

# Insurer Challenge to IMF'S Proposal

The Tribune Business | February 03, 2021

By Neil Hartnell, Tribune Business Editor

A top insurer yesterday challenged how The Bahamas could enforce the IMF's "mandatory property insurance" proposal when it is currently failing to do this with existing laws.

Anton Saunders, RoyalStar Assurance's managing director, told Tribune Business that implementing the International Monetary Fund's (IMF) Article IV report recommendation would be challenging in practice because it would require enforcement mechanisms and penalties to give it teeth.

And he pointed out that The Bahamas is already struggling to enforce mandatory motor vehicle insurance for all drivers, having recently disclosed to this newspaper that at least 20 percent of those on the roads either lack coverage or have inadequate protection.

"We have mandatory motor insurance, and we can't enforce that," Mr Saunders told this newspaper. "Yes, I would be in favour of it, but how do you enforce it? If someone doesn't insure, what are you going to do with the property in question?"

"By law we have something now that we cannot enforce. Let's not kick the can down the road. Tell me, without a lien, how are you going to enforce mandatory property insurance and what will be the penalties? How do you go about executing what you are trying to achieve, and what will be the enforcement mechanism?"

The RoyalStar chief spoke out after the IMF's recent Article IV report revealed the Minnis administration had backed its call for all buildings to be insured in the wake of the \$3.4bn worth of economic losses and damage that category five Dorian inflicted upon Abaco and Grand Bahama where up to 60 percent of structures lacked proper insurance.

"High private sector losses from hurricanes point to the need to improve physical, financial and social resilience against natural disasters. Accelerating adaptation will require improving public investment management and reprioritising expenditure," the fund said.

"Continued investment in climate-resilient infrastructure can also buffer the macro-fiscal impact of natural disasters. Mandatory property insurance would be a beneficial addition to the multi-dimensional resilience strategy."

Revealing the government's reaction, the IMF said: "They also agreed with staff's recommendation for mandatory property insurance, and pledged to bring a new law to Parliament in 2021 to mitigate risks associated with natural disasters."

The affordability of insurance coverage, which has become a major issue due to frequent premium rate increases, has often seen homeowners and businesses either drop or reduce coverage - especially if their property is not subject to a mortgage or other bank lien.

Mr Saunders, while backing the desire to increase property insurance penetration throughout The Bahamas and make coverage more affordable, said this nation's dependence on reinsurance to cover the bulk of its risks meant it would always be a price taker to a large extent.

"It's still demand and supply, and a price," he explained. "The more money we pool together, the more penetration we get, hopefully we can get some relief on prices, but we have big issues in The Bahamas and the Caribbean where we are relying on someone else's capital.

"There is no balance sheet in the Caribbean that I am aware of that is strong enough by itself to deal with hurricane issues. We are relying on third party capital and we have to pay the price for third-party capital whether it is the Government, any individual or an industry.

"We hope there will be relief for the majority of people, but at the end of the day there's a cost involved. How that cost is absorbed is something all of us have to think about. There's a cost someone has to deal with."

Patrick Ward, Bahamas First's president and chief executive, told Tribune Business that the sector was "definitely in favour of expanding insurance take-up in the country" but there had been no specific talks with the Government yet on how to achieve this despite the latter having indicated its interest in achieving this objective post-Hurricane Dorian.

Acknowledging that he had been "personally pushing for a while" for mandatory property insurance, given the increasing frequency and severity of storms, Mr Ward argued that "it shouldn't be too difficult to come up with a conceptual framework" that met the needs of clients, insurers and capital providers.

"I think the IMF report demonstrates how the inflow of reinsurance monies into the foreign reserves came at a critical time, and demonstrates that component from a recovery standpoint is absolutely critical to getting individuals and the country as a whole back on track in the aftermath of a significant catastrophe loss," he said.

The Bahamas First chief was referring to the IMF's revelation that Dorian-related reinsurance inflows gave the external reserves a \$1.3bn boost over a two-year period. They were responsible for a \$400m increase last year at a time when this was essential due to the drop-off in tourism inflows. This combined with the receipt of \$900m in reinsurance monies in 2019 to provide the \$1.3bn boost.

"The current account fell back into deficit following a small surplus in 2019," the IMF said of The Bahamas in 2020. "Net travel receipts were negative for the first time in the second quarter of 2020.

“Exports contracted more than imports (35 percent versus 17 percent) in the first three quarters relative to 2019, but the remainder of Hurricane Dorian related re-insurance receipts - about \$400m compared to \$900m in 2019 - helped limit the current account deterioration.”

While the government has indicated its interest in developing a scheme that would ensure wider insurance coverage in Dorian’s wake, little progress appears to have been made thus far despite the acknowledgement that it may offer social benefits while removing the hurricane repair cost burden from the Public Treasury.

Suggesting that The Bahamas could draw on catastrophe protection schemes developed by New Zealand and Turkey, the IMF said: “The majority of damage caused by hurricanes to The Bahamas is not covered by insurance. The lack of insurance payouts following a large disaster can hinder reconstruction efforts and slow the economic recovery.....

“Private losses account for most of the damage, while private property insurance is largely optional unless the property is financed by a bank. As a result, about 60 percent of buildings destroyed by Hurricane Dorian in The Bahamas were not insured at all or not adequately insured. Government grants to assist with reconstruction are insufficient and present a significant burden to the public purse.”