

# LIFE OF JAMAICA LIMITED 1998

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## Message from the Chairman and President

Recession in the economy during 1998 made it another difficult year for all businesses in Jamaica. During 1998 Life of Jamaica concentrated on cost containment and client services to meet the challenges posed while maintaining its momentum as Jamaica's Premier life insurer.

The primary economic focus of the Jamaican Government continued to be macro-economic stability through gradual reduction of interest rates and inflation while protecting the value of the Jamaican dollar. This programme has yielded many of the desired results so far, but the very high real interest rates precluded increased production and growth in the manufacturing sector and the much needed turnaround in the financial sector and the underlying equity and real estate markets. Inflation was the lowest it has been in sixteen years and the US\$ exchange rate remained comparatively stable. Interest rates remained high relative to inflation causing the stock market to remain stagnant as well as further depression in the real estate market.

As a result of the demanding economic environment, and low level performance of the Jamaican economy, LOJ's sales expectations had to be adjusted downwards. Nevertheless, 1998 has proved to be another relatively successful year for the company as the consolidated financial statements for Life of Jamaica reflect a profit, after extraordinary items, of \$17 million for the year ended December 31, 1998 compared with a profit of \$92 million in 1997. It is important to note that the results of 1997 were significantly enhanced by the \$205 million net gain on disposal of its banking interests in Jamaica, Florida and Guyana. Losses before extraordinary items have reduced from \$161 million in 1997 to \$70 million in 1998, an improvement of \$91 million.

The company reported consolidated operating profits of \$95 million compared with operating losses of \$247 million in 1997, an improvement of approximately \$341 million. This was mainly achieved by a reduction in administration expenses and LOJ's subsidiaries in the Bahamas and Cayman Islands delivered good results due mainly to strong sales performance, product repricing and competitive investment yields. Global Bahamas declared a dividend for the second year in succession outperforming the commitments in its IPO (Initial Public Offering) prospectus. Board actions to turn around the company's subsidiary in Puerto Rico have resulted in a complete restructuring of its operations and the senior management team, as well as a return to individual life and protection products. We expect this to bear fruit in 1999 and beyond.

Earnings per stock unit, after extraordinary item, declined from 23 cents in 1997 to 3 cents in 1998. Losses per stock unit, before extraordinary item, reduced from 40 cents in 1997 to 12.8 cents in 1998.

#### Operations

#### Employee Benefits

The Employee Benefits Division had another good year in 1998 experiencing favourable growth, achieving profits of \$127 million, which exceeded target by 30%, and maintaining its market dominance.

The Group insurance portfolio continued its strong performance of previous years and the challenges we face in the coming year are those of maintaining market share and favourable loss ratios in a contracting market as client companies downsize or close business.

Gross pension fund deposits of \$823 million were 41% better than 1997, reflecting the strong commitment at the workplace.

The formalities having been completed with the great majority of our pension clients, the transfer of assets to the newly formed LOJ Pooled Investment Fund Limited (LOJPIF). will be completed during 1999. This new, dedicated corporate vehicle for pension fund assets will provide creditor proofing as well as complete transparency for pension clients and their trustees.

#### **Individual Line**

Continuing contraction of the work force and a disposable dollar under increased pressure, challenged the strength and resilience of our field force, but we are pleased to report that persistency which was problematic, returned to pricing levels by year end.

1998 marked the eleventh consecutive year that LOJ emerged as market leader in new sales with our market share measured by new Annualized Premium Income moving from 29.4% at December 1997 to 37.4% at December 1998. The Individual Insurance's contribution to profit was \$350 million compared to the previous year's \$344 million.

In the area of New Business, 13,142 cases were issued for new annualized premium income of \$204.35 million with sum insured of \$3.05 billion compared to premium income of \$214.9 million and sum insured of \$3 billion for 1997.

Seventy five percent of LOJ's Field Force now have Lap Tops and are at varying stages of training as we make progress along the technology learning curve. This facility will empower agents with greater capacity to provide on-line policyholder information as well as speedier processing of new business, and superior client data for needs assessment.

## **Investments**

The difficult business environment had a direct impact on the performance of LOJ's investment funds. The Short Term Deposit Fund again outperformed the other Segregated Policyholder Funds for the year, producing a yield of 21.09% compared to inflation of 7.85%. At the end of the year, invested assets stood at over \$1.4 billion, up from just over \$ 1.0 billion in 1997, with approximately 75% in Government-backed securities, 1.4% in debentures and 23.9% in loans and other fixed income securities. While interest rates are expected to trend downwards in 1999, real interest rates should remain relatively high and we expect that the Short Term Deposit Fund should perform well again in 1999.

There was little or no activity in the equities market during the year reflecting the general weakness in the economy and the poor to moderate profit performances of the majority of listed companies. In spite of this, the Long Term Securities Fund showed an increase in asset value of \$64.6 million, moving from \$306.5 million at December 31, 1997 to \$371.1 million at December 31, 1998, an increase of 12.52%. In an effort to improve the yield in this fund, there has been a shift away from equities and towards fixed income securities.

The investment strategy for this fund will be to maintain a high level of liquidity in the short term to take advantage of the high interest rate environment while remaining poised to capitalize on opportunities arising in the equities market.

For the third consecutive year, the real estate market experienced little activity in the commercial sector as businesses continued to feel the effect of the downturn in the economy. This has resulted in lower rental income and depressed prices, leading to valuations and appraisers applying significantly depreciated values to the real estate in the portfolio. The impact of this downward adjustment was felt in the Folio iv Fund where net invested assets dropped from \$1.809 billion to \$928.49 million and the fund yielded negative 29.4%, consistent with true market values. The portfolio consists of properties in prime, well developed areas with relatively low vacancy levels. Once growth occurs in the macro-economy and business activity increases, the Folio IV Fund should respond positively and provide positive real returns to LOJ clients in the medium to long term.

## **Year 2000**

Life of Jamaica has corrected, tested and is currently in the process of migrating to production, year 2000 compliant versions of its data processing systems. Procedures are in place to ensure that any retrofitted applications put into production remain compliant. LOJ has also expanded the integration of replacement systems and end-to-end testing and expects to continue this process throughout 1999.

LOJ is also testing its external partner's interfaces and is prepared to execute contingency plans for any firms that LOJ believes will not be compliant in a manner that would affect it. These contingency plans will include establishing another source of the service or information, providing assistance to the external partner or instituting manual processes on a temporary basis.

The project continues to be monitored by Board Members, Executive Management, Internal & External auditors and a full time Executive Coordinator.

### **Conclusion**

LOJ continues to make significant progress in restoring momentum and confidence. This is exemplified by the fact that a market survey carried out by a respected market research company in 1998 indicated that LOJ was the preferred company in 14 out of fourteen areas surveyed. Early indications are that while there is some welcome stability in the sector, 1999 will again test LOJ's mettle. The focus must therefore, be on greater efficiency and the provision of exceptional service to our customers; hallmarks of future success.

The company's privileged position as leader of the Jamaican Life Insurance Industry has been achieved through the commitment of our administrative staff and field force who have had to operate in an ever changing economic environment. Most importantly, our customers have continued to exhibit high levels of trust and confidence in our operations mainly because of our visible willingness to make necessary adjustments to survive and thrive as the business atmosphere shifts. We have recently increased our field force to be able to capitalise on the opportunities for increased sales and we are confident that LOJ will march into the 21st Century as a strong and viable provider of financial services.

We are grateful for the cooperation and assistance received from all stakeholders, including members of staff, the field force, the Board of Directors, our policyholders and clients, which have enabled LOJ to keep its head held high despite the challenges faced. We, therefore, ask for continued support and unswerving commitment to maintain LOJ as the leader of the life insurance industry in Jamaica.

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