

Insurance Vat Can Cover Public Assets, Govt Told

In News Releases by RoyalStar Assurance / March 4, 2020

By Neil Hartnell, Tribune Business Editor

The government was yesterday urged by a top insurer to use the VAT monies it is earning on insurance premiums to purchase coverage for its buildings and public infrastructure assets.

Anton Saunders, RoyalStar Assurance's managing director, told Tribune Business that this alternative to simply applying these revenues to the consolidated fund would aid the government's risk mitigation efforts and reduce the reconstruction burden for Bahamian taxpayers following hurricanes and other natural disasters.

He suggested that this proposal would have greater impact than an Inter-American Development Bank (IDB) report's call for the government to extend the elimination of insurance premium VAT beyond homeowners to micro and small business owners, in a bid to make coverage more affordable.

The same report also suggested that the government could achieve this objective by providing subsidies to Bahamian homeowners and small businesses in an effort to increase insurance penetration, but the RoyalStar chief argued against relying on it to solve all problems.

Warning that the same homeowners and small businesses would likely end up paying for this via new or increased taxes, Mr Saunders said all Bahamians "must take personal responsibility for protecting their own assets".

While sympathising over catastrophic insurance costs and affordability, he argued that - with Hurricane Dorian's devastation fresh in many minds - both persons and companies had to "understand they have to make a sacrifice" to protect the largest investments they will ever make.

However, one aspect of the IDB report that Mr Saunders did agree with is the need for the government to take out insurance on key public infrastructure assets, as has been done in nations such as Ecuador, rather than rely on contingency facilities, borrowing and, ultimately, the taxpayer to finance restoration.

"From the inception of VAT we asked the government not to include the insurance industry because of the administrative complexities from our side and the government's side," he told *Tribune Business*.

"The government has taken it off on the residential side, but it is still there on the commercial side. If I was the government, collecting VAT on commercial property premiums and also on motor vehicle premiums, I would take that money and buy some insurance for the country.

"If I was the government I would earmark that, get some professionals around the table and see what I could buy to insure public assets and infrastructure. That's the best advice I can give them. They're collecting that money right now.

"Use it to buy some insurance for the country, your public assets and infrastructure. There's enough professional insurance people in this town who would gladly give them advice on how to go about it."

The IDB, in its recently-published report, concurred, saying: "The purchase of insurance for public sector infrastructure should be further considered and the culture of insurance should be promoted.

"Financial protection should be established starting with new public works. For this, it is important to conduct negotiations with private insurance companies to include costs that the government would incur when buying this service. This policy is followed in other countries, such as Ecuador, where the purchase of insurance for public infrastructure is mandatory."

Mr Saunders, though, disagreed with the suggestions to increase private sector insurance penetration through either eliminating VAT on business premiums or offering taxpayer subsidies to make it more affordable.

"Every businessman goes into business knowing his costs, and they should factor insurance into their costs," the RoyalStar chief argued. "Nothing the government per se does is going to help alleviate them of what they should be doing.

"They should factor that into their costs, charge an appropriate price for their product, and buy insurance if they deem it necessary. For homeowners, the small businesses, we understand it is an affordability issue, we understand premium costs are high...

"But we all have to understand there's been a \$2bn [Dorian] loss that we have to pay back, and we all have to understand that we have to make a sacrifice... There has to be some sacrifice by the Bahamian population, the homeowners, the business community, to say that insurance is necessary, an essential tool and what I need," Mr Saunders continued.

"If we keep saying 'government must, government must', all of us will still have to pay for it. Let's step back and take some personal responsibility for protecting our own assets. I start from there. Every insurance company has to buy hundreds of millions of reinsurance to ensure clients are protected during storms."

Homeowners, businesses and property landlords whose buildings are being used as security for a mortgage loan are mandated by the contract's terms to secure full catastrophic insurance on an annual basis to ensure the lender's risk is protected. Failure to do so will see the lender take out coverage on their behalf, adding the premium sum - together with the principal - to the mortgage.

It is those properties that are not being employed as collateral where full catastrophic insurance has been seen as optional, especially given the escalation in premium costs in recent years.

One insurance industry source, speaking on condition of anonymity, suggested to *Tribune Business* that The Bahamas examine offering real property tax discounts to owners who both took out the necessary insurance cover and paid their taxes in full and on time.

Besides incentivising the purchase of insurance, they argued that such a strategy would also boost the Government's revenues and cash flow through encouraging compliance with a tax that past history has shown is problematic.

However, the source cautioned: "All these things have to be underwritten by somebody, and somebody has to carry the risk. The problem in The Bahamas is we don't have the capital here to cover the risk; we have to keep going to reinsurers. A small country like The Bahamas would still rely on overseas capital to support any such programme. That's where this becomes really difficult."

They agreed with the IDB's assessment that VAT's removal from homeowner insurance premiums has yet to spark an increase in residential coverage penetration, and said: "We have to think creatively."