# Liquidity management and Solvency

As the sole superannuation fund in the country, the Fiji National Provident Fund is the primary savings scheme for thousands of members.

With assets worth $7.9 billion, the Fund's financial position is often the topic of discussion and even more so now, given the access that has been allowed for COVID-19 withdrawals.

Many questions have been raised in various forums about the viability of the Fund, given the uncertain economic climate due to the global health pandemic.

Following the release of the 2020 Annual Report, there have been concerns about the Fund's cash position and future.

This week, we continue to address these concerns

***What were the key financial achievements for FNPF in the 2020 financial year?***

- At the end of FY2020, the Fund's total assets were valued at $7.9billion, an increase from $7.5billion in 2019.
- Of this amount, $6.3billion is made up of members' funds, up from $5.9billion the previous year.
- Quite notable was the reduction in contributions from $651.9million in 2019 to $591.4m in 2020, largely due to the reduction in contribution rate and increase in unemployment due to the pandemic;
- Investment income was $424.4million, compared to $635.5million the previous year.
- Interest credited to members was $293.9million at a rate of 5%.

***The impact of the pandemic on the Fund's operations, what assurance is there that the Fund is financially stable?***

Under the FNPF Act, the Fund is legally required to hold solvency reserves of 10% and obtain a funding and solvency certificate from an Actuary. This certificate confirms that the value of the Fund's assets ($7.9b) is sufficient to meet its liabilities ($6.3b) including a range of adverse conditions specified by the Actuary.

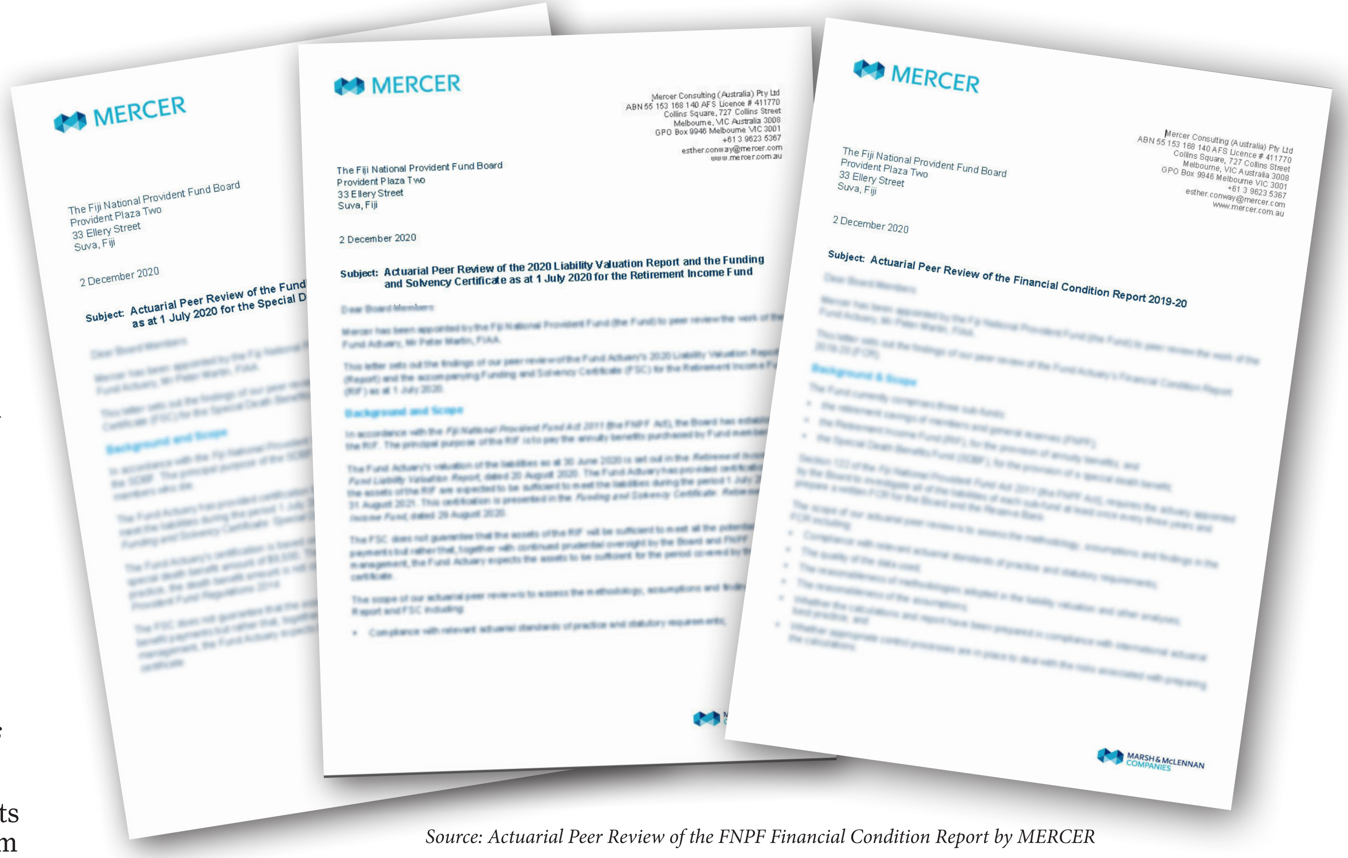
***The Fund often says that it is solvent – what does that mean?***

Solvency refers to the Fund's ability to meet its liabilities, which is members' funds. The Fund is considered solvent if the market value of assets exceeds the value of member liabilities by at least 10%.

As at 30th June 2020 (the end of the 2020 financial year) the Fund's solvency position was sitting at 25% - which is well above the requirement.

***What level of independent and third party validation is undertaken by the Fund?***

The Fund Actuary, as legislated by the FNPF Act, must use applicable professional standards and the requirements of the prudential standards to prepare the Financial Conditions Report on its review of the financial condition of the member fund and discuss the findings of the Funding & Solvency certificate produced for the other funds.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The Fiji National Provident Fund Board
Provident Plaza Two
33 Ellery Street
Suva, Fiji

2 December 2020

Subject: Actuarial Peer Review of the 2020 Liability Valuation Report and the Funding and Solvency Certificate as at 1 July 2020 for the Retirement Income Fund

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The Fiji National Provident Fund Board
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2 December 2020

Subject: Actuarial Peer Review of the Financial Condition Report 2019-20

*Source: Actuarial Peer Review of the FNPF Financial Condition Report by MERCER*

The 2020 Financial Condition Report (FCR) 2019-2020 was independently peer reviewed by Mercer Consulting (Australia) Pty Ltd.

The FCR confirms that FNPF met the solvency requirement in the FNPF Act. In addition, under a best estimate scenario, there is a high probability that the statutory solvency will be met at all times during the 2021 financial year.

The RBF, as a regulator has overall oversight of the Fund's operations including governance and investment activities, and in its last on-site examination, the Fund's capital and earnings position has been assessed as Strong and Stable.

Sections 130 and 131 of the FNPF Act grants powers to the RBF to issue directives to the Fund if it feels that the interest of the FNPF members is in jeopardy. This includes the power to appoint a statutory manager if the Fund is found to be in an unstable financial position.

The Fund's financials are audited annually by an external auditor & for 2020 this was done by PricewaterhouseCoopers. The report shows that FNPF held cash and term deposits of $693.9million at the end of FY2020.

While this is $195million short of the $889.2million recorded in FY2019, the decrease is attributed to the consistent investment strategy adopted by the Fund.

Independent professional firms, mainly from New Zealand, were also engaged to undertake business valuations on the Fund's assets mainly hotel properties, banking and telecommunications. This includes Colliers International in Auckland and BDO from Christchurch, NZ.

***What makes up the Fund's income?***

FNPF total income from interest, dividend, rental and other sources were more than $420million in FY2020. Additionally, the Fund received a total of $524million as return of invested principal, which matured during the year.

The key inflows include:

- Contributions from employers & employees, including voluntary members & minor voluntary members;
- Income such as interest, dividends, property rental and fees from its various investment holdings;
- Other income such as applications fees, surcharges, special death benefit premium;
- Redemption of investments upon maturity;
- New pension take up.

***If withdrawal drains FNPF's cash, how does it ensure that it remains sustainable?***

The projected inflows and outflows are carefully considered as part of the Fund's Treasury and Liquidity Management. Despite these challenging times, the Fund has continued to prudently manage its financial position.

This is reflected by the decision not to liquidate assets, apart from the $45million in offshore cash which was repatriated in compliance to the instruction of the RBF.

The Fund employs dynamic cash flow forecasting that is done not only for short term but over a longer period of time with any change in assumptions adopted immediately as part of its treasury policy.

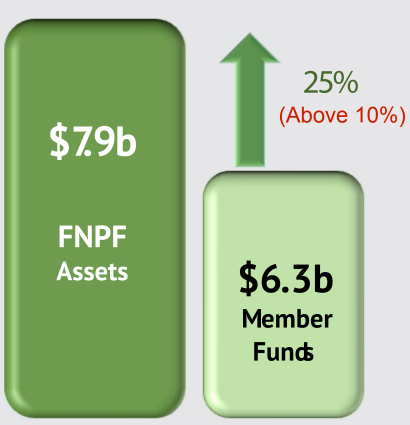
The Fund also has the option to not pursue any investments in order to maintain sufficient liquidity. Based on the current protections, the Fund has sufficient liquid assets now and into the future, and will not need to liquidate its assets to meet its obligations.

***How is the Fund managing its liquidity, especially with a lot of withdrawals for the COVID-19 Relief?***

The Fund has carefully considered the extension of the COVID-19 relief, taking into account the impact on funds and ability to meet these obligations. Obviously, if the Fund diverts its cash resources in one area, it will impact other areas.

This has included a look at the operations of the Fund, cost control measures, scaling down on capital expenditure and investments. The continuation of assistance will not have an impact on the liquidity of the Fund, otherwise the Fund would not have committed to the extension.

The current payout for COVID-19 withdrawals is far less than the $276 million paid out during Tropical Cyclone Winston in 2016, which was done through internal cash and did not require any liquidation of assets.




## Will there be enough funds in FNPF when I reach 55?

- We are here for the long-term
- Legislated Solvency – 10%
- FNPF is Solvent as per Actuary's "Financial Condition Report 2020" (FCR)