



## FNPf CLARIFIES MISCONCEPTIONS ABOUT FY2007 ANNUAL REPORT

A major weakness with recent critics of the Fiji National Provident Fund is their lack of understanding about the financial structure of this institution. Last week, Fiji Times journalist Sophie Foster wrote an opinion piece titled "Whose Fund Is it Anyway?" where she attempted to draw conclusions on the FNPf based on selected readings from the Fund's 2007 Annual Report. The report covers the period July 2006 to June 2007. The Fund clarifies as follows:

### \$20 processing fee

Firstly, we would like to challenge the idea that the \$20 partial withdrawal fee is a "penalty". In fact, it is a clear recognition and understanding by FNPf of the answer to Ms Foster's question "Whose fund is it anyway?" The answer is EVERY Member and not just the members who make partial withdrawals.

Currently, all members contribute towards the \$43 processing cost. In other words, those members who do not make any partial withdrawals are subsidizing and contributing towards the cost of those that do. Is that fair for the majority of members? Absolutely not! That is, the reason for the \$20 processing fee. All members will still be subsidizing the gap between \$43 and \$20 but it is a start! FNPf is committed to driving the actual processing cost down by improving workflows and streamlining its processes and systems via Business Process Re-engineering.

The processing fee is not new to FNPf members. The Fund has been charging different fees for different services for several years now. These include a \$43 fee for direct housing transfers and \$30 for housing loans and over-55 withdrawals.

### Operating Expenses and Salary Bill

It is important to recognize that \$15.8m in operating expenses represents 0.5% of the Fund's total portfolio in 2007. By international standards, an expense ratio that is less than 0.5% of funds under management is efficient. Many global fund managers charge 2%, and 5% is not uncommon, as management fees.

A major reason for the \$1.3m increase in salaries and wages is attributed to the Market Salary Adjustment back-dated to FY2004. This meant that staff salaries and wages had to be adjusted for three subsequent years (2004, 2005 and 2006) and this was reflected in FY2007 Accounts, as approved by the previous Board and Management.

Temporary employees were also engaged to man various FNPf services to assist special assistance withdrawals such as the Pay Reduction Assistance and Low Wage Income. Interestingly, partial withdrawal applications for 2007 increased by 87% to 134,678 from the 2006 figure.

Other reasons for the increase in operating expenses include the opening of the new priority customer service centre for senior members and pensioners in Suva. Agencies in Valelevu, Nadi and Savusavu were also established in the first half of the year. The e-Lobby was also introduced to provide self-service tools for customers to view their respective accounts and the stages of their withdrawal application.

### FNPf is not a bank

We agree that the FNPf is not a bank. However, the Fund is a major financial institution. As such, its officers are free to join the Fiji Bank & Finance Sector Employees Union.

The Fund's position in the financial market is similar to all that of all the banks put together. FNPf workers are continually under pressure to deliver and meet members' expectations with a member to staff ratio of 1000 to 1.

### Staff salaries & Benefits

Like any other financial institution the Fund provides benefits for staff members as an incentive to retain them. The FNPf is not alone in providing such benefits; this is the trend world over - an assessment of the local banking and finance sector would prove this.

In 2008, the Board directed that interest rates for staff loans be benchmarked to the market rate of other financial institutions. Interests earned form part of the pool of funds that are paid back to members via their annual interest payouts. Additional to that is that all FNPf staff accessing these loans would need to pay fringe benefits tax; which is revenue for Government. As such, the major difference between withdrawals by members and staff loans is that while the former is a leakage in the system; the latter is for revenue generation

These staff benefits have been in place since the Fund's was established and has always been reported in the Fund's financial statements.

### Board fees

There were two Boards for this financial year. The Board that was appointed in January 2007 was tasked with reviewing major policy and investment decisions as a result of poor management by the former administrators, which resulted in more frequent meetings.

Therefore, the \$4000 increase is justified given improvements in the Fund's internal controls, compliance and corporate governance and risk management. A lot of changes have been implemented since their appointment. Interestingly, the Board's fee in FY2005 was \$120,000.

### Investment portfolio

While the Key Performance Indicators (KPI) table did show that the investment portfolio decreased by 0.2% closer scrutiny of the Balance Sheet would have revealed that the Fund's actual overall investments in fact increased by 3%. Cash forms part of an investment portfolio. It is included in 'Other Assets' and increased from \$23.8m to \$124.6m. Thus, including this cash balance, the investment portfolio increased from \$3.172b in 2006 to \$3.266b in 2007. (This large cash balance due to repatriation of offshore funds ordered by Reserve Bank of Fiji). Keeping cash in the bank is just the waiting period for the right opportunity for investment. And because it is earning interest it can be considered part of the Fund's investments.

Similarly, Investment Revenue actually realized by the Fund increased from \$159m to \$200m, an increase of 25%. We reverse the impact of unrealized losses on investments which have no cash impact on member balances (This was for FNPf's ATH Shares - this 'loss' reversed the next year when their share price recovered). Taking this into account, the Net Inflation return or the Real Return for 2007 is 2.10% and not just 0.36% as stated.

### Interest on Contribution

Interest to members is paid on the balances held in their Contribution account at 6.5% in 2006 and 6.3% in 2007 as per Fund policy based on the surplus generated from investment. These rates are better than bank interest rates prevailing that time in Fiji. The monetary policy stance taken by RBF increased the liquidity in the market, which in turn reduced interest rates to low levels.

### Scrutiny of accounts

The Fund assures members that the level of scrutiny of FNPf accounts has intensified. Accounts are always certified by external auditors, for 2007 this was done by KPMG. The RBF also examines these accounts through on and off site inspections of our records. The Board has recently requested the Office of the Auditor General to review the FNPf books as stipulated under the FNPf Act.

### Responsible Journalism

Last week, the FNPf complained about Ms Foster's report on Fiji TV's Talk Business, where she misreported on the Fund's salary expenses. However, to date nothing has been forthcoming from Fiji TV or her.

While the Fund respects media freedom and the principles of freedom of speech, it expects this to be done in a responsible manner as a little knowledge can be very dangerous.

We invite Ms Foster and other commentators to clarify issues on the Fund with us first.

### Members' funds are safe and secure

We assure our members that all decisions taken by the FNPf Board and Management is done in their best interest only.

The FNPf is a pension fund tasked with ensuring that members' funds are prudently managed to allow them to retire in a dignified and respectful manner.

**We reassure our members that your funds are safe and secure.**

**AISAKE TAITO  
CHIEF EXECUTIVE OFFICER**