

# FATUM is one of the major players in the insurance market in the Netherlands Antilles

*Speech by Dr. Emsley D. Tromp on the acquisition of the majority shares of FATUM in the Netherlands Antilles by the Guardian Group.  
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Ladies and gentlemen good evening,

## 1. Introduction

Let me first take the opportunity to congratulate the Guardian Group on the acquisition of the majority shares of FATUM in the Netherlands Antilles. The Guardian Group is not new in this market. Since 1993, Guardian has been active in the Netherlands Antilles through its branch office after taking over the domestic activities of Crown Life. In 2001, another member of the group, namely RBTT, also entered our market. During the last decade, the Guardian/RBTT Group has shown remarkable growth in assets and earnings both in their home market and elsewhere in the Caribbean. The Bank is confident that with this acquisition of FATUM, the Guardian will be an important and strong player in our insurance and banking market, one that certainly enhance competition and ultimately should benefit consumers.

Next year, FATUM will commemorate its centennial on the island of Curacao. FATUM started operation as a branch office of the Nationale Nederlanden, was last year licensed as a subsidiary of the ING Group, and now has become a member of the Guardian Group. We view this change in ownership with optimism and hope that it will continue to safeguard the rights and benefits of the policyholders of FATUM as well as the jobs of the 190 employees in the Netherlands Antilles. The new owner of FATUM --Guardian Holding group-- is a public company whose shares are listed on the Trinidad and Tobago Stock Exchange Market. In 1990, the Guardian Life group and RBTT Financial Holding Limited formed the first banc-assurance combination in the Caribbean, indicating the Group's commitment to expand its investments in the areas of banking, insurance, and financial services in the region.

FATUM is one of the major players in the insurance market in the Netherlands Antilles with a market share of approximately 40% based on the 2002 net premium income. As of the end of 2002, the number of institutional investors, i.e., insurance companies and pension funds, operating in the Netherlands Antilles was 85.

Despite its dominant position in the market and its financial soundness, FATUM and indeed the industry in general have experienced during the last few years a depressed business environment caused by major catastrophes like the hurricanes Luis, Marilyn and Lenny in the Windward Islands, the domestic economic downturn, and adverse developments in stock exchange markets around the world. These developments have affected the performance of the insurance industry worldwide. This general picture, however, should not obscure the fact that our insurance industry has shown significant resilience to those adversities.

The adverse developments in the international stock exchanges have impacted negatively the returns on investment of the insurance industry. This negative impact led to a re-allocation of the industry's portfolio decisions in favor of higher-yielding domestic government bonds, giving the government easy access to financing at historically low rates.

## 2. Current economic environment

The general government, which has been experiencing rising indebtedness, has relied heavily on this windfall situation to finance its fiscal deficits, thereby increasing our vulnerability to changes in the market.

Ladies and gentlemen, the problems facing our country are not new. They predate this development. Despite years of fiscal consolidation, the government budgetary situation remains worrisome. The general government deficit stands at NAf 314 million (6.5% of GDP). Domestic outstanding debt has been rising and stands now at more than 80% of our GDP. As a consequence, interest expenditures are 25% of all tax revenues. These expenditures represent an annual outlay of NAf 280 million. If the current fiscal situation is not addressed, it will threaten the fragile recovery that seems to be emerging. The need to correct this situation is urgent. Our problem is not one of taking the right measures, but rather, of keeping the good policies on track. We are too quick to declare victory and roll back the needed measures.

Despite the difficult economic situation, recent polls seem to suggest little popular support for the needed fiscal

consolidation measures. But ladies and gentlemen, if we are to restore sustainable growth, create durable jobs, and, hence, eradicate poverty, we have to address our fiscal ills. Many risks and vulnerabilities are looming on the horizon: (i) reversal of the recent financing flows will not only render the current deficits not financable but also will make the refinancing of maturing debt very difficult; (ii) building social consensus for reform in the current environment will be very difficult; and (iii) the crowding-out effect of the current deficit will threaten the current recovery. Therefore, the deficits have to be brought into financable proportions. To achieve this, we must pursue the right policies and implement and maintain fiscal responsibility laws designed to increase transparency and accountability in the public finances.

We have to continue to pursue structural reforms to raise economic growth potential on a sustained basis. Recent attempts to roll back important progress in this area only will reduce our growth potential.

And finally, we must reduce poverty and address governance issues. We have to invest in the quality of our human capital by giving priority to education. We have to make progress in the alleviation of poverty by restoring sustainable growth and creating durable jobs. Good government policies should go hand in hand with renewed input into social economic growth. That is to say, that government's accountability also should be increased with respect to its social policies.

### **3. Implication for government debt and budget discipline**

Ladies and gentlemen, our growing fiscal problems have made us increasingly vulnerable to mood swings of investors. During the remainder of the current year and in 2004, approximately 27% of the total outstanding government securities, that is, NAf. 601.3 million, will mature. Under a scenario of a decreasing spread between local and international rates, the re-financing of these maturing securities will become more difficult. Fiscal year 2003 alone will add an additional NAf.314 million (6.5% of GDP) to our debt. This situation clearly is not sustainable.

Given the worrisome fiscal situation and the urgent need to restore sustainable growth and address social equity issues, institutional investors, as the largest pool of savings and investment can play a pivotal role. The government should address our fiscal situation with urgency. A further deterioration in our fiscal situation ultimately will threaten the fragile recovery and worsen our poverty. Insurance companies and pension funds should direct their resources to investment projects that will enhance growth and create jobs.

The government, with the assistance of the World Bank, has for some time utilized a growth strategy that identifies important investment projects. Those investment projects are in sectors with the best growth potential. However, the implementation of those projects has been stalled by the excessive reliance on external finances that have not been forthcoming, the lack of long-term and/or risk capital, and the lack of funding for the government-established Foundation for Economic Development. As long as institutional investors, as the largest pool of domestic savings, continue to prefer government bonds over private-sector investments, the recovery underway will not gain momentum. Supporting this nascent recovery ultimately will facilitate fiscal consolidation and reduce the adjustment costs to society.

In a recent speech on a similar occasion, I mentioned that strict adherence to the so-called 40-60 investment rule would produce NAf. 180 million for domestic financing. By allocating these funds to those important investments projects that will enhance our growth prospects, the institutional investors will make an important contribution toward sustainable growth, creation of durable jobs, and alleviation of poverty.

In the period ahead, the Bank's policies will be geared toward enhancing the efficiency and transparency of capital markets and improving the allocation of funds to productive investments in the private sectors. I call upon the financial sector to join hands with us and continue to work toward a better Netherlands Antilles.

I thank you for your attention and again wish FATUM and Guardian Holding the best of luck in their future endeavors in the Netherlands Antilles and the region.