



The macroeconomic context and the role of the financial sector in Vanuatu



Presentation outline

1. Recent economic performance (Last 5 years and the 2 -3 years outlook)
2. Financial sector of Vanuatu (stages of development of capital and money markets)
3. Issues and priority areas to focus on.

(1) Economic performance



- Vanuatu is an archipelago of 80 islands in the Pacific.
- Vanuatu's economy shares many similarities with its Pacific islands neighbors. The economy performance over the years is supported by:
 - Relatively sound macroeconomic environment
 - Low public debt
 - Limited inflation
 - Open trade regime
 - Substantial natural resources
 - Closer to prospective markets for tourism (Australia, New Zealand, New Caledonia and others).
 - Peaceful country image (voted twice –happiest place on the planet)



- Economy of Vanuatu continues to grow with GDP averaging within the 1-3 per cent range but as a small open economy it remains heavily supported by a few key economic sectors of the economy and is highly exposed to the international economy/markets developments and natural disasters shocks.
- Key policy areas that needs close attention to:
 - diversifying the concentration of the key driver of the economy growth sectors to the other sectors (agriculture sector and others) of the economy (policy supported by the latest IMF Article IV consultation).



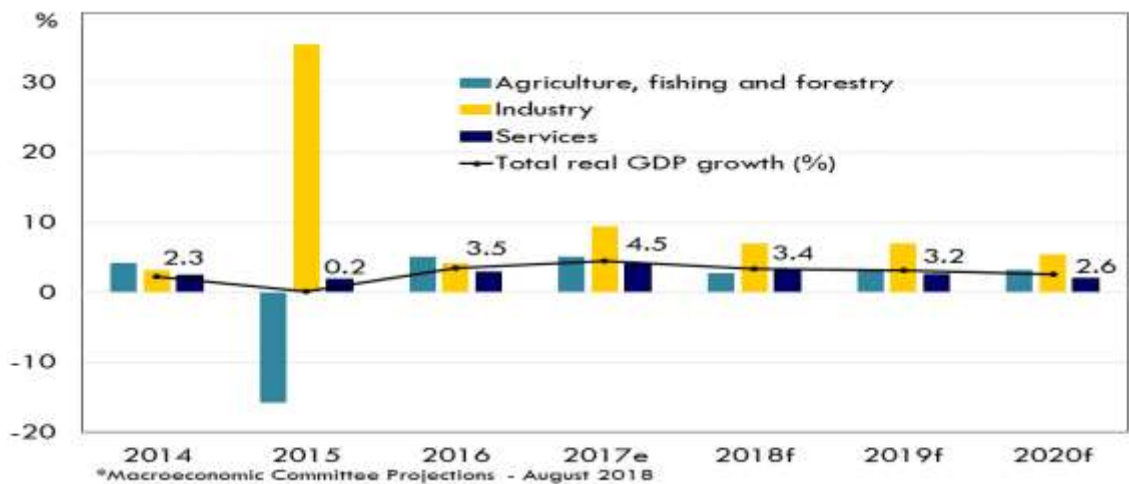
- Improve the environment for private sector investments activities
- Strengthen public infrastructure
- Address the population growth and social policies areas.
- Address the political instability
- Address the narrow output and export base
- Strengthen fiscal management (debt pressures) and improve buffers to absorb shocks.
- Modernize and strengthen legislative framework.

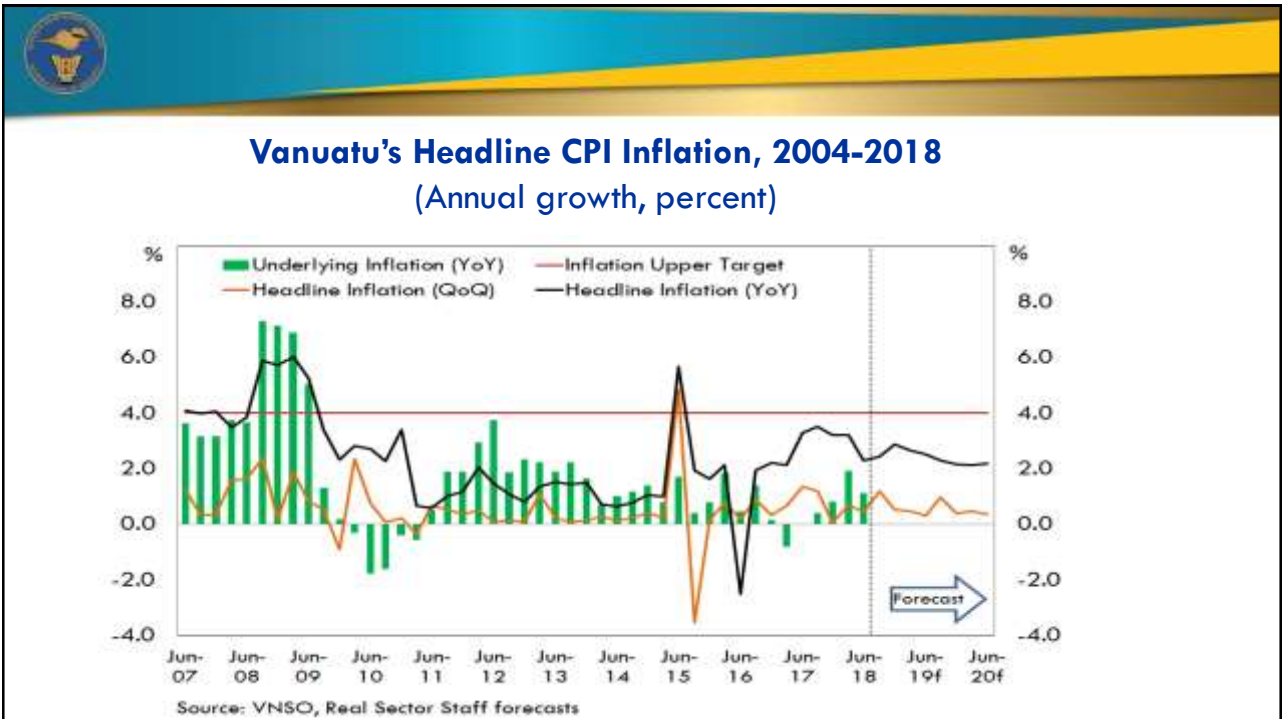
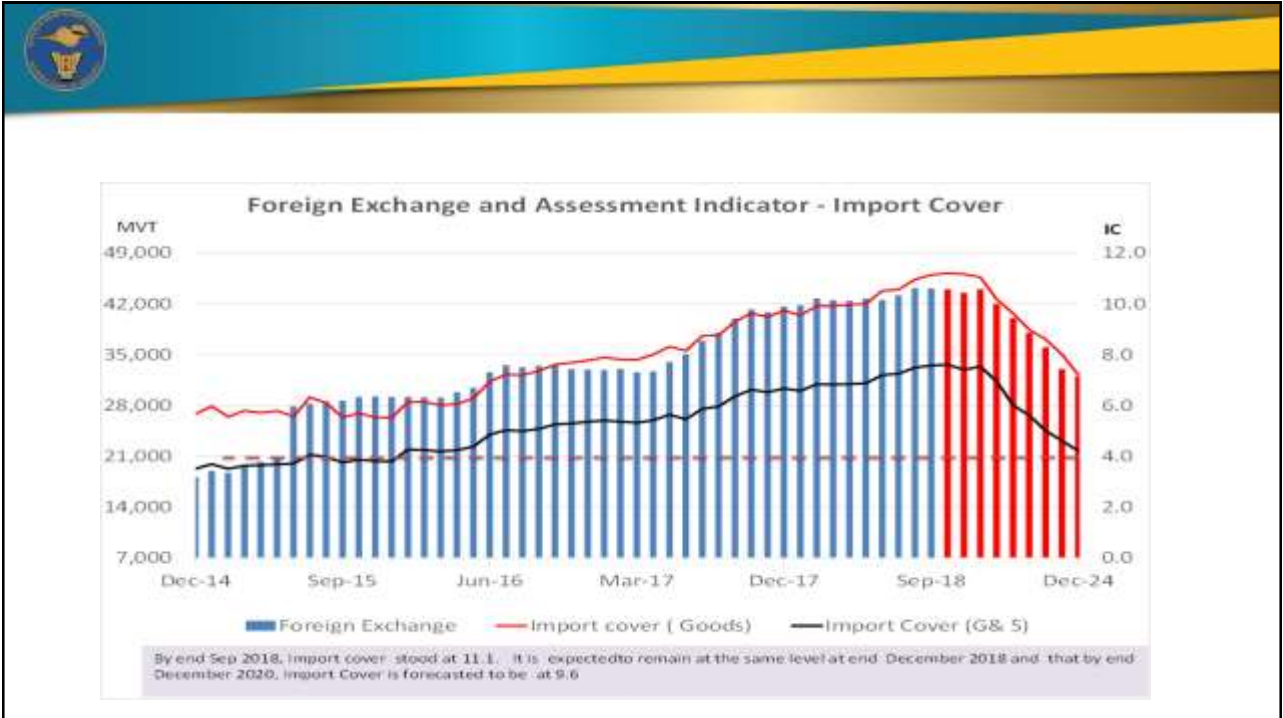


Key indicators



GDP Growth, 2014-2020 forecast







(ii) Vanuatu Financial System



Vanuatu's Financial System composition

1. Licensed and/or supervised by the RBV

- 5 Domestic Commercial Banks – administered by the Financial Institutions Act;
- 5 International Banks – administered by the International Banking Act;
- 1 Credit Institution – administered by the Financial Institutions Act;
- 1 Vanuatu Agriculture Development Bank – administered by the VADB Act
- 5 Credit Unions – administered by the Credit Union Act (Registration by VFSC & Supervise by the RBV);
- Vanuatu National Provident Fund – administered by the VNPF Act;
- Insurance – administered by the Insurance Act.
 - 3 Local insurance;
 - 2 External insurance;
 - 1 Re-insurance co;
 - 4 International;
 - 6 Captives;
 - 4 Brokers;
 - 1 Loss Adjuster;
 - 4 Insurance Manager; and
 - 9 Agents.



2. Licensed and supervised by Vanuatu Financial Services Commission

- Financial & Securities Dealers;
- Companies and Trusts Service Providers.

3. Registered and supervised by the Office of the Registrar of Cooperatives and Business Development.

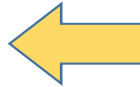
- Savings and Loans Societies.

4. Other Financial Institutions (Unsupervised):

- a. Vanwods;
- b. South Pacific Business development.

5. Money Exchange and Money Remitters – Business license

- Western Union;
- Goodies.



Not supervised apart from being a Reporting Entity to VFIU (AML&CTF)

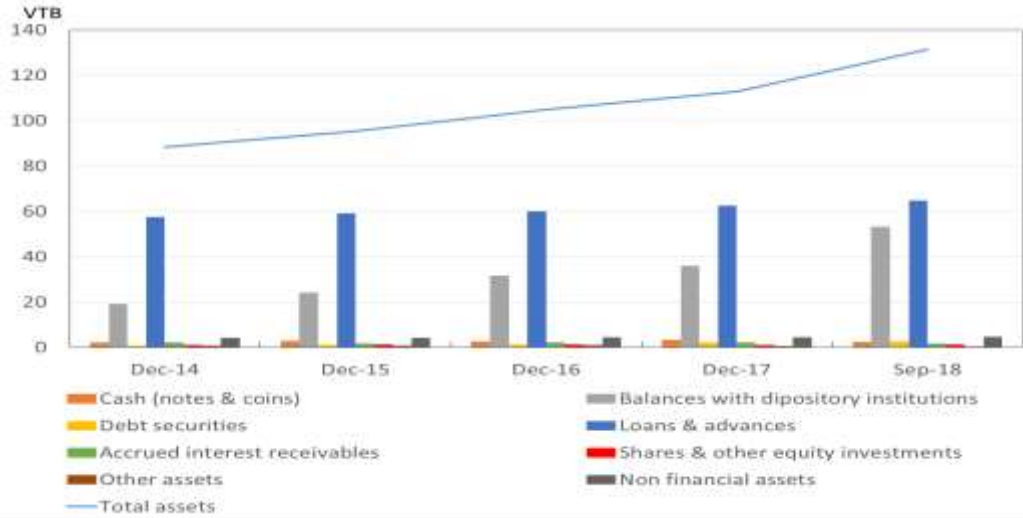


Domestic Commercial Banks

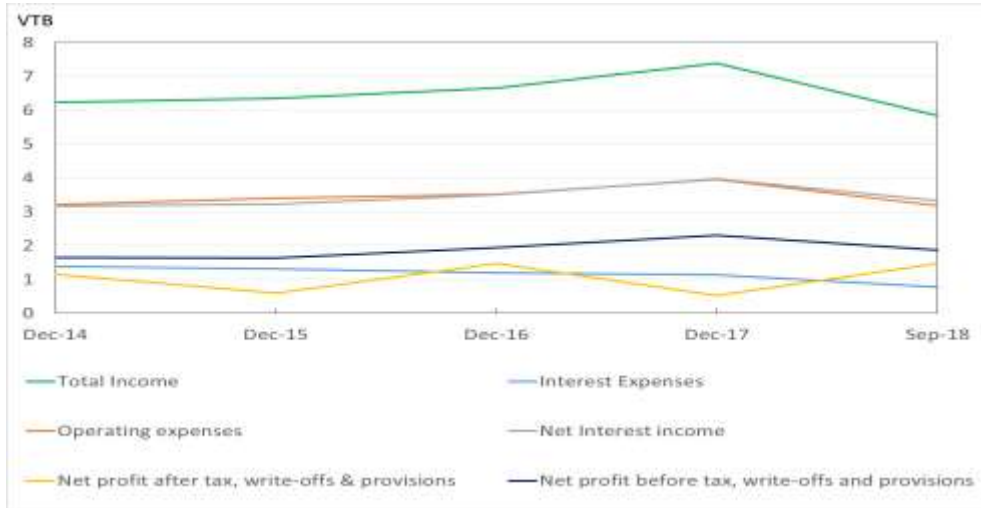
Key player in the market access to finance and funding support to capital investments for private sector investments.



Total Assets

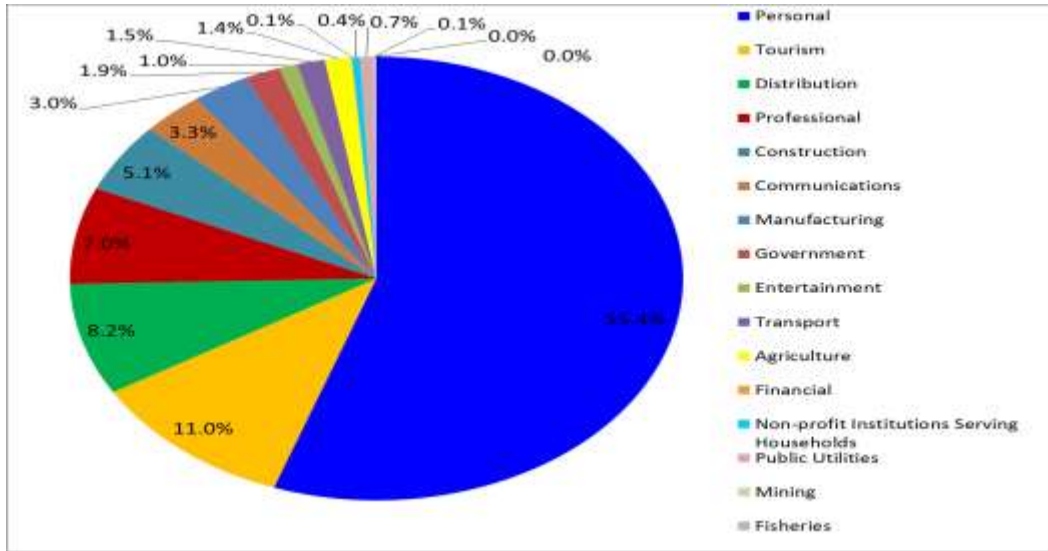


Total Earnings





PSC concentration by Sectors

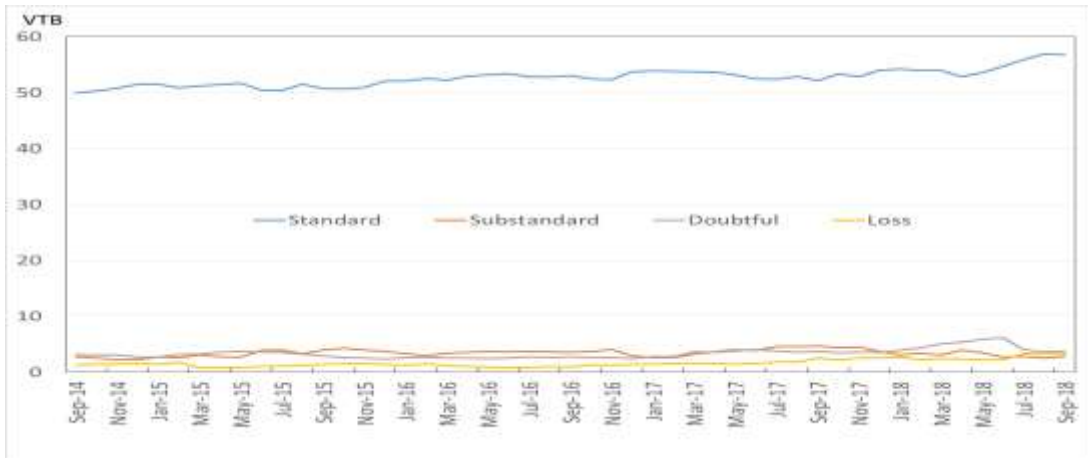


Capital Adequacy





Loan Asset quality



Liquid Asset Ratio (LAR)



Insurance sector

Important support and component to mitigating risks and supporting investments in the economy.

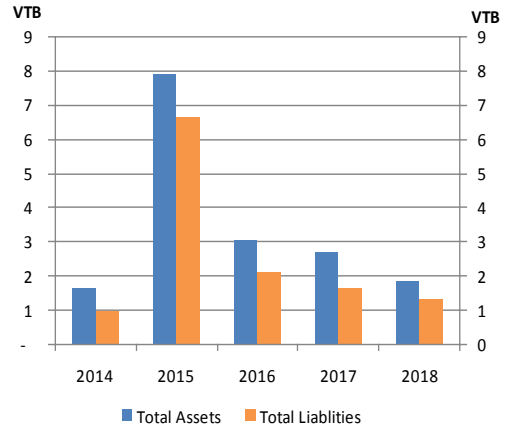
Affordability and recent changes in the risk profile and insurance premiums will continue to pose challenge to private and small to medium enterprise investments environment.

Insurance Licenses

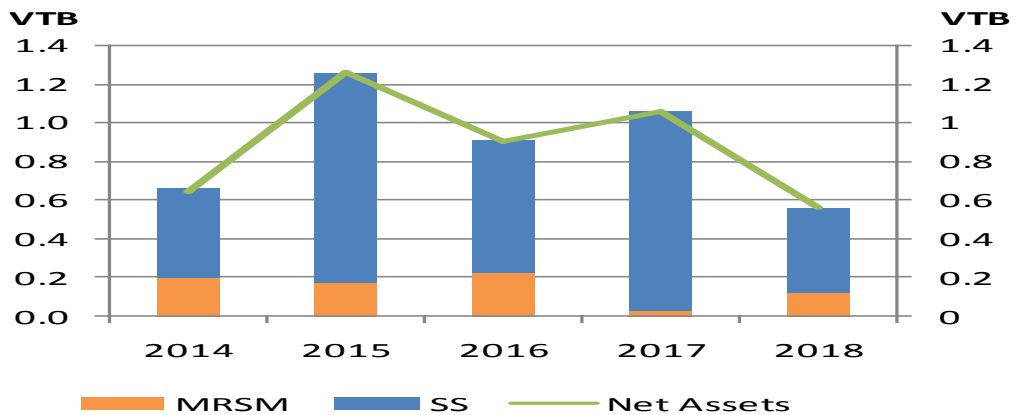
License Type	Total
Insurer	3
Broker	4
External	2
International	4
Reinsurer	1
Captive	6
Ins. Manager	4
Loss Adjuster	1
Agent	9
Total	34

Financial Position

- Assets increased significantly in 2015 due to reinsurance funds that came in. It declined over the years as claims were paid out.
- Liability also increased significantly in 2015 due to TC PAM claims and declined over the years as claims were settled.
- Overall, despite the decline in total assets, the industry is able to meet its liabilities.

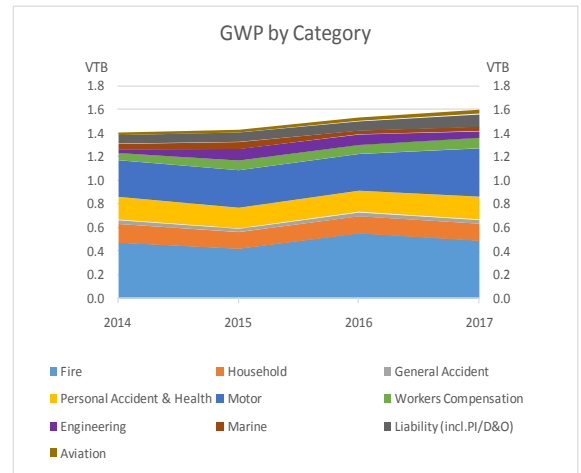


Margin of Solvency



Impact of TC PAM on Industry

- Domestic market pricing remain unaffected.
- RI premium rates have increased hence RI becoming more expensive.
- Insurers have become more selective of high exposure risks. E.g. Marine.
- Property class also declined slightly as a result of PAM.

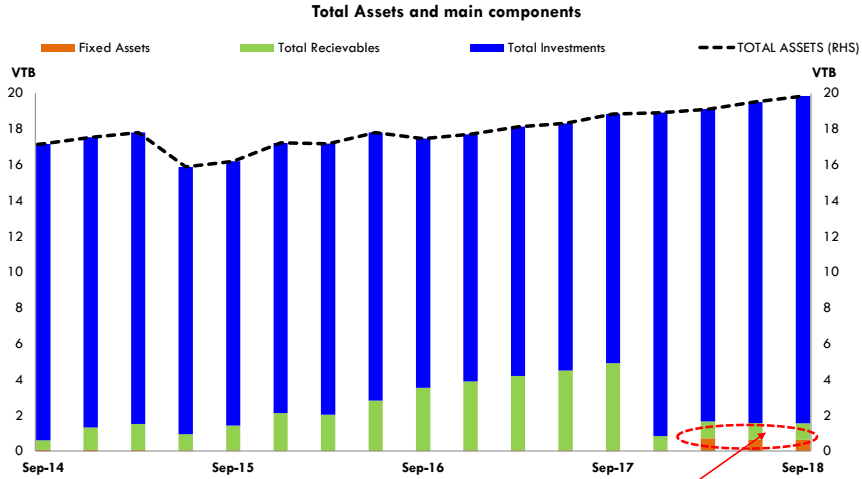


Vanuatu National Provident Fund

Key player in the market wholesale funds and capital resources access.



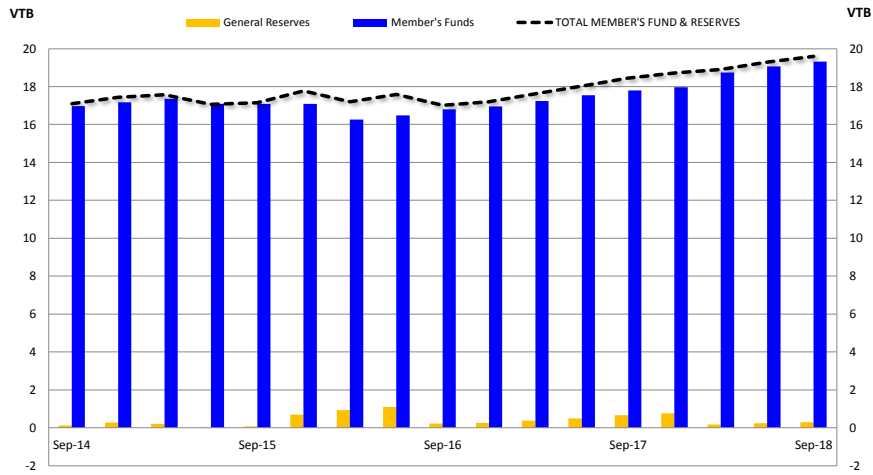
Total Assets and main components



Decline in Receivables was due to reclassification of funds previously recorded as receivables to investment in deposits.



Members Funds and General Reserves





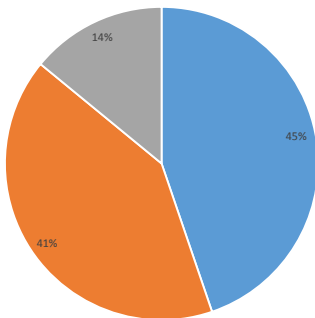
Credit Union

Important group within the financial sector for micro finance and financial inclusion. Its importance calls for a vibrant and sustainable sector. Their operations needs strengthening.



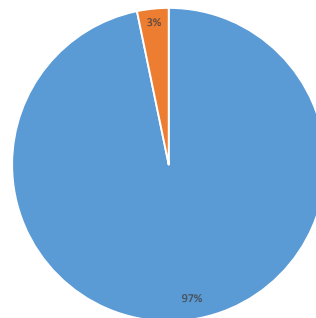
Asset & Liabilities – June 2018

Total assets & components (as @ June-18)



■ Total Cash & Liquid Assets ■ Net Loans and Advances ■ Total Investment Securities

Total Liabilities and components (as @ June 2018)

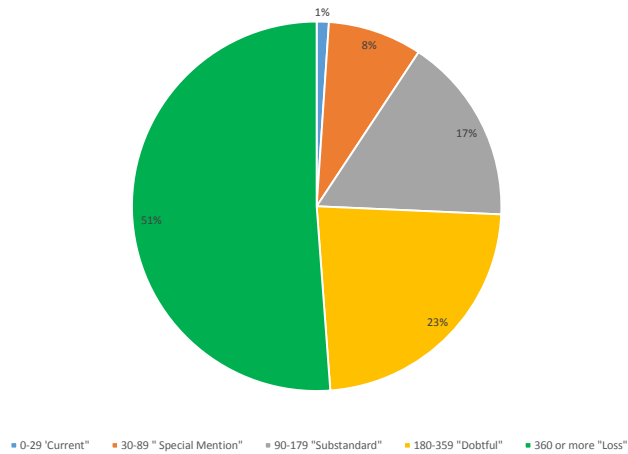


■ Members' Savings Deposits ■ Total Accounts Payable and Accruals



Asset quality (as @ June-18)

Loan Arrears/quality



Vanuatu Capital Market infrastructure

Underdeveloped and shallow. No secondary markets exist.
Government bonds and Reserve Bank notes are the only securities traded in the market.



Key future focus areas:

1. Reforming the Vanuatu financial system architect and landscape.
2. Review and modernizing the legislation framework.
 - VNPF Act – strengthen supervision and regulatory powers, strengthen governance
 - Credit Union – existing legislations coverage is weak (CUA and FIA) and needs to be addressed.
 - Cooperative Societies Act- Separation of the enterprise and consumer business from the savings and loans (VPIEF and AFICs case).
 - Financial Institution Act- introduction of a restricted (Tier 2) banking license. Purpose to fill the service gap between the big banks and the micro finance (credit unions and cooperatives).



3. Gap in the financial services to everyone must be reduced.
 - Financial inclusions strategy and the involvement of public and private sectors
 - Digital financial services – banks to continue with the services to the rural areas including internet banking (ANZgo Money, BSP instore banking, NBV digital services) including TVL recent launching of the mobile money/wallet projects.
 - Review of Credit Union Act and Corporative Societies Act – provide confidence in the system, allows for graduation of small to medium entities.



- National Payment Settlement system – Address faster settlement of payments (real time cross settlement)
 - Interoperability – allows customers to access funds from any other banks ATMS. Less charge for customers and more convenient.
3. Address access and cost of service.
- RBV does not regulate the interest rates. Allows market to determine interest rates. Influence avenue; competition, RBV facilities, Special vehicle to provide loan facilities to targeted sectors, financial inclusion Strategy



- Non performing loans –1-2 banks problems will have a systematic effect on the industry. Setting up of Asset Management Company.
5. AML/CTF– Steps must be taken to help improve the country's practices and compliances. Global trade and De-risking.
6. Cryptocurrencies – Big challenge for Vanuatu. Robust legislation.



Supervisory Authorities Capacity and resources

- Increased in supervisory oversight role over the years. This trend is expected to grow in future with the developments in the economy.
- Reserve Bank of Vanuatu's resources (capital) must be strengthened to support its increasing supervisory role and responsibilities in the economy. Same focus to the other supervisory agencies.



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