

# First Life Insurance Company Limited 1998

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## Chairman's Statement

In spite of another year of negative performance in the Jamaican economy and continued failure of financial institutions, First Life recorded improved profitability and operating efficiencies in 1998.

Group revenues for 1998 increased by 18.8% to \$1,266.7 million (1997: \$1,065.8 million). Profit from operations (i.e. before transfers from investment reserves) rose by 59.6% to \$101.8 million (1997: \$63.8 million). As a percentage of revenues, profit from operations improved to 8% compared to 6% in 1997.

In light of the relatively weak property market, your Board of Directors has decided to reduce transfers from investment reserves from 15% to 12.5% for the time being. This reduction in transfers was responsible for the net profit of \$169.5 million being only 4.8% better than last year (1997: \$161.8 million). Earnings per share therefore stand at \$0.56 (1997: \$0.54). With inflation in single digits for two consecutive years and with the continued soft demand for commercial real estate, your Directors consider the reduction in transfers prudent.

As was the case in 1997, the improved operating results were realized across all the main profit centres of the Group - health and life insurance, pensions management and our subsidiaries, Pan Caribbean Merchant Bank Ltd. and Jamaica Property Company Ltd.

For the second successive year the Group reduced administrative expenses. In 1998 these totalled \$350.3 million compared to \$354.0 million in 1997. As a ratio to revenues, administrative expenses have now been reduced to 27.7% (1997: 33.2%).

The balance sheet of the group also showed continued strengthening in 1998. Surplus investment assets in excess of policyholder liabilities grew to \$1,580.4 million (1997: \$1,530.0 million). The quality of the assets supporting First Life's policyholders' liabilities also showed improvement with 63% invested in Government of Jamaica securities (1997: 47%).

The Group's net worth increased to \$1,650.4 million in 1998 (1997: \$1,586.8 million) yielding a net worth per share of \$5.51 (1997: \$5.29)

#### **EMPLOYEE BENEFITS**

The Employee Benefit products of First Life group - life and health, creditor life and pension management, all performed satisfactorily, providing positive contributions to operating profits.

#### **Health Insurance**

In an intensely competitive market, First Life's health insurance earned premiums totalled \$545.4 million (1997: \$407.0 million) an increase of 34.0% thereby maintaining our position as the leading health insurer in Jamaica. The foundation for continued efficiency and quality customer service was laid in 1998 with the installation of new health management computer systems which are Year 2000 compliant. Cut-over to the new system occurred in November 1998 and as is often the case with major computerized conversions, unforeseen "wrinkles" remain to be ironed out in 1999.

When fully operational, the system will offer greater product flexibility, improved point-of-sale service and more efficient claim processing.

#### **Pension Management**

During 1998, pension funds under management grew by 32.2% to \$808.5 million (1997: \$611.6 million) despite the pace of corporate redundancies and the attendant employee refunds. First Life's two pooled pension funds also produced excellent performances in 1998. The Pooled Money Market Fund recorded a 27.1% growth in unit values (1997: 22.9%) whilst the Pooled Long Term Fund showed unit value growth of 22.3% (1997: 16.2%). These performances are undoubtedly the best in the industry and support First Life's efforts in its thrust to become a leading pension fund manager.

A new computerized pension administration system, which is Year 2000 compliant, was installed in 1998. Complete conversion to the new system will take place in 1999 for existing clients whilst new clients will be hosted immediately. This will greatly enhance the timeliness and quality of reports, allowing First Life to set new service standards.

#### **Creditor Life Insurance**

With the continued contraction of the economy, Creditor Life earned premiums slipped to \$28.9 million (1997: \$34.5 million) but the product remains a solid contributor to profits.

#### **Group Life Insurance**

Group Life earned premiums rose 19.6% to \$17.7 million (1997: \$14.8 million) and contribution to profits was similarly increased.

#### **Individual Life**

Our strategy in this line of business is, as it has been for the last two years, to preserve the existing book of business until we can find a satisfactory solution that assures our policyholders of their future benefits. As such, our new business annualized premium income was a modest \$12.3 million (1997: \$10.9 million) whilst earned premiums totalled \$78.7 million (1997: \$91.5 million). Contribution to profits rose strongly as marketing expenses were curtailed.

IBM World Trade Corporation has undertaken the task of making the individual life computerized system Year 2000 compliant. The conversion began in October 1998 and at year end IBM reported satisfactory progress and confidence that this will be completed before our June 1999 deadline.

#### **INVESTMENTS**

Government's strict control of money supply, in the face of an \$85 billion bail-out of some banks and insurance companies coupled with the Bank of Jamaica's determination to counter "speculative" currency fluctuations, led to another year of single digit inflation of 7.9% (1997: 9.2%).

However, Government's demand for borrowed funds to finance a growing budget deficit kept interest rates high with six-month Treasury Bills averaging 25.5% for 1998.

First Life took full advantage of this opportunity to earn handsome real returns with risk free securities by placing 63% of our total policyholder investment assets in Government of Jamaica and Bank of Jamaica instruments. These provided an average yield on our investment portfolio of 24.9%. At the close of 1998, Group investment assets amounted to \$2,791.4 million (1997: \$2,530.4 million).

We retain a small portfolio of Blue Chip listed equities which was valued at \$33.9 million at the end of 1998 (1997: \$36.0 million). Whilst many of the stocks we hold are quality companies which have good earnings, the general disinterest of investors in the stock market and preoccupation with government securities make this investment option unattractive for the near future.

#### **PROPERTY**

The property holdings of First Life which are held by our subsidiary, Jamaica Property Company Ltd., performed satisfactorily in 1998 despite the soft commercial property market and a shrinking economy. Revenues totalled \$198.1 million (1997: \$190.2 million) an increase of 4.2%.

At the end of the year Jamaica Property's vacancy rate stood at 14.0% up from 11.1% in 1997. Nonetheless, the Company made its customary strong contribution to Group profits and has excellent prospects for improved occupancy levels in 1999.

#### **BANKING**

Pan Caribbean Merchant Bank enjoyed its best year to date despite the difficulties experienced in the financial services industry during 1998 which saw the highest level of failures in the industry for the decade. Revenues grew to \$93.0 million (1997: \$59.6 million) and contribution to profits to \$27.1 million (1997: \$8.2 million). A commitment to superior service combined with the shrinking number of competing institutions provided the Bank with an opportunity to grow profitably.

Our securities trading volumes grew significantly as individual as well as institutional client relationships were expanded during the year with the Bank proving itself effective in identifying opportunities for its clients.

This environment along with our focus on expense management, saw the Bank's results improve with pre-tax return on equity increasing from 14% in 1997 to 52% in 1998. This performance was achieved while establishing a Loan Loss Provision Policy which requires the Bank to provide 100% on its non-performing credits regardless of collateral.

The future of the Bank lies in its securities and foreign exchange trading activities while seeking fee-based activities to round out its revenue generation, much like its British merchant banking counterparts. Numerous opportunities exist for a domestic institution which can leverage on overseas relationships to serve an increasingly sophisticated local investor. In the coming new age of E-banking, technology combined with knowledge of the international financial markets and risk management will provide the springboard for a high performance institution.

#### **THE FUTURE**

Over the past three years, First Life has pursued a defensive strategy in an economy characterized by contracting demand, high interest rates and frequent business failures. This strategy required tough cost containment measures; strict asset protection by way of focusing investments on Government securities and away from loans and equities; and concentration on business activities in which we have expertise whilst eliminating those with little promise for the near term.

The strategy yielded modest average revenue growth of 10.3% for the three-year period 1996-1998 with average profit growth of 9.2%. Operating profits, however, have grown 326% from \$23.9 million to \$101.8 million during this period. We conclude that this strategy has served First Life well.

Our strategy for the future must continue to be prudent and due care must be exercised with the economy so precariously positioned. However, opportunities for growth by acquisition are clearly possible at this time and Management and your Board of Directors will be keenly assessing those opportunities in business areas we have the expertise to manage efficiently.

As we enter a new year of challenges and opportunities, I should like to thank our customers for their loyalty to First Life, the Board of Directors for their guidance, and management and staff for their continued commitment to building a stronger and more efficient company.

Richard O. Byles, M.Sc.  
Chairman

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