, growth in the sector's overall premium income was notably slow compared to that of 2018 (Chart 4.3.1). Drop backs in gross premium income for insurance classes of Engineering, Workmen's Compensation and Marine; alongside slow uptake in premium income for liability and motor vehicle insurance undermined the sector's top line growth. Meanwhile, property class rebounded after recorded a decline of 11 percent in 2018, to register a positive growth of 8 percent. Other classes of insurance[7] gained momentum, registering a growth of 18 percent over the period.

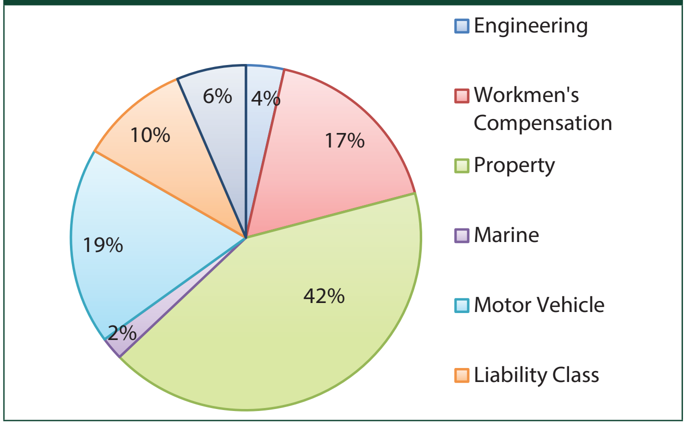
Nonetheless, in view of the movements in the sector's major sources of income, premium stemmed from property insurance still dominates the industry's premium pool, with its gross premium accounted for 42 percent of the sector's overall premium income. This is trailed by motor vehicle and workmen's compensation insurance, with their gross premium constituted 19 percent and 17 percent respectively.

Chart 4.3.1: Insurance GWP Growth against Real GDP Growth



Source: CBSI

Chart 4.3.2: Share of Premium Income by Class of Insurance, 2019



Source: CBSI

4.3.2 Reinsurance

Insurance not only intermediates the spread of risk of financial losses across the economy but also to other economies through reinsurance. Local insurers undertook reinsurance businesses to leverage their level of exposures hence lessen the financial pressure associated with the insured risks on their capital. In 2019, the sector witnessed a decline in its reinsurance premium by 22 percent to $21.6 million. The fallback was expected due to negative growth in gross premium income for insurance classes of workmen's compensation, marine and motor vehicle; alongside, the draw back in growth of liability insurance8. On that account, the sector's risk retention ratio was adequately maintained at 71.1 percent, up from 61.9 percent in 2018. The ratio implied that approximately 29.9 percent of the total risk underwritten by the local industry were ceded to reinsurers while the 71.1 percent were retained (Chart 4.3.3). This outcome reflects significant risk bearing capacity of the local industry, strength in the sector's

5 Insurance companies which provide 12-month insurance policies

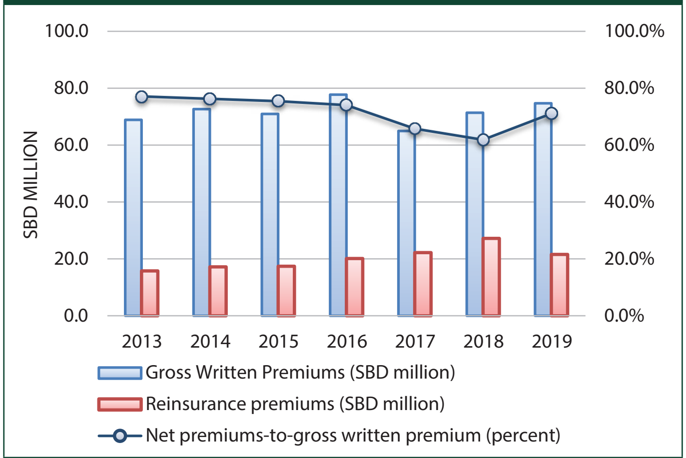
6 Insurance company that provides both life and general insurance products.

7 Other class of insurance refers to smaller or sub-classes that are usually less purchased by the public.

8 Those were the classes of insurance that usually attracts more reinsurance premium.

capital position to cover insured risks that exist within the economy, and commitment to contribute to the growth of the local economy and stability of the country's financial system.

Chart 4.3.3: Insurance Sector Risk Retention Ratio



Source: CBSI

4.3.3 Earnings and Profitability

With the backing of the retention strategy to maintain large portion of premiums in the country, the insurance sector's net profit after tax witnessed a positive turnaround in 2019. Net profit after tax rebounded by 26 percent to $15.1 million after experiencing a downfall of 24 percent in 2018 (Table 4.3.3). The positive outturn was largely attributed to favorable underwriting performance, which resulted from an upturn in net premium income against a cutback in net claims recorded during the year. Net premium improved further partly due to new business gains as well as tightening of premium rates by local insurers' while drop in net claims pointed to less claims recorded resulting from the absence of catastrophic events that could trigger large losses.

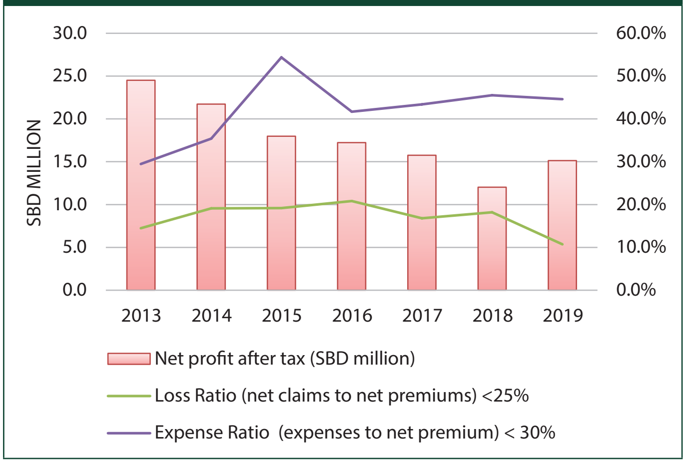
Given the favorable net premium inflow, the sector continued to maintain a stable loss ratio across 2019. Loss ratio slumped from 18.2 percent to 10.1 percent over the periodThe result pointed to the sector's ability to maintain excess assets over liabilities which indicates strength in its solvency position to cushion losses when arise.

The strength in the sector's profitability is also evident by a drop in the sector's expense ratio (Table 4.3.2). Expense ratio edged downwards from 45.6 percent to 44.6 percent despite an increase in the sector's overall expense recorded over the year. The result came on the back of high volume of net premium, which is more than the volume of net expenses recorded during the period. This reflected the ability of the industry to exert economies of scale to persevere excess income over expense.

On gross basis, the sector witnessed a fall back in its combine ratio[9] from 63.7 percent to 55.3 percent at the end of the year. The outcome was possible due to high level of net premium recorded, which prodigiously outshined net claims and expenses by 45 percent. The result implied that premium stemming from the sector's core underwriting business was sufficient to cover both claims and expenses.

The sector's income earning capacity and profitability is also evident in its return on equity ratio. The sector's net profit before tax and capital, gained momentum, fueling a buildup in the sector's ROE from 30.5 percent to 37.1 percent over the year. The outcome implied efficiency in the sector's underwriting operation (Table 4.3.1).

Chart 4.3.4: Profitability

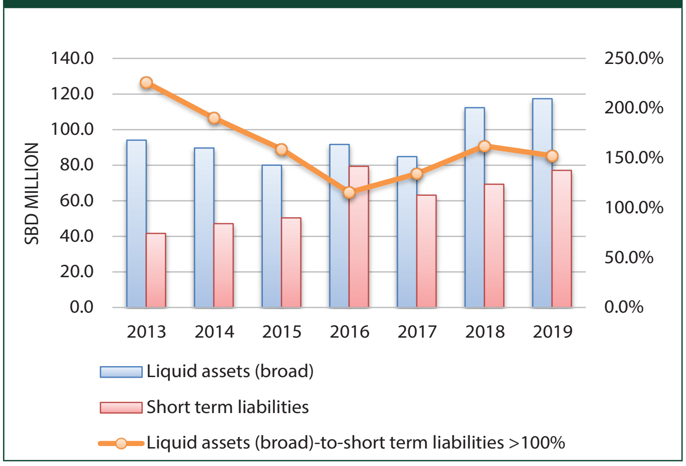


Source: CBSI

4.3.4 Liquidity

The sector's ability to meet its short-term obligation in a timely manner depends very much on its level of liquidity. The insurance sector's total liquid asset-to-short-term liability ratio remained stable at 152.3 percent despite a

Chart 4.3.5: Liquidity



Source: CBSI

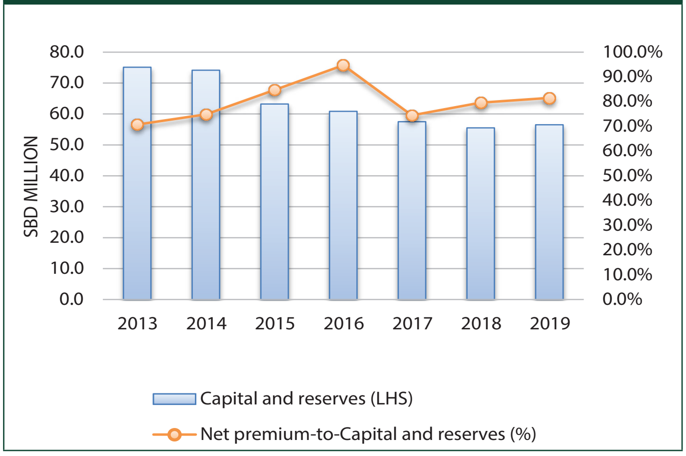
9 Net claims and expense expressed as a percentage of net premium income.

decline of 6 percent recorded during the period. The down pull in the sector's liquid asset –to-short-term liabilities was mainly driven by an upswing in short-term liabilities by 11.0 percent, against 4.0 percent growth in liquid assets recorded during the period. Rise in the sector's technical reserves drove the sector's short-term liabilities upward from $69.3 million to $77.1 million, while liquid assets edged 5.0 percent up from $112.3 million to $117.4 million mainly on accounts of increase in currency and deposits held with commercial banks (Chart 4.3.4). Notwithstanding the growth in short-term liabilities, the sector's liquid assets remained well above its short-term liabilities, indicating adequate level of liquidity to settle immediate claims and other financial obligations when fall due.

4.3.5 Capital adequacy

Like other LFIs, capital is fundamentally important for insurers. Therefore, in order to withstand a range of financial adversities, insurers must maintain high level of capital as a prerequisite for sound financial strength. From the sounding performance recorded in 2019, the sector witnessed slight improvement in its total capital and reserves from $55.5 million in 2018 to $56.5 million. However, from increased inflow of premium receipts throughout the year, which overtook the growth in capital and reserves, the capital adequacy ratio weakened as demonstrated by net premium-to-capital ratio of 81.5 percent from 79.6 percent in 2018 (Chart 4.3.6). Notwithstanding the diminishing capital and reserves, the capital adequacy remained adequate at the 81.5 percent mark. Further, there had been no catastrophic losses during the year to suppress the current level of capital.

Chart 4.3.6: Capital Adequacy



Source: CBSI

4.4 CREDIT UNION SECTOR PERFORMANCE

The size of the credit union sector cannot be easily traced given the difficulties faced by a majority of the registered credit unions in submitting both financial and non-financial reports to the Registrar of Credit Unions. However, from records it is obvious that out of 175 registered credit unions, the credit union sector continued to receive reports from ten active credit unions in 2019. The reporting credit unions represented 0.8 percent of the financial system's total assets in 2019.

The credit union sector persisted to survive across 2019 despite voluntary services provided by the board of directors and committees, weak information system, high operating expenses, and high non-performing loans.

Albeit the mounting pressures, the credit union sector in the country through the registered credit unions plays an important intermediary role for both the depositors and borrowers. But given depositors and borrowers are concurrently shareholders as well as members of a credit union, abilities of the credit unions to grow and maximise profits are shrined by credit union ideology which is to provide funds for productive and provident purposes for its financial members only.

4.4.1 Profitability

As mentioned earlier, despite the struggles faced by the credit union sector, it continued to remain profitable. The sector witnessed an upturn in net surplus to reach $4.2 million at the end of 2019 compared to $2.6 million in 2018. The improvement in the net surplus stemmed from enhanced loan portfolio for most of the credit unions as proven by the positive return on assets (ROA) and return on equity (ROE) respectively at end of 2019 (Table 4.4.1). The endured performance was largely owed to increase in interest income relatively to increase on loans and advances being the core products of the credit unions within the sector.

4.4.2 Asset quality

Being sources of profitability and liquidity, the credit union sector's total loans -to-total assets continued to dominate the asset composition, representing 63.7 percent at the end of 2019 despite a backdrop from 7.7 percent growth in 2018 to 6.7 percent at the end of 2019. With the said growth, the total loans soared to $50.8 million compared to $47.6 million in 2018 (Table 4.4.1). Albeit the growth, not all loans are performing as expected given the constraints faced by credit unions with monitoring and timely loan tracking of loan repayments. Consequently, the level of non-performing loans was not captured in this report.

4.4.3 Liquidity

The improvement in profitability and stable increase in the number of memberships throughout the year had resulted in enhanced liquidity position for the sector. The liquidity of the credit union sector, as represented by liquid assets-to-total deposits, had improved from 23.0 percent in 2018 to 29.0 percent in 2019. Despite the mismatch, the credit union sector liquidity remained adequate in the absence of economic shocks during 2019. While few credit unions struggled to stabilise their liquidity positions, majority of the credit unions continued to provide loans and pay their members when they request to withdraw their savings; thereby giving confidence to members.

4.4.4 Capital adequacy

The credit union sector's total capital rebounded by 71.7% from $15.2 million in 2018 to $26.7 million in 2019 (Table 4.4.1). While profitability was not ruled out, the upturn was predominantly stemmed from increased asset revaluation reserves registered by one of the large credit unions. As a result, the credit union sector's capital remained adequate at the end of December 2019 amidst absence of economic shocks during the year. Owing to stable shareholder ownership and profitability level, the credit union sector's total capital-to-total assets climbed to 32.7 percent at the end of December 2019 (Table 4.4.1) which is expected to continue in 2020.

APPENDICES

APPENDIX 4.1: BANKING SECTOR

Table 4.1.1 Financial Soundness Indicators

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Capital Adequacy							
Total regulatory capital-to-risk weighted assets (RWAs) (CAR) >15%	32.4%	31.6%	31.1%	32.5%	35.0%	31.1%	31.1%
Nonperforming loans (NPLs) net specific loan loss provisions-to-capital & reserves <10%	12.0%	8.1%	7.3%	6.6%	12.2%	11.8%	17.9%
Asset Quality							
NPL-to-total gross loans <5%	7.0%	4.7%	4.1%	3.8%	6.4%	7.1%	10.4%
Specific loan loss provisions-to-NPLs (Coverage Ratio) >20%	22.8%	26.0%	29.5%	31.2%	18.7%	30.9%	29.4%
Earnings & Profitability							
Return on Assets (ROA) >2.5%	4.0%	3.3%	3.0%	3.5%	3.9%	3.5%	3.2%
Return on Equity (ROE) <50%	23.3%	20.0%	17.6%	22.7%	23.1%	20.4%	18.9%
Net-interest Income to Gross Income	54.3%	56.7%	55.0%	56.3%	55.0%	54.6%	53.4%
Cost-to-income ratio <50%	52.8%	51.6%	50.2%	47.1%	47.4%	52.1%	52.4%
Non-interest income-to-gross income <50%	45.7%	43.3%	45.0%	43.7%	45.0%	45.4%	46.6%
Personnel expenses-to-noninterest expenses <35%	31.1%	30.4%	31.1%	31.1%	33.9%	30.9%	30.0%
Interest spread	12.4%	11.6%	9.7%	10.8%	10.7%	20.8%	19.9%
Liquidity							
Deposits-to-loans ratio < 100%	172.9%	153.6%	148.6%	145.6%	146.3%	158.4%	143.0%
Liquid assets-to-total assets ratio >50%	40.6%	38.0%	33.5%	38.1%	38.4%	40.4%	37.4%
Liquid assets-to-short term liabilities >30%	56.5%	51.7%	46.2%	53.3%	55.4%	56.0%	56.3%
Sensitivity to Market Risks							
Net open position in foreign exchange-to-capital <25%	8.7%	11.1%	7.9%	3.6%	3.8%	4.1%	2.1%

Source: CBSI

Table 4.1.2 Income Statement (SBD million)

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
1. Interest income	182.6	200.5	194.5	243.6	258.2	261.8	266.6
2. Interest expense	7.9	8.8	10.1	12.4	15.1	17.9	23.0
3. Net interest income (= 1 - 2)	174.7	191.7	184.4	231.2	243.1	243.9	243.6
4. Noninterest income	146.9	146.3	151.1	179.7	199.0	203.0	212.9
(i) Fees and commissions receivable	33.5	28.0	20.9	24.1	26.7	35.9	39.2
(ii) Gains or losses on financial instruments	98.1	96.0	103.0	124.4	147.7	119.3	138.5
(iii) Prorated earnings	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(iv) Other income	15.3	22.3	27.2	31.2	24.6	47.8	35.2
5. Gross income (= 3 + 4)	321.6	338.0	335.5	410.9	442.1	446.8	456.5
6. Noninterest expenses	169.8	174.3	168.3	193.6	209.8	232.6	239.4
(i) Personnel costs	52.8	53.0	52.4	60.2	71.2	72.0	71.7
(ii) Other expenses	117.0	121.3	115.9	133.4	138.6	160.6	167.7
7. Provisions (net)	4.3	27.3	34.5	29.6	21.6	9.3	23.1
(i) Loan loss provisions	4.1	26.8	34.5	28.6	21.7	9.2	23.2
(ii) Other financial asset provisions	0.1	0.5	-	1.0	-0.1	0.2	-0.1
8. Net income (before extraordinary items and taxes) (= 5 - (6 + 7))	147.5	136.4	132.6	187.7	210.8	204.9	194.0
9. Extraordinary items	-	-	-	-	-	2.5	2.2
10. Income tax	53.3	49.7	43.3	60.0	76.0	75.4	66.0
11. Net income after extraordinary items and taxes (= 8 - (9 +10))	94.2	86.7	89.3	127.7	134.8	127.0	125.8

Source: CBSI

Table 4.1.3 Balance Sheet (SBD million)

		Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
12	Total assets (= 13+ 14 = 25)	4,022.7	4,141.2	5,061.0	5,397.5	5,687.8	6,131.8	6,062.2
13	Nonfinancial assets	97.5	113.0	141.2	135.8	162.4	178.1	192.2
14	Financial assets (= 15 to 18)	3,925.2	4,028.2	4,919.8	5,261.8	5,525.4	5,953.7	5,870.0
15.	Cash and deposits	1,710.6	1,622.3	1,796.5	2,193.4	2,306.8	2,718.8	2,510.7
16.	Loans (after specific provisions)	1,416.5	1,668.4	1,935.7	2,165.4	2,303.3	2,383.5	2,479.1
	(i) Gross loans	1,439.6	1,688.9	1,959.6	2,191.7	2,331.1	2,437.3	2,557.4
	(ii) Specific provisions	23.1	20.6	23.9	26.3	27.8	53.7	78.3
17.	Debt securities	647.3	653.7	724.5	768.1	766.3	773.8	782.1
18.	Other assets	150.8	83.8	463.1	134.9	149.1	77.5	98.1
19.	Liabilities (= 23 + 24)	3,369.3	3,420.5	4,276.4	4,519.9	4,697.3	5,117.8	5,014.8
20.	Currency and deposits	3,178.7	3,297.1	3,836.7	4,288.7	4,441.7	4,926.5	4,790.3
21.	Loans	5.1	4.0	3.1	4.9	2.3	5.5	1.1
22.	Other liabilities	185.5	119.4	436.7	226.3	253.3	185.7	223.4
23.	Debt (= 20 + 21 + 22)	3,369.3	3,420.5	4,276.4	4,519.9	4,697.3	5,117.8	5,014.8
24.	Capital and reserves	653.4	720.7	784.5	877.7	990.5	1,014.1	1,047.4
25.	Balance sheet total (= 23 + 30 = 12)	4,022.7	4,141.2	5,061.0	5,397.5	5,687.8	6,131.8	6,062.2

Source: CBSI

Table 4.1.4 Supervisory Data (SBD million)

		Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
26	Tier 1 Capital	2,280.1	2,226.7	2,422.1	2,824.9	2,953.2	3,263.8	3,055.3
27	Tier 2 Capital	136.2	136.0	160.9	185.1	203.5	204.0	17982
28	Tier 3 Capital	-	-	-	-	-	-	-
29.	Supervisory deductions	26.2	40..9	02	84.4	71.2	178.0	165.8
30.	Total regulatory capital (= 20 + 27 + 28 - 29)	2,390.1	2,321.9	2,582.7	2,925.6	3,085.5	3,069.8	3,069.3
31.	Risk weighted assets	1, 862.0	2,030.3	2,350.8	2,205.3	2,408.6	2,439.0	2,550.9
32.	Value of large exposures	449.2	447.7	437.3	506.6	521.1	624.2	622.7
33.	Liquid assets (core)	1,632.8	1,572.9	1,697.6	2,056.8	2,186.9	2,477.8	2,273.3
34.	Liquid assets (broad measure)	2,280.3	2,226.7	2,422.1	2,824.9	2,953.2	3,263.8	3,055.3
35.	Short term liabilities	2,891.7	3,044.7	3,670.9	3,856.3	3,944.5	4,422.4	4,038.5
36.	Nonperforming loans	104.4	79.2	81.0	84.3	168.6	173.7	266.3
37.	Residential real estate loans	181.2	293.7	342.6	355.1	357.7	298.9	280.5
38.	Foreign currency liabilities	194.6	333.3	222.9	291.0	301.1	423.6	422.0
39.	Net open position in foreign currency	57.0	79.9	61.9	32.0	37.7	41.3	21.8

Source: CBSI

Table 4.1.5 Sectoral Distributions of Loans & Advances

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Key Economic Sectors							
Manufacturing	3.8%	4.8%	6.6%	6.1%	6.2%	6.2%	4.7%
Agriculture	2.9%	2.0%	1.8%	1.1%	0.9%	0.5%	0.6%
Forestry	2.8%	1.7%	2.6%	2.5%	3.2%	2.5%	3.0%
Fishing	0.2%	0.2%	0.3%	0.3%	0.1%	0.3%	0.4%
Mining & Quarrying	0.0%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%
Construction	12.6%	9.0%	9.5%	14.5%	16.7%	18.3%	19.3%
Distribution	14.7%	14.8%	12.4%	16.5%	18.3%	20.5%	21.8%
Tourism	7.2%	6.3%	6.1%	6.5%	8.0%	7.4%	6.2%
Transportation	5.0%	5.4%	5.8%	6.3%	6.2%	6.2%	7.2%
Communication	9.7%	11.2%	10.6%	8.5%	7.0%	5.5%	3.2%
Entertainment & Caterings	0.8%	0.3%	0.2%	0.1%	0.5%	0.1%	0.1%
Central Govt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Provincial & Local Govt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Statutory Corporations	2.6%	2.4%	1.8%	1.5%	1.1%	1.9%	1.6%
Private Financial Institutions	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.4%
Professional & Other Services	4.7%	6.3%	6.0%	5.0%	4.1%	5.1%	4.2%
Personal	32.8%	35.3%	36.2%	31.0%	27.6%	25.6%	27.2%

Source: CBSI

Tabe 4.1.6 Sectoral Distributions of Non-Performing Loans (NPLs)

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Key Economic Sectors							
Manufacturing	8.3%	9.5%	7.4%	0.1%	0.4%	4.7%	6.6%
Agriculture	.0%	3.0%	1.6%	3.4%	3.2%	1.7%	2.1%
Forestry	8.0%	2.8%	8.9%	6.4%	3.5%	7.0%	5.6%
Construction	16.3%	0.9%	2.7%	13.6%	19.3%	32.3%	40.8%
Distribution	9.2%	9.9%	13.1%	6.6%	8.7%	9.2%	28.2%
Tourism	3.1%	11.1%	0.3%	3.9%	1.3%	1.6%	6.9%
Transportation	4.8%	3.8%	7.3%	9.1%	9.4%	16.2%	31.7%
Communication	0.0%	0.0%	0.0%	0.0%	0.0%	2.5%	0.0%
Entertainment & Caterings	1.1%	1.0%	0.0%	0.0%	0.2%	0.1%	0.0%
Professional & Other Services	3.1%	11.8%	15.1%	7.9%	6.5%	2.2%	3.5%
Personal	44.9%	45.9%	43.6%	48.9%	47.4%	39.3%	35.0%

Source: CBSI

APPENDICES

APPENDIX 4.2: SUPERANNUATION SECTOR

Table 4.2.1 Financial Soundness Indicators

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Capital Adequacy							
Total capital-to-total assets ratio >15%	26.7%	19.2%	14.9%	12.0%	9.0%	10.7%	12.0%
Total capital net asset revaluation reserves-to-total assets ratio >15%	23.9%	16.6%	12.4%	9.7%	6.8%	7.9%	9.3%
Asset Quality							
Substandard investment assets-to-total investment assets ratio <10%	6.2%	5.9%	5.4%	5.5%	4.2%	8.9%	9.7%
Performing investment assets-to-total investment assets ratio <10%	93.8%	94.1%	94.6%	94.5%	95.8%	91.1%	90.3%
Total investment assets-to-total assets ratio >50%	84.5%	89.4%	84.4%	79.6%	84.4%	89.0%	90.3%
Earnings & Profitability							
Return on investment assets ratio (ROI) >5%	15.4%	9.3%	9.5%	11.5%	9.0%	8.6%	9.2%
Return on assets before int paid-to-members (ROABI) >10%	36.9%	3.8%	5.1%	5.7%	1.4%	7.0%	10.1%
Cost-to-income ratio <50%	7.9%	41.1%	34.0%	34.0%	63.3%	29.5%	18.3%
Return on assets after int paid to members ratio (ROAAI) >5%	21.2%	-5.4%	-1.7%	-1.6%	-2.8%	2.0%	8.3%
Liquidity							
Core liquid assets-to-total assets ratio >10%	6.5%	1.9%	9.3%	13.2%	10.4%	5.5%	4.1%
Core liquid assets-to-value of members contr. Aged 51+>100%	NR	NR	NR	NR	NR	NR	2.2%
Liquid assets -to-total members contribution ratio >15% (LHS)	9.1%	2.4%	11.3%	15.6%	11.9%	6.4%	4.9%
Liquid assets-to-total assets ratio >20%	26.0%	25.4%	31.3%	33.1%	31.3%	26.0%	23.7%

Source: CBSI, Restated. NR= Note yet reported

Table 4.2.2 Income Statement (SBD million)

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
1 Interest income	164.2	131.2	141.3	174.4	147.9	157.4	196.6
(i) Gross interest income	132.1	96.7	106.1	136.7	117.4	127.2	172.9
(ii) Rental income	32.1	34.6	35.2	37.6	30.5	30.1	23.6
(iii) Less provisions for accrued interest on nonperforming assets							
2 Interest expense	-	-	-	-	-	-	-
3 Net interest income (= 1 - 2)	164.2	131.2	141.3	174.4	147.9	157.4	196.6
4 Noninterest income	673.8	50.4	74.5	84.0	-22.1	175.3	263.6
(i) Contribution surcharges	4.7	4.6	2.1	3.5	2.9	3.2	2.9
(ii) Gains or losses on financial instruments	667.7	29.9	70.5	79.8	-25.7	161.4	249.1
(iii) Prorated earnings							
(iv) Other income	1.4	15.8	1.9	0.8	0.7	10.7	11.6
5 Gross income (= 3 + 4)	838.0	181.6	215.7	258.4	125.8	332.6	460.2
6 Noninterest expenses	66.0	74.6	73.3	87.7	79.6	98.0	84.1
(i) Personnel costs	9.4	10.2	11.0	11.9	14.9	15.3	16.2
(ii) Board and outsourcing expenses	0.3	0.5	1.0	1.2	1.4	1.4	1.3
(iii) Administration expenses	34.6	52.1	47.3	42.8	23.7	24.6	27.8
(v) Other expenses	21.7	11.9	14.1	31.8	39.6	56.8	38.8
7 Provisions (net)	-	8.0	-	-	0.6	-	-
(i) Loan loss provisions	-	4.7	-	-	-	-	-
(ii) Other financial asset provisions	-	3.3	-	-	0.6	-	-
8 Net income (before extraordinary items and taxes) (= 5 - (6 + 7))	772.0	99.0	142.4	170.7	45.6	234.6	376.1
9 Extraordinary items	-	-	-	-	-	-	-
10 Income tax	-	-	-	-	-	-	-
11 Net income after extraordinary items and taxes (= 8 - (9 +10))	772.0	99.0	142.4	170.7	45.6	234.6	376.1
12 Interest paid to members	248.7	243.2	189.5	220.9	133.0	166.6	57.3
13 Dividends payable	-	-	-	-	-	-	0.0
14 Retained earnings after interest paid to members and dividends payable (= 11 - 12 - 13)	523.2	-144.2	-47.1	-50.3	-87.4	68.1	318.8

Source: CBSI; Restated

Table 4.2.3 Balance Sheet (SBD million)

		Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
1	Total Assets (= 2 + 3)	2,467.1	2,683.7	2,826.3	3,092.5	3,169.9	3,468.1	3,829.9
2	Nonfinancial assets	314.5	365.8	382.7	391.9	446.3	500.6	631.5
3	Financial assets (= 4 to 9)	2,152.6	2,317.9	2,443.6	2,700.6	2,723.6	2,967.5	3,198.4
4	(i) Currency and demand deposits	160.8	50.5	263.0	407.0	330.6	192.3	158.6
	(ii) Time deposits	480.9	631.6	621.1	616.9	662.8	711.1	747.4
5	Loans	104.4	116.7	92.5	106.8	126.7	140.6	111.6
6	Debt securities	106.6	86.0	68.1	42.9	194.5	206.6	228.0
7	Shares and other equities	1,182.9	1,285.3	1,315.5	1,400.0	1,347.3	1,651.4	1,907.0
8	Accrued interest and dividend Receivables	93.6	105.5	47.7	88.6	30.6	31.0	13.7
9	Financial derivatives							
9	Other assets	23.3	42.2	35.7	38.3	31.2	34.5	32.0
10	Liabilities(= 16+ 17)	1,808.5	2,168.1	2,406.5	2,722.4	2,885.9	3,095.5	3,371.6
11	Currency and deposits							
12	Loans	-	4.1	0.1	1.1	-	2.9	-
13	Debt securities							
14	Members contributions, Special death benefits and Nominees trust accounts	1,763.1	2,099.4	2,334.3	2,620.9	2,780.9	2,992.0	3,272.9
15	Other liabilities	45.4	64.6	72.1	100.5	105.0	100.6	98.6
16	Debt (= 11 to 15)	1,808.5	2,168.1	2,406.5	2,722.4	2,885.9	3,095.5	3,371.6
18	Financial derivatives							
17	Capital and reserves	658.6	515.5	419.7	370.1	284.0	372.6	458.3
18	Balance Sheet Total (= 10+ 17 = 1)	2,467.1	2,683.7	2,826.3	3,092.5	3,169.9	3,468.1	3,829.9

Source: CBSI, Restated

Table 4.2.4 Investment by Class (Percent)

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Investment by Class							
1. Fixed Term deposits (onshore)	16.1	19.8	20.4	20.3	21.0	19.8	18.4
2. Fixed Term deposits (Offshore)	7.0	6.5	5.7	4.8	3.8	3.3	3.2
3. Debt Securities	5.1	4.4	2.9	1.7	7.3	6.7	6.6
4. Loans and Bonds	5.0	4.0	3.9	4.3	4.7	4.6	3.2
5. Investment Properties	10.1	11.6	12.1	12.0	12.8	12.2	13.4
6. Shares and Equities (Onshore)	51.1	48.8	50.3	51.7	45.2	49.0	49.4
7. Shares and Equities (Offshore)	5.6	4.8	4.9	5.1	5.2	4.5	5.8

Source: CBSI; Restated

Table 4.2.5 Membership Profile

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Age Segmentation	162,351	170,237	172,403	176,603	133,825	140,395	158,616
< 31	29,092	23,293	27,008	27,059	24,017	26,319	29,181
31 - 40	47,142	39,798	46,846	47,984	45,175	46,057	50,940
41 - 50	40,093	43,125	43,423	44,360	37,263	39,091	43,693
51 - 59	25,619	40,359	29,356	29,652	18,995	19,988	23,960
60+	20,405	23,662	25,770	27,548	8,375	8,940	10,842

Source: CBSI, Restated

APPENDICES

APPENDIX 4.3: INSURANCE SECTOR

Table 4.3.1 Financial Soundness Indicators

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Capital adequacy							
Net premium-to-capital ratio <100%	70.7%	74.8%	84.7%	94.7%	74.4%	79.6%	81.5%
Capital & reserves-to-total assets >25%	61.0%	58.8%	55.7%	42.4%	46.5%	40.6%	42.7%
Asset quality							
Debtors-to-total assets <20%	20.0%	25.7%	24.9%	28.5%	24.5%	17.0%	19.0%
Debtors-to-(gross premiums + reinsurance recoveries) ratio	35.5%	44.7%	39.5%	52.2%	45.8%	31.0%	37.1%
Reinsurance							
Risk retention ratio (net premium to gross premium) >60%	77.1%	76.3%	75.5%	74.1%	65.8%	61.9%	71.1%
Adequacy of claims management							
Loss ratio (net claims to net premiums) <25%	14.5%	19.1%	19.2%	20.8%	16.8%	18.2%	10.7%
Earnings & profitability							
Expense ratio (expenses-to-net premiums) >15%	29.5%	35.4%	54.4%	41.7%	43.4%	45.6%	44.6%
Combine ratio (net claims and expenses to net premiums) < 60%	43.9%	54.5%	73.5%	62.5%	60.2%	63.7%	55.3%
Return on equity (ROE) >25%	39.2%	34.2%	27.6%	25.4%	34.3%	30.5%	37.1%
Liquidity							
Liquid assets-to-short term liabilities >100%	225.9%	190.3%	158.8%	115.5%	134.3%	162.1%	152.3%

Source: CBSI; Restated

Table 4.3.2 Income Statement (SBD million)

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
1. Total premium	68.9	72.7	71.0	77.8	65.0	71.4	74.7
2. Outward reinsurance	15.8	17.2	17.4	20.1	22.2	27.2	21.6
3. Premium net of reinsurance (= 1 - 2)	53.1	55.5	53.6	57.6	42.8	44.2	53.1
4. Unearned premium reserves	2.0	0.7	-4.2	5.5	-7.4	-2.0	0.9
5. Net earned premium (= 3 - 4)	51.1	54.8	57.7	52.1	50.2	46.2	52.2
6. Gross claims expense	8.1	10.5	10.6	12.5	8.3	11.5	9.0
7. Total recoveries	0.4	-0.1	0.4	0.5	1.1	3.5	3.3
8. Net claims expenses (= 6 - 7)	7.7	10.6	10.3	12.0	7.2	8.0	5.7
9. Acquisition Costs	0.0	0.0	0.9	1.5	0.4	0.0	0.0
10. Total underwriting expenses	8.9	13.0	14.0	16.8	18.4	21.0	20.5
11. Underwriting Results (= 5 - 10)	42.2	41.8	43.9	36.7	31.8	25.2	31.7
18. Investment income on assets backing insurance liabilities	0.0	0.0	0.2	0.2	0.3	0.6	0.7
12. Insurance Results (= 17 + 18 - 19)	42.2	41.8	44.1	37.0	32.1	25.8	32.4
13. Other operating expenses or management expenses	8.3	11.5	19.1	14.8	10.3	7.8	10.2
14. Net Profit (Loss) Before Tax (= 11 + 12 - 13	34.3	30.6	25.2	22.5	21.9	18.1	22.2
15. Income tax or provisions	9.7	8.9	7.2	5.2	6.2	6.0	7.0
16. Net Income (Loss) End of Current Period (=14 - 15)	24.5	21.7	18.0	17.2	15.8	12.0	15.1

Source: CBSI, Restated

Table 4.3.3 Balance Sheet (SBD million)

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
17. Total Assets (= 18 + 19)	123.1	126.1	113.4	143.5	123.5	136.6	137.6
18. Nonfinancial assets	0.9	3.3	1.9	5.5	2.3	0.2	1.2
19. Financial assets (= 20 to 26)	122.2	122.8	111.5	138.0	121.1	136.5	137.5
20. Currency and deposits	79.6	73.0	62.5	75.7	38.4	65.0	66.0
21. Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
22. Debt securities	14.5	16.7	17.5	16.0	46.5	47.3	48.3
23. Insurance technical reserves	24.6	32.5	28.2	40.9	30.3	23.2	24.2
24. Other assets	3.5	0.7	3.3	5.4	6.0	0.9	1.9
25. Liabilities(= 10+ 11)	48.0	52.0	50.2	82.6	66.0	81.1	82.1
26. Insurance technical reserves	41.6	47.1	50.4	79.4	63.2	69.3	70.3
27. Other liabilities	6.3	4.8	-0.2	3.3	2.9	11.8	12.8
28. Capital and reserves	75.1	74.1	63.2	60.8	57.5	55.5	56.5
29. Balance Sheet Total (= 25+ 28 = 17)	123.1	126.1	113.4	143.5	123.5	136.6	137.6

Source: CBSI, Restated

Notes:

1/ Insurance technical reserves on the asset side include premium receivables, defferred reinsurance expnses, and other recoverables

2/ Insurance technical reserves on the liabilities side include commissionpayables, unearned premiums, and outstanding claims.

APPENDICES

Appendix 4.4: Credit Union Sector

Table 4.4.1 Credit Union Sector Financial Performance and Soundness Indicators

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Balance Sheet (SBD Million)							
Total Assets	50.6	52.6	59.4	66.3	66.4	71.1	79.8
Total Loans	36.1	37.1	40.1	40.7	44.2	47.6	50.8
Liquid Assets	14.5	15.5	19.3	25.6	22.2	23.5	29.0
Total Deposits/Savings	37.1	39.6	48.7	49.8	50.3	51.6	50.1
Total Share Capital	13.2	13.0	10.2	10.1	9.3	15.2	26.1
Income Statement (SBD Million)							
Income	5.3	5.3	4.8	5.5	4.9	6.9	8.9
Expenses	2.6	2.3	2.1	3.2	2.2	4.3	4.2
Net Surplus	2.7	3.0	2.7	2.3	2.7	2.6	4.7
Statistics							
Membership	5700	6253	6232	6089	6253	6700	6680
No. of Reporting CUs	10	10	10	10	10	10	10
Indicators							
Capital Adequacy Ratio	26.1%	24.7%	17.2%	15.2%	14.0%	21.4%	32.7%
ROA	5.3%	5.7%	4.5%	3.5%	4.1%	3.7%	5.9%
Loans to Assets Ratio	71.3%	70.5%	67.5%	61.4%	66.6%	66.9%	63.7%
ROA	5.3%	5.7%	4.5%	3.5%	4.1%	3.7%	5.9%
ROE	20.5%	23.1%	26.5%	22.8%	29.0%	17.1%	18.0%
Self Sufficiency Ratio	203.8%	230.4%	228.6%	171.9%	222.7%	160.5%	211.9%
Liquid Assets to Deposits	39.1%	39.1%	39.6%	51.4%	44.1%	45.5%	57.9%

Source: CBSI

Appendix 4.4.2: Top ten Licensed Financial Institutions (FIs) in 2019

Name of Financial Institution	Type of Financial Institutions	Operate as:
Solomon Islands National Provident Fund	Superannuation	Parent
ANZ Banking Group	Bank	Branch
Bred Bank Solomon	Bank	Branch
Bank South Pacific	Bank	Branch
Pan Oceanic Bank	Bank	Subsidiary
Bank South Pacific Finance Solomon Islands Limited	Credit Institution	Subsidiary
Credit Corporation Solomon Islands Limited	Credit Institution	Subsidiary
QBE (International) Insurance Limited	Insurer	Branch
Tower New Zealand Limited	Insurer	Branch
Capital Insurance Solomon Islands Limited	Insurer	Subsidiary