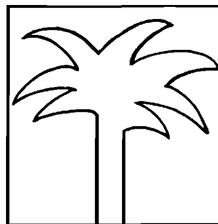

Reforms in banking supervision in Fiji: a review of progress

Aman Chandra, T.K. Jayaraman and Filimone Waqabaca

Based on published studies and official documents, this paper identifies the causes of the failure of the National Bank of Fiji in the 1990s. It also reviews various measures and reforms undertaken since then by the country's central bank towards strengthening its powers of supervision over commercial banks. It is expected that the reforms will ensure better supervision and contribute to improved functioning of commercial banks.

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In the last decade Fiji, along with Tonga and Vanuatu in the South Pacific region, witnessed banking crises of unprecedented proportions. The National Bank of Fiji (NBF) failed and there was a near failure of the National Bank of Vanuatu, both banks being nationally owned. Tonga's foreign-owned MBF suffered losses due to a major credit card fraud. Fiji's banking crisis, however, was not a serious blow to Fiji's financial system, apart from the fact that taxpayers covered the entire shortfall. But it was unfortunate that the National Bank of Fiji's failure occurred at a time when the country had not fully recovered from the trauma of the two military coups of the late 1980s.

No judicial inquiry or parliamentary investigation, the usual practice in other Commonwealth countries, was conducted into the causes of the National Bank of Fiji crisis. Some noteworthy studies (Grynberg et al. 2002, Chand 2002, Siwatibau 1996), could give only indications as to what went wrong. The available information broadly indicated that the failure was the result of political interference and that the usual norms applicable to loan approvals were not followed.

The costs of the bank's failure were immense. They included the costs of recapitalising the distressed financial institution, which were huge in relation to

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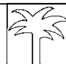


the country's available resources. These costs were in addition to the real economic costs of poor banking decisions resulting in bad loans for non-viable investment projects and causing weak portfolios to accumulate. This took place in the context of other poorly performing public sector agencies.

The East Asian financial crisis of July 1997 also had its roots in poor banking and supervision practices. Extensive studies, both official and private, added nothing substantial to the already available empirical literature, except for the fact that the financial crisis was triggered by high levels of capital mobility—a result of increased globalisation. Unimpeded inflows of capital from the West to emerging economies with expectations of high returns were the cause of the problem, encouraging the banking sectors in emerging countries to borrow 'short' and invest 'long'. The latter resulted in grandiose projects of no substance, often in the nature of 'bubbles' as well as in mismatching of liabilities and assets.

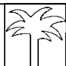
The banking crises of the South Pacific had nothing to do with the globalisation of markets and the associated flows of 'hot' money. They had more in common with the severe banking crises in Latin America, which rocked Chile and Columbia in the 1980s, with the crises in the United States in the mid 1980s and early 1990s, and with events in the Nordic countries in the early 1990s. These crises had more to do with poor regulatory measures, weak supervision and simple bureaucratic negligence (Faruqui 1994).

An Asian Development Bank study (2001) on financial sector development in Pacific island countries suggested remedial measures. These include strengthening the existing supervisory authority with comprehensive and effective sets of banking laws and regulations, adequate financial and human resources, and independence from government. This paper reviews the measures taken by Fiji and assesses their impact on the financial system.

Background

There are differences between the banking crises of the Latin American countries and the Pacific island countries. The crises that afflicted the Latin American countries were more due to macroeconomic and exchange rate instability. These countries have small money and capital markets. Deposits in commercial banks in Latin America generally tend to be short term. Depositors have little confidence in their countries' macroeconomic policies, which feature large fiscal deficits, exposing them to risks of high inflation and exchange rate instability. In these circumstances, banks tend to place a large share of their assets in loans and the value of their treasury securities is more volatile. For example, when the Mexican peso sharply depreciated in December 1994, the quality of the loan portfolio of the banks declined substantially and the flow of new funds to banks from depositors also dried up (Rojas-Suarez and Weisbrod 1996).

In Fiji and other Pacific island countries, commercial banks play a similar major role in the financial sector, since domestic bond markets, both short and long term, and equity markets are very small. It has been fortunate for the Pacific island countries, including Fiji, that macroeconomic conditions have been relatively favourable in terms of low inflation as well as exchange rate stability. Low inflation has been due to a large proportion of imports being sourced from Australia and New Zealand, which have been following policies targeting low inflation. Exchange rate stability has been due to sizeable support from aid and remittances from overseas, which have provided a comfortable cushion to all Pacific island countries in the midst of persistent trade deficits. Devaluation of the Fiji dollar in 1987 was a deliberate policy measure to correct the overvalued Fiji dollar, which was hurting its exports, and which in a way



contributed to the emergence of new exportables such as garments and footwear. The devaluation of January 1998 was a pre-emptive measure to ward off the effects of the Asian financial crisis contagion.

The banking crises in Fiji and in other Pacific island countries therefore appear to be entirely homemade. The banking industry in the region has been dominated by foreign banks, with the handful of nationally owned banks providing some traces of competition (Fiji 1999). Nationally owned banks, however, have been encouraged by politicians to play a 'social role of promoting growth by lending' (Siwatibau 2002:x). Soon after the military coups of 1987, the newly appointed manager of the National Bank of Fiji was bent on rapidly expanding the volume of lending and market share, as he boldly assumed 'national development goals could be achieved by throwing money' (Siwatibau 2002:x).

In fact, the improper banking practices of the National Bank of Fiji have been traced back before 1987. They began as early as the 1970s with the Stinson-Pearce loan, which exceeded 25 per cent of the bank's capital. Grynberg et al. (2002:7) note that bad banking practices of the 1970s and 1980s, coupled with the total failure of the public sector and parliamentary monitoring processes, opened the way for the massive lending spree on inadequate securities that took place in 1987 following the post-coup appointment of the new chief manager. The mismanagement resulted in the collapse of the National Bank of Fiji in 1995.

Sheng (1990) notes that banks fail under three conditions: when they grow too fast; when they engage in collateral lending without cash flow support; and when they hire consultants to tell them how to run their businesses. Fast asset growth is a sure recipe for bank failure. Hasty approvals without fulfilling established loan appraisal requirements and poor monitoring and documentation procedures, and inexperienced and weak staff focused on achieving a bigger share of market, make failure more likely. The Malaysian experience shows that many of the smaller finance companies on the ailing list in the 1980s were new licensees without the resources to build up experienced staff (Sheng 1990:24). It is apparent that deregulation of the financial sector without adequate supervision results in the collapse of banks.

Collateral lending with no visible cash flows in support of loan servicing and repayment schedules have been major problems in countries where there is no active secondary market. Proper asset quality policies reduce the need to appraise the value of a security continuously to align it to market prices. Distressed enterprises needing cash, as in the Stinson-Pearce loan case, offer assets at inflated values as collateral. If the secondary markets for assets are thin, it is difficult to assess the value of collateral at the time the loan is made (Rennhack 2000). A decade ago, the Japanese banking system engaged in massive collateral lending to finance speculation in real estate. This led to a speculative bubble that brought down many banks when the land and real estate markets collapsed. Borrowers speculate on cash flows from future sales of collateral at high prices to service their loans. During economic downturns, forced selling of land and other assets triggers large borrower failures. When banks collectively lend too much, they cannot sell without depressing their own collateral.

The bureaucracies of banks are often as bloated as government bureaucracies. The Southeast Asian experience shows that banks tend to spend on symbols of prestige and stability—prestigious buildings, public sporting and other events—and on benefits to their staff. If the bank management is inexperienced and not clear about corporate objectives, their overheads and other non-essential expenses tend to become

disproportionate to their operations. As Sheng (1990) says, they have to seek the help of consultants. The successful banks are those who minimise their bad loans and have the lowest overheads.

In the case of the National Bank of Fiji, all the above were present (Table 1).

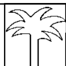
In East Asia, reforms addressing the above inadequacies have been undertaken since the financial crises of 1997–98. These include laying down prudential guidelines, prescribing minimum capital requirements, adopting better systems for monitoring asset quality and provisioning for bad loans and imposing tighter limits on loan concentration (Gonzales-Hermosillo 1999). In addition, supervision of banks has been enhanced through conducting risk assessments. Many countries have also given their banking supervisors more authority and taken steps to improve the flow of information about banks' health. These kinds of reforms have also been undertaken in Fiji.

With regard to the flow of information about the health of the financial system, some new tools have been developed in the form of prudential indicators (Hilbers, Krueger and Moretti 2000). These comprise two sets of indicators: aggregated micro-prudential indicators of health of individual banks and other financial institutions and macro-prudential indicators. It should be noted that they have mainly evolved as part of efforts to strengthen international financial architecture. The microprudential indicators have evolved from the well known CAMELS framework: C for capital adequacy; A for assets quality; M for management soundness;

Table 1 **Deficiencies observed in National Bank of Fiji operations**

1. Lending was not confined to borrowers who had the capacity and willingness to service their debts.
2. Insufficient security for loans.
3. Poor documentation and careless execution of loan contracts.
4. Lending to directors and staff exceeded predetermined limits.
5. Excessive concentration of risk, as loans to specific borrowers exceeded 25 per cent of the capital of the bank.
6. Failure to stand ready with cash at all times to meet withdrawals by depositors.
7. The bulk of the short-term deposits was lent for a long period.
8. New loans and overdrafts were funded out of overnight short-term funds from other banks and the Reserve Bank of Fiji.
9. Inadequate monitoring of loan repayment performance and inability to take corrective measures.
10. Poor expertise and low integrity of directors, management and staff.
11. Failure on the part of supervisory/regulatory authorities to take timely action.

Source: Siwatibau, S., 2002. 'Foreword', in R. Grynberg, D. Munro and M. White (eds), *Collapse of the National Bank of Fiji*, Crawford House Publishing, Hindmarsh; Siwatibau, S., 1996. 'The National Bank of Fiji', *Pacific Economic Bulletin*, 11(1):76–84.



E for earnings and profitability; L for liquidity minimising maturity mismatches; and S for sensitivity to market risk. Although Fiji is not a major player in global financial flows, international capital flows are of importance domestically.

Banking supervision reforms in Fiji

Fiji's financial system comprises three major sectors: the banking system, insurance industry and non-bank financial institutions (Appendix 1). The activities of insurance companies are regulated under the Insurance Act and the operations of banks and credit institutions are regulated under the Banking Act. Non-bank financial institution operations are regulated under their individual statutes (Waqabaca 2000).

The promotion of a 'sound financial structure' is a primary objective of the Reserve Bank of Fiji. This objective is carried out through the licensing, examination and prudential supervision of licensed financial institutions.

It is recognised that foreign-owned banks are well monitored from their respective headquarters and hence their performance poses low risk. Nationally owned banks and credit institutions need greater attention from the supervising authority. The National Bank of Fiji case, however, raised questions about the efficacy of such supervision.

From late 1993, the Reserve Bank of Fiji instituted a package of liquidity support measures along with performance criteria for the National Bank of Fiji's management. A ministerial special audit, commissioned in January 1995, confirmed the serious nature of the National Bank of Fiji's situation. In May 1995, the Minister for Finance and Economic Planning requested a World Bank Technical Assistance Mission to advise on the resolution of the problems identified in previous reports.

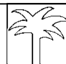
A review of Fiji's Banking Act (1983) found that the Act was inadequate in several aspects. A contributing factor was the rapid evolution of the financial system in Fiji through globalisation. A more flexible and responsive legal and regulatory framework was needed to cater for the expanding financial system. Without removing any existing provisions, a new Banking Act was enacted.

Existing legal provisions have been strengthened, and new ones introduced, based on overseas legislation. The aim has been to assist licensed financial institutions to maintain sound, prudent management and strong financial conditions. It was anticipated that this would provide institutions with the ability to handle undesirable or unexpected circumstances without damaging the financial system and the Fijian economy. Maintenance of an adequate level of capital in relation to the institution's business was the most important element in the revision.

To facilitate its prudential supervision of financial institutions, the Reserve Bank of Fiji gained powers to establish policies, standards and guidelines in consultation with the institutions. As is presently the case, the licensed financial institutions will have considerable flexibility within which to conduct their business, as the management and directors are primarily responsible for the safe, prudent operations of the institution.

From the legislative point of view, the Reserve Bank of Fiji not only has powers to administer the Banking Act but also has now assumed responsibility to administer the Insurance Act 1998, Exchange Control Act (rev.) 1985, Proceeds of Crime Act 1997 and Mutual Assistance in Criminal Matters Act 1997.

The Reserve Bank of Fiji closely monitored the operations of the National Bank of Fiji under the rehabilitation program[1]



which commenced on 8 August 1995. Among other things, the program required a detailed external audit review of 75 per cent of the National Bank of Fiji's total loan portfolio. The result of the review indicated that around two-thirds of the loan portfolio was non-performing and that the bank had a net deficiency of assets.

The restructuring of the bank was effected through the National Bank of Fiji Restructuring Act (enacted on 28 August 1996). The Act provided for the separation of the bank with effect from 1 July 1996 into two legal entities

- a personal banking operation (National Bank of Fiji), and
- a winding-down operation for the commercial and non-performing loans (the NBF Asset Management Bank).

The Act also provided for an agreement between NBF Asset Management Bank (AMB), the State and the Reserve Bank under which the state was to fund the shortfall in AMB's assets relative to deposits and other liabilities.

One of the deficiencies observed in the fall of National Bank of Fiji was the failure on the part of the supervisory/regulatory authorities to take timely action (Siwatibau 1996, 2002). Since the National Bank of Fiji crisis, a number of banking supervision policies have been implemented to address the inadequacies revealed, and ensure the stability of the financial sector. To date, the Reserve Bank of Fiji has issued 8 prudential policy statements under the Banking Act 1995, among other supervisory policies for the insurance industry.

Fiji's financial system continues to grow. In 1994, the gross assets of Fiji's financial system stood at F$3.7 billion. Over the subsequent 10-year period, this figure has grown by 80 per cent to F$6.7 billion (as of 31 December 2003). This growth shows that prudential supervision is ensuring the sustainability of Fiji's financial system to internal and external shocks.

The total asset coverage of Fiji's financial system (refer to Appendix 1) is funded up to 41 per cent by the Fiji National Provident Fund. Until 1 August 2003, the National Provident Fund was left unsupervised by the Reserve Bank of Fiji until the Insurance Act 1998 was amended. It can now be said that the extent of coverage of prudential supervision has significantly increased after the approval by Parliament. The Reserve Bank is working on a supervision framework for the National Provident Fund with several draft policies already developed.

The Fiji Development Bank has been the government's machinery to advance development loans to the private sector. Accepting deposits to bring down the cost of funds is a decision of its only shareholder, the Government of Fiji. Once granted a licence to start accepting deposits from the public, the Fiji Development Bank will shift to the circle of licensed financial institutions supervised by the Reserve Bank of Fiji.

Moreover, Reserve Bank supervision of licensing and monitoring of all foreign exchange dealers improved public confidence in these businesses, increasing competition in the foreign exchange sector.

The Reserve Bank of Fiji has also been working on modernising Fiji's payment system. The issuance of the Rules for the Banks' Clearinghouse was the first major step, together with the joint commitment of the Reserve Bank of Fiji and the Association of Banks in Fiji (ABIF) to improve the profile of Fiji's payment and settlement system and remove liquidity risk, settlement risk and to minimise systemic risk.

The 1988 Basel Accord's emphasis on technical risk-based capital adequacy (Basel Committee on Banking Supervision 1997) has given Reserve Bank of Fiji a 'rule of thumb' indicator for assessing the financial sustainability of an institution. This involves the process of risk-weighting the assets and appropriating the same to available capital

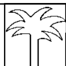
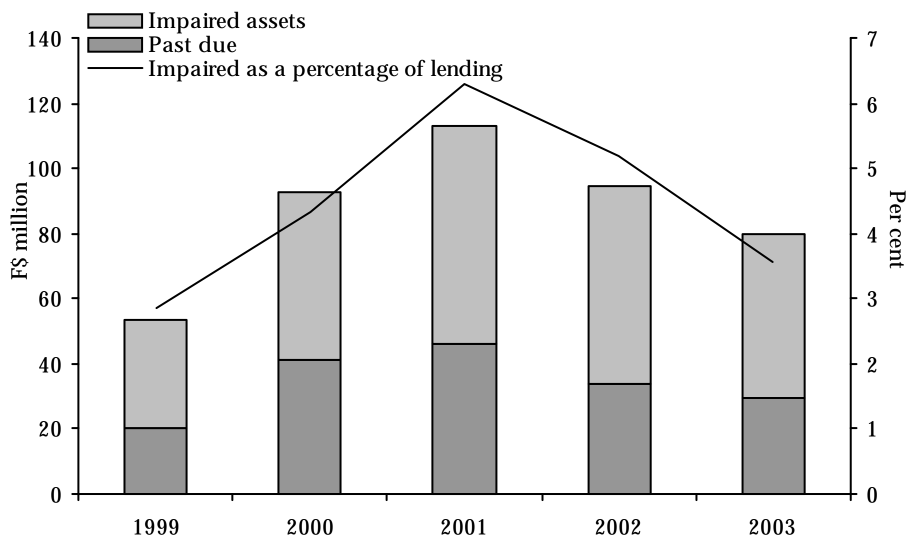
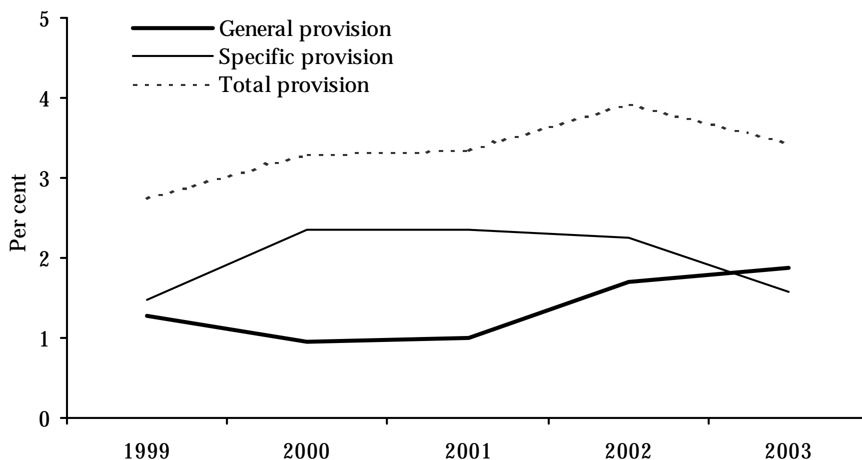


Figure 1 **Asset quality, 1999–2003**



Source: Reserve Bank of Fiji, 2003. *Annual Report 2003*, Reserve Bank of Fiji, Suva.

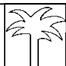
Figure 2 **Provisioning, 1999–2003** (percentage of gross loans)



Source: Reserve Bank of Fiji, 2003. *Annual Report 2003*, Reserve Bank of Fiji, Suva.

Table 2 **Reforms in chronological order, 1995–2003**

1995	The Banking Act 1995; Reserve Bank of Fiji (Amendment) Act 1995 and the National Bank of Fiji (Amendment) Act 1995 came into effect (1 June).
1996	A Code of Banking Practice was introduced by the ABIF and came into effect (1 June).
	Two Banking Supervision Policies were introduced (1 July).
	• Capital Adequacy Requirements for Licensed Financial Institutions
	• Guidelines for Loan Classification and Provisioning for Impaired Assets
	The Large Credit Exposures Policy is implemented with effect from March 1998. The policy restricts Licensed Financial Institutions from lending to a single counterpart or group of related counterparts more than 25 per cent of the total capital.
	The Disclosure Requirements policy for Licensed Financial Institutions was implemented with effect from 31 December 1999.
	An evaluation of Fiji's bank supervisory regime's compliance with the Basel Core Principles for Effective Bank Supervision was conducted.
1997	Re-introduction of the Forward Foreign Exchange Facility. Commercial Banks also allowed to hold net open foreign currency to encourage their usage of the facility (1 January).
	Approval granted for further Exchange Control relaxations effective from 1 January 1998.
	The Reserve Bank of Fiji links its Minimum Lending Rate to the monetary policy indicator rate—the interest rate on 91-day RBF Notes, plus a margin of 50 basis points.
1998	The Fiji dollar was devalued by 20 per cent (20 January).
	Reduction of the Statutory Reserves Deposit (SRD) and Unimpaired Liquid Assets Ratio (ULAR) to 5 and 10 per cent respectively (6 February).
	The Large Credit Exposures Policy is implemented with effect from March 1998. The policy restricts Licensed Financial Institutions from lending to a single counterpart or group of related counterparts more than 25 per cent of the total capital.
	The Reserve Bank of Fiji announces the removal of ULAR for commercial banks with effect from 1 January 1999 (27 November).
1999	The Reserve Bank of Fiji approves expansion of list of activities offered by Money Changers and Restricted Foreign Exchange Dealers to include trade-related transactions with their travel-based transactions.
2000	Guidelines issued to banks and credit institutions for effectiveness in countering money-laundering activities.
	The Disclosure Requirements policy for Licensed Financial Institutions was implemented with effect from 31 December 1999.
	The Reserve Bank of Fiji reviewed and revised a draft Action Plan to modernise the payment system in Fiji.
	An evaluation of Fiji's bank supervisory regime's compliance with the Basel Core Principles for Effective Bank Supervision was conducted.
2001	The policy on the Role of External Auditors in the Supervision of Banks and Credit Institutions was introduced in May 2001.
	The loans classification and provisioning for impaired assets policy was revised and issued to banks and credit institutions in October 2001.
	Draft Codes of Practice were prepared for the life and general insurance industries.



	A review of the financial services available in rural areas was undertaken.
	A review of the institutional structure and supervisory framework of the superannuation industry was undertaken.
2002	The Disclosure Guidelines on Fees and Charges for Banks and Credit Institutions was issued in July 2002.
	Rules for the Banks' Clearing House, was issued by the Reserve Bank of Fiji in July 2002.
	The policy covering Offshore Placement of Insurance Business by residents in Fiji was reviewed and issued in September 2002.
	The policy outlining solvency requirements for insurers was issued.
	Examined possible amendment to the Insurance Act for the prudential supervision of the Fiji National Provident Fund.
	As part of improving its internal licensing processes, the Reserve Bank of Fiji reviewed and finalised its checklist and manual for licensing of banks and credit institutions.
2003	Amendment of Insurance Act 1998 to enable the Reserve Bank of Fiji to supervise the Fiji National Provident Fund.
	The Financial Intelligence Unit was established as an administrative office at the Reserve Bank of Fiji.
	A Regional Workshop on Banking Supervision was held, followed by the annual meeting of the Association of Financial Supervisors of the Pacific Countries.

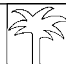
broken into Tier 1 (core capital) and Tier 2 (supplementary capital). Recent figures (2003) show that the banking industry recorded an average capital adequacy ratio of 12.7 per cent; well above the minimum requirement for banks (8 per cent).

The Reserve Bank of Fiji has an active loans provisioning policy that requires licensed financial institutions to create specific provisions based on their assets (loans) which have been classified as impaired or bad. General provisions are also created for overall loans portfolio. Over the 5-year period from 1999, the level of impaired assets has generally increased (Figure 1). The reasons for the increase are fairly clear. Following the political events of 2000, licensed financial institutions created provisions to protect themselves from situations where recovery of the loans was in doubt. Since that time, however, the situation has continued to improve.

Total provisions are starting to decrease (Figure 2). Specific provisions, as a product of improving asset quality, sets the pace for a decline since 2002. General provisions however, show an upward trend signifying increased lending of banks and credit institutions.

In addition, the Reserve Bank of Fiji's Financial Institutions Department was strengthened. At present, the department has around 40 staff compared to around 15 prior to the National Bank of Fiji crisis. As a result of extensive prudential surveillance, onsite examinations increased. The Reserve Bank of Fiji continues to give priority to training for supervisory staff to strengthen its capacity and skills.

The formation of the Association of Financial Supervisors of the Pacific Countries has not only strengthened regional cooperation in the supervisory area, but is an attempt to provide training avenues for



Pacific island member countries in order to build supervision capacity. The Association has already met twice with the assistance of the Pacific Financial Technical Assistance Centre, which also provides information about the Association on its own website.

Conclusions

This article has focused attention on the deficiencies in Fiji's financial sector that led to the failure of its nationally owned bank.

The authority of the Reserve Bank of Fiji with regard to supervision extends to banking and credit institutions and more recently to the Fiji National Provident Fund. The Reserve Bank of Fiji has been empowered by an amendment in the Insurance Act 1998 to facilitate supervision of the National Provident Fund, whose assets exceed the assets of all commercial banks combined and were more than one-third of the total assets of the financial sector. A formal supervisory framework is being prepared and procedures are expected to be developed. Once Reserve Bank supervision over the Fiji National Provident Fund becomes effective, the Reserve Bank's regulatory powers will cover financial sector institutions with nearly 75 per cent of total assets of the sector.

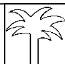
The Fiji Development Bank is outside the purview of the Reserve Bank's supervision until it is licensed. Presently, the Fiji Development Bank's assets are about 6 per cent of total assets in the financial sector. However, it is expected to grow and play a major part in developing and nurturing indigenous entrepreneurial skills. If enabled under the Fiji Development Bank Act to accept retail deposits from the public, the Fiji Development Bank is also likely to spread its operations in the rural areas and thus would fulfil the role of a rural bank—a role that foreign-owned banks have failed to assume—and mobilise savings in rural areas. In these circumstances, it would be appropriate to bring the Fiji Development Bank under the supervision of the Reserve Bank of Fiji as well.

The lessons from the National Bank of Fiji saga are clear, and are valid for all Pacific island countries. The Association of Financial Supervisors of the Pacific Countries is not the only step towards ensuring that the lessons learnt are shared together with improved techniques of supervision. Staff attachment programs at the Reserve Bank of Fiji from other Pacific island countries and from the Reserve Bank of Fiji to the Australian Prudential Regulatory Authority are noteworthy efforts to strengthen supervisory capabilities. Fiji has also become a full member of South East Asian Central Banks (SEACEN).

Increased surveillance over the banking sector, commitment to modernise Fiji's payment system, and extension of the Reserve Bank of Fiji's supervisory boundaries over foreign exchange dealers and the National Provident Fund are evidences of much-needed reforms.

However, improved supervision and greater regulatory powers alone do not ensure good governance in the financial sector. While listing the sources of governance, Roulier (1997:454) observed, 'a good bank can exist even under an inadequate regulator, but a good bank cannot exist under a bad system of governance' (Appendix Table 2). Having a sound legal system under which white-collar crimes of fraud are quickly detected, vigorously pursued in the courts of law and speedily brought to their proper conclusion would enhance good governance practices.

Bestowing greater authority, powers and resources to central banks alone would not be sufficient. Failure to adopt sound governance policies, non-observance of legal norms and absence of political will and determination to punish the criminals and



dishonest bankers, thereby allowing them to go scot-free would amount to what Krugman wrote in a different context: '[i]t's like flushing out cockroaches down a toilet—sooner or later they just come back' (1994:292).

Note

[1] The program, known as the 'Rehabilitation Regime' provided a framework for the restructuring and recapitalisation of the National Bank of Fiji.

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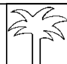
Appendix 1
Fiji's financial sector

As at 31 December 2003, five commercial banks (plus the NBF Asset Management Bank) and three credit institutions were licensed under the Banking Act 1995, and two life insurance companies, seven general insurance companies and three insurance brokers were licensed under the Insurance Act 1998.

Fiji's financial system has continued to grow, as evidenced by the growth in total assets of financial institutions during the past two decades. Combined assets have grown from around F$0.8 billion in 1982 to F$6.7 billion in 2003—738 per cent growth. This reflects both new entrants in the market and developments in the sector. Gross assets of Licensed Financial Institutions accounted for 51 per cent of the financial system's gross assets in 2003 and 49 per cent attributed to other non-bank financial institutions. Of the latter, the Fiji National Provident Fund's share was 83 per cent.

Financial sector reform in Fiji

An efficient and effective financial sector is important for economic development and growth. Financial intermediaries effect the transfer of funds from depositors to investors and consumers. Financial sector liberalisation could be defined as a set of reforms and policy measures designed to deregulate and transform the financial system and its structure with a view to achieving a liberalised market-oriented system within an appropriate regulatory framework (Waqabaca 2000). Fiji, like most countries, has been through financial sector reforms and liberalisation over the years. In this process the financial system has been transformed from an undeveloped and highly regulated one, to a well developed and deregulated financial system. Waqabaca (2000) documents the financial sector reforms and developments in Fiji's financial system over the years since the early 1970s.



Appendix Table 1 **Gross assets of the financial system, 1998–2003** (F$ million)

	1998	1999	2000	2001	2002(r)	2003(p)
Licensed financial institutions						
Banks[1]	1,841	2,133	1,973	1,984	2,129	2,580
Credit institutions [2]	160	184	197	196	205	245
Insurance companies [3]	383	443	476	524	570	609
Total	2,384	2,760	2,646	2,704	2,904	3,434
Other non-bank financial institutions						
Fiji National Provident Fund	2,073	2,221	2,354	2,492	2,604	2,724
Others [4]	615	577	568	552	595	562
Total	2,688	2,798	2,922	3,044	3,199	3,286
Total financial system [5]	5,072	5,558	5,568	5,748	6,103	6,720

r = revised
p = provisional
[1] Australia and New Zealand Banking Group Limited, Westpac Banking Corporation, Bank of Baroda, National Bank of Fiji (trading as Colonial National Bank), NBF Asset Management Bank and Habib Bank Limited. From 2002 operations of the Bank of Hawaii was taken over by the ANZ Bank; [2] Merchant Finance and Investment Company Limited, Credit Corporation (Fiji) Limited and Home Finance Company Limited; [3] Colonial Heath Care (Fiji) Ltd, Dominion Insurance Co. Ltd, Fiji Care Insurance Co. Ltd, New India Assurance Co. Ltd, Sun Insurance Co. Ltd, Queensland Insurance (Fiji) Ltd, Tower Insurance (Fiji) Ltd, Colonial Fiji Life Ltd, Life Insurance Corporation of India; [4] Includes Fiji Development Bank, Housing Authority, Unit Trust of Fiji [2001 and 2002 figures exclude National MBF (Fiji) Limited]; [5] Excludes Reserve Bank of Fiji.
Source: Reserve Bank of Fiji, 2003. *Annual Report 2003*, Reserve Bank of Fiji, Suva.

Appendix Table 2 **Sources of governance**

Key sources of governance	**Primary motivation**
Owners	Dividend stream, stock appreciation and limited downsides with infinite upside
Capital markets	Competition for equity funds
Monetary authority	Price stability
Prudential regulators	Safety and soundness of the financial system
Debt providers (including depositors)	Rates, safety and convenience
Legal system	Adherence to legal standards and sanctions for fraud
Business practices	Ethical standards
Public opinion	Civic responsibilities
Ministers in the government	Accountability and ministerial responsibility
Employees	Compensation and security
Competition	Good: narrow margins, high efficiency Bad: lax lending terms, conditions and underwriting criteria

Source: Roulier, R., 1997. ‘Governance issues and banking system soundness’, in C. Enoch and J.H. Green (eds), *Banking Soundness and Monetary Policy*, International Monetary Fund, Washington, DC:455.