



OCTOBER 2019

PACIFIC FINANCE SECTOR BRIEFS

ADB PACIFIC LIAISON AND COORDINATION OFFICE

▲ Dancers at a cultural presentation in Rarotonga, Cook Islands.

COOK ISLANDS

The Cook Islands economy is small, narrowly based, and sensitive to external forces. It is driven by tourism, fishing, agriculture, and financial services. Tourism generates receipts equivalent to about 60% of gross domestic product (GDP), contributing significantly to other sectors, including retail trade, agriculture, and construction.

The Cook Islands is a self-governing country in free association with New Zealand. Nationals of the Cook Islands are New Zealand citizens with the ability to work and reside in New Zealand and—owing to reciprocal entry agreements—in Australia. Because of this, Cook Islanders have greater economic opportunity than most other Pacific islanders. However, this has also strongly influenced the country's economic structure. Having the right to live and work overseas increases the price of labor, and influences the nation's international trading terms, which are high in proportion to the economy's available resources. As a result of this, the use of expatriate workers—including other Pacific islanders—is increasing, particularly in the tourism sector.

The Cook Islands economy has been experiencing sustained economic growth, averaging 5.5% GDP growth per year from 2012–2018, including 7.0% in 2018. Visitor arrivals contributed to this growth, increasing by an average of 8.7% year-on-year over 2014–2018 and boosting performance in tourism-related sectors such as hotels and restaurants, trade, transport, and communication (Ministry of Finance and Economic Management 2019). The construction sector, meanwhile, grew 25% in 2018, driven by implementation of water and sanitation, and outer island energy projects, and private-sector construction.

Disaster risk and population decline are significant challenges to the Cook Islands' short-to-medium-term objectives of spurring private sector investment and protecting the tourism industry, and its long-term objective of developing other industries. The Cook Islands is highly vulnerable to disasters and has periodically experienced major cyclones that have caused substantial economic damage and loss of life. The Government of Cook Islands established a disaster emergency

COOK ISLANDS AT A GLANCE

Population

19,500 (2017)^a

GDP per capita

\$18,175 (2018)^b

GNI per capita

\$16,397 (2017)^a

GDP = gross domestic product,
GNI = gross national income.

^a Source: Asian Development Bank.
2018. *Key Indicators for Asia and
the Pacific*. Manila.

^b Source: Asian Development Bank.

ADB

Table 1: Nominal Gross Domestic Product 2011–2017

	2011	2012	2013	2014	2015	2016	2017	2018
GDP (\$ million)	268.5	296.4	304.7	315.7	305.4	277.1	304.4	
M2 (\$ million)	145.5	184.4	140.1	145.8	149.6	125.1	149.9	167.0
M2/GDP (%)	54.2	62.2	46.0	46.2	49.0	45.1	49.2	
Private sector credit (\$ million)		225.4	218.9	204.5	193.4	199.3	205.8	
Private sector credit/GDP (%)		76.0	71.8	64.8	63.3	71.9	67.6	

GDP = gross domestic product, M2 = broad money.

Note: Figures were converted from New Zealand dollars to United States dollars using the ADB-recognized exchange rates for each year.

Sources: Asian Development Bank and Financial Supervisory Commission.

trust fund in 2011, and has taken out cyclone insurance coverage under the Pacific Catastrophe Risk Assessment and Financing Initiative, but these are unlikely to provide sufficient financing in the event of a significant disaster. In 2016, the Asian Development Bank (ADB) arranged for the Government of the Cook Islands to have access to \$10 million in contingency loan funds in the event of a disaster, contingent on ongoing actions to improve disaster resilience. These finances, along with those ongoing actions to improve resilience of physical assets and strengthen policy and institutional arrangements for risk management, represent a strengthening of the Cook Islands' resilience to disasters. After disaster risk, the biggest long-term strategic issue facing the Cook Islands is its falling population; population growth is averaging -0.5% , representing a loss of about 322 people each year. While free labor mobility with New Zealand generates very significant benefits, providing employment opportunities and high levels of remittances, it also results in significant outmigration as Cook Islanders seek higher incomes elsewhere.

FINANCE SECTOR OVERVIEW

The economy of the Cook Islands is moderately monetized.

The average ratio of the Cook Islands' broad money (M2) to GDP over 2011–2017 is 50.3% (Table 1). Its broad money was volatile during that period, with contractions in 2013 and 2016, driven by declines in demand and term deposits. Although the finance sector performs relatively well, private sector lending declined over 2013–2015 and despite comparative increases in 2016 and 2017, is yet to return to the level of 2012.

Reforms are needed to promote a conducive environment for the Cook Islands' finance sector to develop. ADB (2015) has warned that high levels of nonperforming loans (NPLs) are a hurdle to development of the Cook Islands' finance sector. It identified two underlying causes of the Cook Islands' high NPLs: weaknesses in the collateral framework and difficulties assessing borrower risk. However, the establishment of the

Cook Islands Credit Bureau in November 2017, as well as the upcoming implementation of an online secured transactions registry and passage of associated laws, should help reduce the rate of NPLs. Meanwhile, the absence of platforms for financial institutions to efficiently interconnect poses serious challenges for the sector as it raises transaction costs. This deprives the economy of opportunities available to other countries through better, more relevant, and more efficient technology.

FINANCE SECTOR STRUCTURE

The Cook Islands financial system comprises a domestic and an offshore sector (Table 2).

The domestic sector includes four domestic commercial banks, three of which have international bank licenses. It also has a national superannuation fund, a domestic insurance company, several insurance intermediaries, and money-changing and remittance businesses. Aside from the three licensed international banks, the offshore finance sector also includes trustee companies specializing in asset protection, and several insurers. The Cook Islands does not have an equity, corporate bond market, or stock exchange. In the absence of a central bank, the Financial Supervisory Commission serves as the primary regulator of the finance sector. Meanwhile, the Financial Services Development Authority, established in 2009, works to promote the industry and progress its long-term development.

Three of the four banks in the Cook Islands are foreign-owned with licenses to conduct both domestic and international (offshore) banking (ANZ Banking Group, Bank of South Pacific [BSP], and Capital Security Bank) while the Bank of the Cook Islands is a state-owned enterprise. As of 2013, ANZ Banking Group held the largest share of the domestic market with 45%, followed by BSP at 40% and Bank of Cook Islands at 15% (ADB 2015).¹ Although the Capital Security Bank is a private offshore bank offering private banking products, it also provides domestic banking services, catering mostly to international clients.

¹ On 29 January 2015, Westpac announced that it had sold its banking operations in five Pacific island countries including the Cook Islands to BSP.

Table 2: Financial System of the Cook Islands

Type of Institution	Number
Domestic sector	
Commercial banks	4
Superannuation fund	1
Money-changers	3
Offshore sector	
International banks ^a	3
Trustee companies	8
Insurance companies	5
Insurance intermediaries	9
Total	28

^a The three international banks have licenses for both domestic and offshore operations while two of them also have license to provide insurance intermediation services.

Source: Financial Supervisory Commission.

Table 3: Consolidated Loans and Advances (\$ million)

	2012	2013	2014	2015	2016	2017
Agriculture and fishing	1.2	0.8	0.2	0.2	0.1	0.2
Services	206.0	183.4	175.4	162.0	133.3	139.0
Finance	8.8	8.5	6.7	7.6	42.5	38.0
Public administration	0.2	0.0	0.0	0.0
Others	9.1	26.2	22.3	23.7	23.4	28.6
Total	225.4	218.9	204.5	193.4	199.3	205.8

Note: Figures were converted using Asian Development Bank's 2017 exchange rate.

Source: Financial Supervisory Commission.

Table 4: Finance Sector Performance Indicators

	2012	2013	2014	2015	2016	2017
Deposits (\$ million)	177.4	140.0	145.7	149.5	125.0	149.8
Deposit rate (%)	2.1	2.1	1.5	1.6	1.6	1.5
Lending rate (%)	11.8	11.5	10.7	10.6	9.7	9.1

Note: Figures were converted using Asian Development Bank's 2017 exchange rate.

Source: Financial Supervisory Commission.

FINANCE SECTOR PERFORMANCE AND ISSUES

Credit access fell from 2012–2015 but has since increased somewhat. From 2012–2015, private sector credit declined by an average of 6.3% per year before recovering from 2016 to 2017. An average of 77.5% of loans and advances provided by commercial banks during this period went to the services sector, which is the main driver of the Cook Islands' economic growth. Deposits fell by 21.1% between 2012 and 2013, but increased by an average of 2.5% per year over 2014–2017, including a 16.4% decline in 2016 (Table 4).

While access to finance in the Cook Islands is similar or, in some cases, better than neighboring countries, there are still areas that need improvement. These include weaknesses in the collateral framework highlighted by ADB (2015). Like in other Pacific island countries, issues pertaining to property rights such as fragmented land ownership, outdated land registry processes, and complicated leasing procedures make it difficult for lenders to accept land as collateral or repossess it in the event of default. The absence of bankruptcy provisions makes the situation more complicated, preventing, for example, troubled firms from restructuring their companies to quickly return assets to productive use. An ADB-supported secured transactions registry that is due to launch in late 2019 will make it easier for lenders to accept assets other than land or buildings as collateral and should, in time, improve access to finance.

The economy is burdened by an inefficient payment system.

The Cook Islands has no real-time system for interbank clearing and settlement of electronic payments, and no interbank interoperability across payment infrastructure (ADB 2015). In response, the government is looking into the viability of the Bank of Cook Islands joining the New Zealand payments system, which would be more cost-effective than establishing a domestic electronic clearing system.

The Cook Islands' superannuation fund has an important role to play in the finance sector's development.

ADB (2015) recognized that the Cook Islands National Superannuation Fund (CINSF) is increasing the national savings rate. The CINSF provides pensions for retired workers. Current employees and employers are required to contribute a percentage of gross wages to CINSF. Although the fund is currently entirely invested overseas, the law that created the CINSF allows for 20% of the fund to be invested within the Cook Islands. As such, ADB (2015) sees potential for CINSF to play an important role in the development of the domestic financial market as a source of long-term investment capital, guided by its primary objective of generating adequate retirement incomes for contributors with minimal risk. The fund's domestic investment potential has been boosted by strong growth in net assets, which increased by an average of 13.7% per year from \$64.1 million in 2013 to \$104.6 million in 2017 (CINSF 2018).

REFERENCES

- Asian Development Bank. 2015. *The Cook Islands – Stronger Investment Climate for Sustainable Growth*. Manila.
- Australian Government Department of Foreign Affairs and Trade. *Cook Islands Fact Sheet*. 2018. Canberra.
- Cook Islands National Superannuation Fund. 2018. *Annual Report 2017*. Avarua. <https://www.cinsf.com/wp-content/uploads/Annual-Report-2017.pdf>.
- Financial Supervisory Commission website: www.fsc.gov.ck/.
- Financial Supervisory Commission. 2016. *Annual report 2015/2016*. Avarua.
- Ministry of Finance and Economic Management. 2018. *Cook Islands Statistical Bulletin. Banking Statistics September Quarter 2018*. Avarua. http://www.mfem.gov.ck/images/documents/Statistics_Docs/1.Economic/7.Banking-Statistics/2018/Banking_Statistics_Sep_2018.pdf.
- . 2019. *Migration and Visitor Statistics January 2019*. Avarua. http://www.mfem.gov.ck/images/documents/Statistics_Docs/4.Tourism/2019/01January/Mig_Statistics_Report_201901.pdf.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

This **Finance Sector Brief** was prepared by ADB's Pacific Department.

The views expressed in this publication are those of the authors and do not necessarily reflect the views and policies of ADB or its Board of Governors or the governments they represent.

Asian Development Bank
Pacific Liaison and Coordination Office
Level 20, 45 Clarence St, Sydney, 2000, Australia
+61 2 8270 9429

<https://www.adb.org/publications/pacific-finance-sector-cook-islands>

Corrigenda to ADB publications may be found at
<http://www.adb.org/publications/corrigenda>

In this publication, "\$" refers to US dollars.
All photos are from ADB.



Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO)

© 2019 ADB. The CC license does not apply to non-ADB copyright materials in this publication.

Publication Stock No. BRF190384-2

DOI: <http://dx.doi.org/10.22617/BRF190384-2>