

FIRST LIFE INSURANCE COMPANY LIMITED

REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS OF FIRST LIFE INSURANCE COMPANY LIMITED

The Directors are pleased to present their report and audited accounts for the year ended December 31, 1995.

	\$'000
The Group profit before Taxation	173,081
Taxation amounted to	(17,592)
Profit after Tax	155,489
Ordinary Dividend paid	15,000
Profit for year	140,489
Profit brought forward	377,190
Transfers from reserves	(160,492)
Profit carried forward	357,187

Dividends

The Capital Distribution of 6.66 cents per unit paid to shareholders on December 8, 1995 to holders on record on November 21, 1995 is to be declared as the Final Dividend for the year ended December 31, 1995.

No further dividends have been recommended in respect of the year ended December 31, 1995.

Directorate

The Directors retiring by rotation pursuant to Article 98 of the Articles of Association are Messrs. R. O. Byles and N. E. Bingham and being eligible offer themselves for re-election.

Auditors

Price Waterhouse have expressed their willingness to continue in office in accordance with Section 153 of the Companies Act 1965.

By order of the Board

Carlyle W. Gray
Secretary
Kingston, Jamaica
July 8, 1996.

CHAIRMAN'S STATEMENT

1995 opened with expectations that the relative stability the economy had enjoyed over the previous six months would continue at least to year-end. These expectations proved unfounded however, as the Jamaican dollar began to devalue, losing 16% by December. In tandem, inflation climbed steadily, closing the year at 25.6%, only marginally better than 1994. These are the most adverse conditions in which to operate a life insurance business.

The performance of First Life Insurance Company and its subsidiaries, while considerably better than that of most in the insurance business, was disappointing to management and the Directors. The company underwent a major restructuring exercise in May aimed at improving productivity and the cost-effectiveness of our distribution system as a result of which administrative expenses were limited to a 15% increase over 1994. Nonetheless, the individual life line of business still posted a heavy loss.

Group revenues recorded a modest increase of 6% to \$897.3 million (1994: \$845.3 million). Net profits attributable to shareholders fell by 13% to \$155.5 million (1994:\$179.2 million) yielding an earnings per share of \$0.52 (1994: \$0.60). Net worth of the Group climbed 15% to \$1715.0 million (1994:\$1488.4 million) providing a net worth per share of \$5.72 (1994:\$4.96). Surplus assets over and above those determined as necessary by our actuaries to meet policyholders' future benefits now stand at \$1565.3 million (1994:\$1457.2 million), an increase of 7.4%.

Individual Life

The significant growth in new business recorded in 1994 continued into 1995. Annualized premiums increased by 40% to \$45.1 million (1994:\$32.2 million) outpacing the industry average of 38.8%. Agent productivity rose by 112% again surpassing the industry average of 52% while the average case size written by First Life agents increased by 66% compared to 61% in the industry.

Despite this improved performance, the inherent heavy costs associated with selling and administering life policies negated productivity gains. Nothing short of radical changes are required to put this line of business on a profitable path and avoid the severe difficulties most Jamaican life insurance companies are currently experiencing. Accordingly in 1996, First Life will take steps to lower commission rates and marketing expenses, improve policy retention and profitability, further increase agent productivity and lower administrative costs per policy.

We must however, sound a note of caution in respect of these measures achieving their desired results. Success greatly depends on the inflation rate being managed to and sustained at low double digit figures. High inflation drives up administrative expenses and devalues future premium income thereby destroying policy profitability and increasing the risk of policy lapses.

Employee Benefits

Earned premiums in group life and health grew in 1995 by an impressive 56% to \$325.0 million (1994:\$200.0 million). Contribution to profits also showed improvement over last year but was less than expected due mainly to a continued high claims ratio on group health.

Earned health premiums increased by 63% to \$311.4 million (1994:\$591.1 million). First Life with 39% market share thus maintained its leading position in this field. Despite difficulties in our computer operations which impaired our usual good customer service during the period under review, First Life remains the preferred group health insurance provider. We continue to believe that health insurance can yield better contributions to profits and in 1996 efforts will be redoubled to improve our administration, computer efficiency, pricing and policing of this portfolio.

In the area of Creditor Life Insurance which is geared to provide coverage for commercial loans, premiums also showed significant improvement, rising by 86% to \$31.4 million in 1995. First Life is the leading Creditor Life insurer holding 30% of the market.

Pension funds under management showed acceptable growth, increasing by 30% to \$362.5 million (1994:\$277.8 million). During the year, a new computerized pension administration system was developed and when fully implemented in 1996 will greatly improve our company's administrative capability and customer service in this area.

Property

First Life's real estate holdings of first class commercial buildings and prime New Kingston lots have a combined valuation of \$1,802 million and are owned and managed by First Life's subsidiary, Jamaica Property Company Limited. Revenue for this company in 1995 grew by 23% to \$171.6 million (1994:\$139.9 million) making a substantial contribution to Group profits.

The softening in demand for commercial rentals detected in the previous year, continued into 1995 as increasing numbers of companies adopted cost saving measures and postponed plans for expansion. As a consequence our vacancy factor grew to 7.9% in 1995 (1994:3.5%). This is of some concern though the quality of Jamaica Property's tenants is such that they are best positioned to weather the effects of a tightening economy. We do not expect our vacancy factor to grow beyond 12% in 1996 and this will not impair the company's profitability.

Infrastructure work on Phase II of the Chancery Hall development in Red Hills which consists of 119 lots, was completed during the year and sales begun. In 1996 we expect to close out this project on a successful note.

At Smokey Vale in St. Andrew, infrastructure for a smaller project comprising twenty-one lots was virtually completed in 1995 and based on initial interest, sale of lots should be completed in 1996.

Given the tight economic conditions, the Directors have decided to postpone any further housing projects for the near future.

Banking and Investment Management

In a sector that showed some startling losses and even failures in 1995, our two subsidiaries, Pan Caribbean Merchant Bank and Portfolio Partners Limited, performed creditably, contributing increased profits to the Group's performance compared to 1994. This has been largely due to strong management and rigorous policies applied to all credit or investment transactions carried out by these institutions.

The improved profits in both companies was achieved despite revenues falling 29% to \$110.8 million (1994:\$155.9) the result of a deliberate policy of earnings being biased more toward fee income than interest income.

During the year Pan Caribbean was appointed a Primary Dealer by the Bank of Jamaica and successfully negotiated the private placement of equity on behalf of Caribbean Cable Company, the largest cable manufacturer in CARICOM. Also significant in the period under review was the increase of the capital of Portfolio Partners by the issue of \$15 million of ordinary shares and \$10 million of preference shares.

The Directors are keenly aware of the increased risks associated with banking and investment management in a period of prolonged economic depression. We intend to further improve our internal procedures with the exercise of due diligence and prudence and welcome the increased monitoring and supervision of the Bank of Jamaica and the Securities Commission.

General

In the course of 1996, the single most important challenge facing management of First Life is to substantially alter the imbalances and inefficiencies in the selling and administration costs associated with individual life insurance. To the extent that the industry as a whole is determined to make the necessary changes and the Jamaican economy produces a low inflation environment, our task will be successful. 1996 may well prove to be a crossroads for the life insurance business in Jamaica as it has been fully recognized that the traditional assumptions and bases upon which the industry has long operated no longer obtain.

As the demands for major restructuring within the sector are met, the first and overriding responsibility is the continued assurance of full, long-term protection of our policyholders and customers.

I should like to acknowledge with thanks the efforts of our Directors, managers, agents and administrative staff during the period under review. With their continued support and that of our policyholders, customers and tenants, our company shall be best positioned to face the challenges of 1996 and beyond.

Richard O. Byles, M.Sc., B.Sc.