

**Press Conference Statement**  
**On the Release of 2019 Financial Stability**

CBSI Board Room

30 June 2020

11.00am

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## Introduction

**I am pleased to announce the release of the Central Bank of Solomon Islands (CBSI) Financial Stability Report for 2019.** This edition is the fourth FSR Report to be released by CBSI. It is released pursuant to section 31(4) of the CBSI Act 2012.

**In this edition, the report provides insights into the performances as well as vulnerabilities and risks faced by the financial sector in Solomon Islands.** It then goes to outline policy responses that CBSI had undertaken across 2019 to maintain stability in the financial system.

## International Developments

Before elaborating further on the above, let me first of all briefly look at developments in the global market, as these developments have had impact on the domestic financial sector. Some changes have occurred since the CBSI released its 2018 FSR.

**In 2019, the global economy slowed down, with a growth rate of 2.9%** compared to 3.9% growth in 2018. Despite the slowed growth, banks are capable to endure economic recession experienced in the global economy.

**Across 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).

Australia and New Zealand banking system remained fundamentally strong in spite of elevated household debts in the housing markets and increasing level of debts in dairy farming sector for New Zealand.

**In the Pacific, the small island economies' banking sector remained profitable.** Banks in the Pacific remained profitable and operated within their regulatory and prudential bounds during the year, despite continued high levels of household debts, and limited onshore investment opportunities.

## Solomon Islands Financial Sector

### Vulnerability.

**The CBSI identified at least four vulnerabilities in the domestic financial system.** Firstly, the financial system is vulnerable to **corporate debt burdens**. Although the banking sector holds sufficient capital, the rising levels of corporate debt burdens associated with subdued business activities and the unknown scale and duration of the COVID-19 pandemic could threaten the level of capital for the banking sector.

**Secondly, the 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. 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.

**Third is the rapid development of Fintech solutions in the country. While Fintech platforms will broaden accessing to financial services and unlock other opportunities, it also brings in new risks to the regulated Financial Institutions, customers and the overall financial stability.** Some of the concerns, to name a few, include consumer protection, data privacy, anti-money laundering, counter-terrorist financing issues and cybersecurity issues.

**Finally, the domestic financial system is also vulnerable to further increase in non-performing loans.** Weak government revenue may potentially cause the financial institutions to become highly vulnerable to financial risks as corporate and household borrowers that depends on government to settle loans became vulnerable to default risk.

### Risks

Let me now turn to risks affecting financial sector in the country

**Risks to financial stability remained at elevated levels in 2019.** Solomon Islands financial system is exposed to the following:

- (i) credit risks arising from narrow loan portfolio composition, asset quality and credit concentration, coupled with pressure to increase market share;
- (ii) liquidity risk arising from liquidity concentration;
- (iii) investment concentration risks stemming from limited investment opportunities; and;
- (iv) underwriting risk arising from geographical concentration due to narrowed opportunities, natural hazards due to changing environment, and from weak policy framework.

### Policy Responses

In terms of policy responses, the CBSI, through the Financial Stability Committee (FSC), maintained its stance for the effective implementation of existing prudential guidelines (PGs) by Financial Institutions (FIs) and made a number of decisive policy actions to mitigate risks to financial stability. The emphasis is to ensure FIs comply with requirements under various CBSI PGs discussed in detail in the report. But in brief, some of the policy actions taken included development of new directives to address weaknesses in Business conduct of insurance intermediaries and reinsurance management of insurers.

### Performance

**On performance, the Solomon Islands banking sector maintained its strong performance in 2019.** 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 size of \$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.

**The superannuation sector recorded an operating profit of \$31.8million and its total assets reached \$3.8 billion at the end of 2019.** Investment concentration remains a prudential concern for the sector.

**Insurance sector maintained its performance during the year.** The sector has recorded a net profit of \$15.1 million, with total assets reaching \$152.6 million at the end of 2019. Low penetration rate of insurance service and ageing legislation remained a prudential concern for the sector.

**The credit Union Sector, despite accounting for less than 1% (0.8%) of the overall financial sector, recorded positive performance** with an aggregated net profit of \$2.6 million and total assets reaching \$69.7 million at the end of 2018. Aging legislation, governance issues, credit risk and liquidity risks remain a prudential concern for the sector.

### Final Remark

**Given that risks are dynamic in nature and cannot be completely eliminated, the CBSI will continue to remain vigilant on issues that comes to its fore and will not hesitate to take decisive policy actions to protect and enhance the financial system stability, which is one of the core mandates of the Bank.**

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

**I now formally release for public consumption the CBSI's Financial Stability Report for 2019. Thank you.**

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