<u>**RESPONSE:**</u>

Question on the Order Paper for 15/5/2019 –

117/2019:   Hon. Adi Litia Qionibaravi to ask the Attorney-General and Minister for Economy, Civil Service and Communications – Can the Minister explain the underwriting requirements that compel insurance companies to place policies offshore.

1. I believe that the Honourable Member of Opposition is referring to the Offshore Placement of Fiji insurance business. This process is allowable under section 17 of the Insurance Act 1998, provided the necessary requirements are adequately met.

2. Due to the limited capacity of our local insurance companies, when compared to some large risks in our economy that require insurance, section 17(2) empowers the Reserve Bank to approve Fiji insurance business to be placed offshore if an application is made, and the following criteria, under section 17(5) and the Insurance Supervision Policy Statement No: 2 on Offshore Placements of Insurance Business, are satisfied:

   (a) that no insurer licensed under the Act carries on the insurance business to which the application relates, meaning that no local insurer can underwrite the insurance risk;

   (b) it is in the public interest that the application be permitted; and

   (c) the offshore premium is cheaper by at least 15 percent.

3. Mr Speaker Sir, the Reserve Bank of Fiji as the regulatory authority of the Fijian insurance industry has issued the *Insurance Supervision Policy Statement No: 2 on Offshore Placement of Insurance Business* outlining the minimum requirements for the placement of Fiji insurance business outside Fiji, and a copy of this prudential policy can be obtained from the RBF website.

4. In terms of data, insurance customers in Fiji has remitted an average of $42.5million in premiums offshore for overseas insurance cover, which represents approximately 23 percent of the local general insurance gross premium. While accessing overseas insurance providers has increased slightly in the last two years, the bulk of the offshore placements (more than 60%) were for material damage business interruption (MDBI) and aviation cover.

5. Until recently, all applications for offshore placements were approved by RBF. From the beginning of this year, the RBF has delegated approvals for offshore placement to the licensed insurance brokers where the limit of per insurance policy amount of gross premium does not exceed FJD100,000 provided that requirements highlighted above are met. This delegation has increased the efficiency of the approval process ensuring that placements are undertaken on time, so that risks are adequately covered.

6. Any offshore placement of insurance with premiums above FJD100,000 would require the approval of the Reserve Bank of Fiji.

7. Mr Speaker Sir, there is also another form of placing insurance policies offshore and this is through reinsurance, again due to the limited capacity of our local insurance companies to retain all risks in Fiji.

8. Reinsurance is the placing of a part of the risk insured by our local insurance companies with another insurance company offshore, usually a reinsurer, through the payment of premium to the overseas provider.

9. Basically, reinsurance is a risk transfer strategy where part of an insurer's books are covered by another insurer, in the event a certain risk materialises. The risk would be in regards to the limit for claims that a local insurer would pay for certain classes depending on its reinsurance agreement. This can be as a single claim or an accumulation of claims over the cover period. When it reaches the agreed limit, any

claim above that limit will be honoured by the reinsurer. In this regard, local insurers would pay only a portion of an insurance loss if the limits are triggered.

10. As an example in 2018 total insurance claims paid to insureds in Fiji totalled $128.3m. Out of this, the local insurance companies paid $104.5m, while offshore reinsurers paid $23.8m.

11. Mr Speaker Sir, I hope I have sufficiently provided clarifications to the question posed by the Honourable Member of Opposition.