# 'Too Valuable' To Allow $30m Vat Uncertainty

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By Neil Hartnell, Tribune Business Editor

The insurance industry is "too important to the Bahamian economy" to allow uncertainty over an unpaid $30 million VAT refund to persist, a top executive warned yesterday.

Anton Saunders, RoyalStar Assurance's managing director, told Tribune Business that the Government and industry needed to have "a mature discussion" that dealt with all issues surrounding the 7.5 per cent levy "once and for all".

Suggesting that insurance 'affordability' was just one part of such a discussion, he added that the Public Treasury's "cash flow" issues meant Bahamian property and casualty underwriters had been waiting for over a year for VAT refunds on Hurricane Matthew claims.

Mr Saunders said the outstanding sum was calculated as 7.5 per cent of the $400 million industry claims payout, a figure that works out to $30 million, and added: "All this could have been avoided."

While the RoyalStar chief's industry colleagues have again called for VAT to be removed from property and casualty insurance premiums, in a bid to make coverage more affordable in the wake of 2017 hurricane season increases, Mr Saunders said he wanted a more wide-ranging discussion on the topic.

"The Government and insurance industry need to sit down and have a mature conversation on the way forward with VAT," he told Tribune Business. "Not only on the increasing costs, but we've also had an issue for the last couple of years of getting no refund from the VAT Department on our claims.

"We have to sit down and decide how we deal with this VAT problem once and for all. If we take VAT off [property and casualty] insurance premiums, the claims are still going to be there. Do they zero rate us? What do they do?"

Mr Saunders said the Minister of Finance and financial secretary, K P Turnquest and Marlon Johnson, respectively, had "unfortunately to-date" yet to respond to the Bahamas Insurance Association's (BIA) calls for such a meeting.

"The insurance industry is too important to the Bahamas to be left with uncertainty like this," the RoyalStar managing director warned. "I would want a total conversation on the whole thing, including affordability.

"We all understood this [the imposition of VAT] was going to be a complicated matter. This is why most countries don't go this route. Insurance touches too many aspects of your economy.

They have to sit down with us, we have to sit down with them, and have a mature discussion on the way forward.... All this could have been avoided."

The Bahamas is one of very few nations to levy VAT on property and casualty premiums, given that it is difficult to determine exactly where the 'value has been added' in the production chain.

This means that insurers are able to 'net off' the VAT paid on their inputs against the 7.5 per cent levy collected from their customers, but also requires that they obtain tax refunds on claims that are paid out.

The timeliness of VAT refunds has been an ongoing concern and problem for the wider private sector since the tax's introduction on New Year's Day 2015, and Mr Saunders' remarks indicate that property and casualty underwriters have been waiting for more than a year to reclaim their post-Matthew payments.

Asked how much was outstanding, he told Tribune Business: "You are an intelligent man. You know that the hurricane was predicted to cost $400 million in insured losses. So it is 7.5 per cent of $400 million."

Mr Saunders added that the Government "did not lose" in terms of VAT receipts because the reinsurance inflows associated with the $400 million claims payout stimulated storm-related repairs and product replacements, generating economic activity that produced more taxes.

"We understand the Government's issue is cash flow," he told Tribune Business. "Yet they've got $400 million from the insurance industry. Everyone had to go back and replace their contents and cars, and repair their homes. They had to go to someone charging them VAT.

"The insurance industry is too valuable to the Bahamian economy for this uncertainty to continue because hurricanes will happen again and again."

Mr Saunders said RoyalStar, in common with its property and casualty rivals, will have to increase catastrophe premiums by between 10 to 20 per cent in 2018 as reinsurers seek to claw back disaster-related losses in 2017.

He warned that no consumer will escape an increase in coverage prices, adding that greater reinsurance costs would likely continue "for a little while".

"I think all of the insurance companies have been given a degree of the same message by their brokers," he added. "We've been given similar messages, but for us we're looking more at those people who benefited more from the recent rate reductions. They are going to feel more of an increase.

"These are going to be people who are more exposed, with property much closer to the beach, and those who negotiated better terms because of the size of their properties. Some of those benefits will go away.

"We'll try and keep the normal premiums, as best we can, to a smaller increase. The run-of-the-mill, average home owner, we'll try and keep it as minimal as possible. There will be absolutely no deductions for anyone; there will be absolutely no deduction in our portfolio."

Mr Saunders confirmed that RoyalStar's premium rates will likely increase year-over-year by around 10 per cent at the low end, and "be as high as" a 20 per cent rise at the top.

He added that "quality of risk" and property location, as opposed to size, will determine the extent of a client's premium increase, and asserted: "Size doesn't matter.

"The agents have a fiduciary responsibility to look at their clients, see where they're located, identify their vulnerabilities and, if they're a good quality risk and located inland, they can take a higher deductible," Mr Saunders continued.

"It's up to the agent and client sitting down and seeing what the risks are. If the house is a little inland and there is no mortgage, they may be better off at 5 per cent. We'll look at it from a risk-based perspective as opposed to a premium-based perspective, and that will minimise to some degree for clients that have no mortgage."

Mr Saunders warned that increased property/catastrophe premiums would persist for the foreseeable future, adding: "We're not fortune tellers, but believe this is the beginning of a hardening of the reinsurance market that will be around for a little while.

"We are unfortunately in the hurricane belt. We have, with all our companies together, minimal capital compared to the disasters out there and, for good and bad, we have to rely on reinsurance. If we are honest with ourselves, reinsurance portfolios have taken a beating even in a good year."

Mr Saunders said the four-five hurricanes that have struck the Bahamas since 2010-2011 likely meant reinsurers providing protection to this nation had only achieved a 'break even' position at best.

He added that the affordability of catastrophe insurance for lower and middle income Bahamians "has always been a concern for the last four to five years", but reiterated: "We will do as much as we can to keep our rate increases to a minimum."