

THE CENTRAL BANK OF THE BAHAMAS

THE INSURANCE INDUSTRY IN THE BAHAMAS

by

Carlene Y. Francis

and

Christopher Lunn

Paper presented at the XVII Regional Monetary Studies Conference held in Nassau, Bahamas, November 27 - 29, 1985.

The views expressed here do not necessarily represent those of the Central Bank of the Bahamas.

THE INSURANCE INDUSTRY IN THE BAHAMAS

Introduction

Apart from its notoriety as a world class tourist destination, The Bahamas has long been known as one of the major offshore financial centres in the Western Hemisphere. However, while the economic literature on the Bahamas abounds with information on the banking system in general and the offshore sector in particular, the non-banking financial sector has received scant attention. Indeed, apart from the pioneering study of Ramesh Ramasaran (5), the authors know of no other work being done since 1977 on non-bank financial intermediaries in the Bahamas. Having regard to the growing importance of this sector in the development of the financial system in the Bahamas, it was felt that further research in this area would be useful. The main objective of this paper is to provide a comprehensive analysis of one of the largest non-bank financial intermediary in the Bahamas, viz. insurance companies, and it is intended that this will form part of a wider research effort on the non-bank financial sector in the Bahamas. This initial study will not attempt to cover the entire operations of insurance companies; its main focus will be on the growth and structure of the industry: its sources and uses of funds.

The paper will be structured along the following lines. Section one will discuss briefly some aspects of the theory of insurance. In section two, we will examine some common structural features of insurance companies in the Caribbean in general and the Bahamas in particular. Section three will look at the growth

of the insurance industry in the Bahamas over the period 1978 - 83. The analysis will cover resident companies only, as no data is collected on non-resident companies. Resident companies include Bahamian-owned firms as well as foreign branches or agencies. In section four, we will analyse the liabilities structure of insurance companies and in section five, their assets portfolio. Section six will focus exclusively on the Bahamian-owned companies: their sources and uses of funds. Section seven will examine the balance of payments impact of the insurance industry; and section eight will conclude with some general comments on the industry.

Section I

There are basically two types of insurance policies, viz. life and non-life. The former, as the name implies, covering life; and the latter, property. There are some life companies which write group or individual medical policies, and these are called 'life and other than life companies'. The rapidly increasing demand for insurance coverage reflects, by and large, the growing risks and uncertainties of everyday life, and the factors which determine the demand for insurance services differ according to the type(s) of risk or uncertainty that the potential policyholder wishes to insure against.

The two major factors which determine the demand for life policies are the precautionary motive and the desire for liquidity. Regarding the former, a life policy allows the prospective policyholder to spread risks and/or hedge against premature death. This built-in long-term savings guarantee ensure that consumption levels remain constant after retirement or guarantees a flow of income to one's family after death. In order to satisfy one or a combination of these objectives, insurance companies offer a variety of policy options. There are five types of life policies: 1) Term, 2) Whole Life, 3) Endowment, 4) Industrial Life, and 5) Group Life. The factors influencing the demand for the different types of policies will depend on the policyholder's desire for protection only or protection with a savings guarantee. It has been noted by Odle (4) that the general trend since World War II has been that endowment policies have grown faster than whole life policies, which suggest that the preference for life insurance as a source of long-term savings may be outweighing the desire for a guaranteed future income flow to one's family after death.

Life companies are also viewed as a potential source of liquidity, since policyholders are allowed to borrow against the security of their assets in the companies. The desire to own a home, therefore, or the assurance that there is an available source of funds from which policyholders may borrow, encourages people to hold life insurance. Once a life policy is obtained, the long-term contractual nature of the agreement engenders a kind

of built-in mechanism that forces policyholders to keep up with premium payments since failure to do so will most definitely result in a surrendering of the policy and all related benefits.

Unlike life insurance, the demand for non-life policies are non-risk related, and results rather from a desire to insure against the loss of or damage to property due to natural and/or human disasters. There is no savings consideration involved in this type of insurance. The coverage offered by non-life companies may also include accident, sickness and other health-related problems.

Section II

Insurance companies in the Caribbean have certain distinct features which, though varied from country to country, are fundamentally the same. In his acclaimed study of non-bank financial intermediaries in the Caribbean, Odle (4) identified six structural features common to insurance companies in the three major countries of the region - Jamaica, Guyana and Trinidad and Tobago. The first feature was the large number of insurance companies vs. commercial banks. Secondly, the fact that the number of non-life companies was greater than that of the life companies. Thirdly, the size of the life companies' business was significantly larger than that of the non-life firms. The fourth feature was the large number of foreign companies; and fifthly, the foreign companies appeared to be more involved in non-life than life business. It was felt that this latter feature

may possibly reflect the fact that these companies prefer short-term contract of a non-life policy because it is not as binding and is much less service-oriented than a life policy. For example non-life companies do not have a loan facility for clients. Finally, Odle observed that a few large companies dominated the insurance market, particularly in the area of life business.

There are three types of insurance companies doing business in or from within the Bahamas viz. strictly life; and life and; life/other; and non-life. While these companies do have certain features that are peculiar to the Bahamas, by and large, they exhibit the same basic characteristics, as their regional counterparts. In 1983, there were 80 registered insurance companies in the Bahamas (See Table I), compared to 10 commercial banks. Of this 80, there were 20 life and life/other companies and 60 non-life. However, although the non-life companies were greater in number, the life and life/other firms were larger in terms of size of business. In 1983, for example, the local assets of life and life/other companies amounted to \$160.1 million, compared to \$24.8 million for non-life companies (See Table VIII).

The prevalence of foreign insurance companies is sharply evident in the case of The Bahamas. The distinction between 'resident' vis-a-vis 'non-resident' as shown in Table I, is a feature peculiar to the Bahamas and one that characterizes the entire financial as well as the non-financial sector. It is designed to facilitate certain Exchange Control arrangements. However, although it would appear prima facie that 'resident' implies a local entity, this is not totally correct. The term 'resident' is an Exchange Control designation which is used to distinguish those firms which underwrite business in the Bahamas.

TABLE I NUMBER OF INSURANCE COMPANIES BY TYPE

<u>TYPE OF COMPANIES</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Life (Resident)	7	4	4	4	4	4
Life & Other (Resident)	23	19	20	20	16	16
Non-Life (Resident)	26	26	24	24	31	31
Non-Life (Non-Resident)	<u>15</u>	<u>15</u>	<u>20</u>	<u>21</u>	<u>26</u>	<u>29</u>
	71	64	68	69	77	80

SOURCE: Registrar of Insurance

However, the vast majority of these are foreign-owned. In 1983, of the 20 life and life/other companies, only 5 were Bahamian-owned; and of the 31 resident non-life, only 1 was Bahamian-owned (See Table I and XVI). The 29 non-resident non-life firms, which are also foreign, are designated 'non-resident' because they do not write business in the Bahamas. These are primarily brassplate-type operations set up merely for tax purposes. The dominance of foreign companies therefore, is underscored by the fact that in 1983, 74 or 92.5% of the insurance companies in the Bahamas were foreign.

Apart from the functional differences between resident and non-resident firms mentioned above, there are two other distinguishing features that may be noted. Firstly, non-resident companies are not required to pay the 3% premium tax. They pay a fixed license fee regardless of the volume of business they underwrite. Secondly, they are not required to publish a balance sheet.

Like their counterparts in the region, the foreign companies in the Bahamas are mainly in non-life business. Of the 74 foreign companies, only 15 or 20.3% are involved in life and life/other business, as opposed to 59 or 79.7% in non-life. This obvious preference for the shorter-term commitments of non-life policies is in keeping with the general philosophy of multinational corporations, particularly in a tax haven environment like the Bahamas. It may also reflect a desire to keep administrative costs low as the amount of regular services or facilities that are made available to clients are minimum, for example, there is no policy loan facility.

Finally, the observation made concerning the domination of the insurance market by a few large companies, especially in life business, is also very evident in the Bahamas. In 1983, 5 life

or life/other companies accounted for \$39.0 million of total life premiums or 68.0% of the life market, their respective shares ranged from 11.1% to 16.7%. As shown in Table XIV, the control by a few large firms is even more pronounced in the mortgage market, where of the 10 major companies participating in mortgage lending, one firm accounted for 47.3% of the market. Two other companies lagged far behind at 16.1% and 13.5%, with the share of the remaining seven ranging from 1.5% to 6.0%. Before ending this section, we will look at a seventh feature relating to the ownership structure of the resident insurance companies in the Bahamas. In the absence of similar information for three regional territories, no attempt will be made to assess the commonality of the observations made in the case of the Bahamas.

As shown in Table II, the ownership structure, as at end-1983, was dominated by the United States and the United Kingdom, with the former accounting for 20 or 39.2% of the total number of firms; and the latter, 19 or 37.2%. Six companies or 11.8% of the total were of Bahamian origin, with Canada accounting for 3 or 5.9%. The country origin of the remaining 3 firms were unidentified. One of the interesting features about the ownership structure is the marked preference for the branch/Agency-type arrangement rather than a locally incorporated office. Indeed, in 1983, of the 45 foreign companies, only 9 or 20% were locally-incorporated, with the remaining 80% operating through a branch or agency. The fact that foreign companies prefer to conduct business through branches or agencies probably reflects a desire for greater flexibility in and control over their overseas operations.

TABLE II: NATIONALITY OF RESIDENT INSURERS AND TYPE OF OPERATION, 1983.

Country of Ownership	T Y P E O F O P E R A T I O N				S H A R E O F T O T A L P R E M I U M		
	1	2	3		B\$M	%	
	<u>Locally Inc. Offices</u>	<u>Branch/ Agency</u>	<u>(1)</u>	<u>+</u> <u>(2)</u>			<u>%</u>
U.S.	7	13	20		39.2	35.1	35.2
U.K.	2	17	19		37.2	18.8	18.8
Canada	-	3	3		5.9	24.1	24.1
Bahamas	5	-	6		11.8	20.2	20.3
Other	-	3	3		5.9	1.6	1.6
TOTAL	15	36	51		100.0	99.8	100.0

SOURCE: Registrar of Insurance and Registrar of Companies

In terms of premium shares, the United States led with 35.2%, followed by Canada with 24.1%. The Bahamas had 20.3%; the United Kingdom, 18.8%; and other countries, 1.6% of total premium income. The other interesting feature about Table II is the fact that although Canada accounts for only 5.9% of the total number of residents insurance companies, it commands 26.3% of the total premiums collected, while the United Kingdom which owns 36.2% of the total firms, has only 18.8% of the total premium collected. This may be explained in part by the fact that the Canadian companies are some of the oldest in the Bahamas, and therefore, they have had more time to consolidate their operations than many of the U.K. firms. Further, unlike the U.K. firms which are all non-life operations, the Canadian companies deal solely in life and life/other business, the long-term nature of which assures a more steady and increasing flow of premium income. The fact that the Bahamian companies had a larger share of premium income than the U.K. firms in 1983 primarily reflects the increase in the number of Bahamian-owned companies, with the establishment of the first non-life company. As shown in Table XVII, this company accounted for \$8.4 million or 76.4% of the increase in total premiums for 1983.

Section III

The insurance industry in the Bahamas has experienced significant growth over the period under review. In assessing growth,

there are at least four indicators that may be used.

- a) The number of companies
- b) Total number of policies issued;
the number of the different categories
of policy; and the average value of all
policies
- c) The size of total premium income and size
of premium income for different types of
policies
- d) The size of total assets.

Since 1979, when the number of insurance companies fell by 10% to 64, there has been a steady rise in the number of firms. Between 1979 and 1983, the total number increased by 25% to 80. More importantly, the majority of these companies were active.

A useful index for assessing the degree of insurance savings is the ratio of the number of total life policies to the size of the population, or what is called the "penetration ratio". Based on reports received from 11 life and life/other companies (all the major firms included), the total number and value of policies in 1984 were 164,565 and \$1,878,313 respectively, giving an average value of \$11,414. (See Table III).

Table III NUMBER OF POLICIES BY TYPE AND AVERAGE VALUE OF EACH TYPE, 1984.

<u>Type of Policy</u>	<u>No.</u>	<u>Total Sum Assured \$'000</u>	<u>Average Value of Each Type</u>
Endowment	2,732	33,682	12,329
Term	3,448	199,039	57,726
Whole Life	34,095	1,063,051	31,179
Group Life	3,664	385,748	105,281
Industrial	<u>120,626</u>	<u>196,793</u>	<u>1,631</u>
ALL TYPES	164,565	1,878,313	11,414

On the basis of a population estimate of 226,500 for 1984, the estimated "penetration ratio" was 1 to 1.4, that is, 1 policy to roughly 1 person. This, however, may not be a particularly good indicator of the level of insurance intensity in the Bahamas. In 1984, the number of households was estimated at 53,929, which suggests that every household had at least 3 policies. Table III

shows that whole life policies far exceeded term policies accounting for 20.7% of total number of policies and 56.6% of value in 1984. This suggests that Bahamians are predominantly guided by the precautionary motive and are less savings-oriented.

Changes in the size of premium income provides a good yardstick for measuring growth. The major determinant of the growth in premium is per capita income, since as the economy grows in terms of population and physical assets, the demand for insurance to cover life and property will necessarily increase. However, while the importance of per capita income is generally accepted, there are some other important factors that may be considered, for example, the degree of financial intermediation. A high level of financial intermediation generally allows for greater substitutability of assets in the household sector, which may lead to an increased demand for insurance savings. Aggressive marketing on the part of insurance companies and the degree of the institutionalisation of the insurance saving habit may also have a positive impact on premium income. The development of the insurance savings habit will depend in part on the intensity of the marketing strategies of the companies themselves, and on the extent to which the public is made aware of the value of insurance through general education.

The growth of the insurance industry in the Bahaamas over the period under review is evidenced by the sharp rise in premium income as shown in Table IV. Total premium income expanded at an average annual rate of 17% from \$45.3 million in 1978 to \$99.8 million in 1983. Life premiums increased from \$18.8 million to \$42.3 million, or at an annual average rate of 17.6% and non-life by 16.8%, from \$26.5 million to \$57.5 million. While the average rate of growth of life premium income exceeded that of non-life, the share of non-life premiums in total premiums was consistently higher than that of life premiums. Also, barring 1979, non-life premiums constituted a progressively increasing share of total premium income.

Table V reveals that non-life premiums have been increasing faster than life premium and for the most part both life and non-life premium income, separately and combined, increased faster than GDP. On a per capita basis, a similar trend was observed (See Table VI), with total premium per capita and its components growing generally faster than per capita GDP. While the underlying trends in these figures may be correct, some caveats need to be sounded, particularly in regard to GDP figures, which are still preliminary. The sharp rise in GDP for 1978 and 1979 and particularly for 1982, reflects by and large, a change in methodological procedures rather than any fundamental change in economic activity. Indeed, efforts are presently underway to standardize the national accounts data from 1973 on a consistent methodological basis.

One possible explanation for the faster growth of non-life vs. life premium is the rise in material wealth of the large expatriate population and growing, affluent Bahamian middle class.

TABLE IV DISTRIBUTION OF GROSS PREMIUMS BETWEEN LIFE AND NON-LIFE POLICIES, (BSM)

<u>Year</u>	(1) <u>Life and Life/Other</u>	(2) <u>Non-Life</u>	(3) <u>Total</u>	(4) <u>(1) as % of (3)</u>	(5) <u>(2) as % of (3)</u>
1978	18.8	26.5	45.3	41.5	58.5
1979	24.4	26.3	50.7	48.1	51.9
1980	29.8	32.7	62.5	47.7	52.3
1981	34.2	41.5	75.7	45.2	54.8
1982	37.0	49.8	86.8	42.6	57.4
1983	42.3	57.5	99.8	42.4	57.6

SOURCE: Registrar of Insurance

TABLE V GROWTH IN LIFE AND NON-LIFE PREMIUM INCOME AND GDP, (B\$M)

	1	2	3	4	5	6	7	8	9	10	11	12
<u>Year</u>	<u>G D P¹</u>	<u>Rate of Increase</u>	<u>Rate of Increase in GDP Per head</u>	<u>Life Premium Income²</u>	<u>Rate of Increase</u>	<u>Non-Life Premium Income</u>	<u>Rate of Increase</u>	<u>Life and Non-Life Premium Income</u>	<u>Rate of Increase</u>	<u>(4) as % of (1)</u>	<u>(6) as % of (1)</u>	<u>(4) + (6) as % of (1)</u>
1978	971.0	10.8	8.6	18.8	6.2	26.5	9.5	45.3	8.1	1.9	2.7	4.6
1979	1082.0	11.4	9.1	24.4	29.8	26.3	-0.8	50.7	11.9	2.3	2.4	4.7
1980	1165.7	7.7	5.6	29.8	22.1	32.7	24.3	62.5	23.3	2.6	2.8	5.4
1981	1240.3	6.4	4.2	34.2	14.8	41.5	26.9	75.7	21.1	2.8	3.3	6.1
1982	1448.8	16.8	14.6	37.0	6.9	49.8	21.2	86.8	14.7	2.6	3.4	6.0
1983	1523.0	5.1	3.3	42.3	14.3	57.5	15.5	99.8	15.0	2.8	3.8	6.6

1: Preliminary estimates of the Department of Statistics. International Monetary Fund estimate is used for 1983. All figures are at market prices.

2: Includes premium for life and life/other companies.

SOURCE: Department of Statistics and Registrar of Insurance

Their demand for non-life policies to cover property loss or damage will grow pari passu with the increase in material wealth. The expatriates will normally not hold life policies in the Bahamas, but rather in their home countries. The relatively large and affluent local population will usually seek the more long-term life coverage. Other factors that may explain the faster increase in premium income vis-a-vis GDP may include one or a combination of the following:

- (i) aggressive sales techniques;
- (ii) an increased insurance saving habit;
- (iii) an income elasticity of demand for insurance services that is greater than one, within some income range; or
- (iv) the time lag between the slowdown in income and the corresponding fall-off in the growth of insurance owing to the contractual feature of insurance saving.

It is this feature of insurance savings that explains the stable relationship between life premium income and GDP (See Table IV). The relationship between life and non-life premium together and GDP, which is also generally stable, was less so in the case of the Bahamas owing to the faster growth of non-life vs. life premiums. In order to obtain a more precise indication of the relationship between premium income and GDP, the correlation coefficients for life and life/other premium, non-life premium, total premium, GDP and per capita GDP were calculated (See Table VII). The respective coefficients were 0.97, 0.96, 0.97 and 0.97

which were all highly significant at the 0.01 confidence level.

TABLE VII CORRELATION BETWEEN PREMIUM INCOME AND GDP

<u>Premium Income/GDP</u>	<u>Correlation Coefficient</u>
Life and Life/Other Premium Income/GDP	0.97
Non-Life Premium Income/GDP	0.96
Total Premium Income/GDP	0.97
Total Premium Income per head/GDP	0.97

Finally, the steady rise in total local assets bears further testimony to the growth of the insurance industry in the Bahamas. As shown in Table VIII, the total local assets of life and non-life companies increased over the period from \$85.1 million to \$184.9 million, or at an average annual rate of 17%. As expected the local assets of life companies were significantly higher than that of the non-life firms. Between 1978 and 1983, the local assets of life firms rose markedly from \$73.9 million to \$160.1 million; with that of the non-life companies increasing from \$11.2 million to \$24.8 million. In both instances, the average annual growth rate of the local assets was 17%. The slowdown in assets growth for 1980 resulted from a 19.2% decline in the Assets of non-life companies, as life business showed an increase of 12.1%. Thereafter, total local assets showed strong growth. The deceleration in the rate of increase of the assets of life companies in 1982 when GDP is reported to have expanded

TABLE VIII GROWTH OF LOCAL ASSETS COMPARED WITH GROWTH IN GDP, (B\$M)

<u>Year</u>	(1) <u>Rate of Increase in GDP</u>	(2) <u>Local Assets of Life and Life/Other Companies</u>	(3) <u>Rate of Increase</u>	(4) <u>Local Assets of Non-Life Companies</u>	(5) <u>Rate of Increase</u>	(6) <u>(2) + (4)</u>	(7) <u>Rate of Increase</u>
1978	10.8	73.9	-	11.2	-	85.1	-
1979	11.2	87.5	+ 18.4	12.5	+ 11.6	100.0	+ 17.5
1980	8.0	98.1	+ 12.1	10.1	- 19.2	108.2	+ 8.2
1981	6.4	116.6	+ 18.8	14.1	+ 39.6	130.7	+ 20.8
1982	16.8	131.2	+ 12.5	16.8	+ 19.1	148.0	+ 13.2
1983	5.1 ¹	160.1	+ 22.0	24.8	+ 47.6	184.9	+ 24.9

1: International Monetary Fund estimate.

SOURCE: Registrar of Insurance and Department of Statistics

by 16.8% is problematic, and may possibly reflect some estimation problems with GDP.

Section IV

Insurance companies play an important role in the mobilization of financial savings in the Bahamas. However, in the absence of Flow of Funds data, the relative share of insurance savings cannot be precisely determined. The liabilities structure of life and non-life companies captures the differences in their commitments to policyholders. Life companies on the one hand have to amass large sums of monies in order to be able to meet future but definite obligations to policyholders. They also have to develop a substantive reserve fund as a hedge against unpredictable circumstances, for example, if mortality rates increase beyond actuarial estimates. The importance of this is reflected in the very large reserve fund held by firms in life business. Between 1978 and 1983, policy reserves for life firms (which included a life fund) averaged 84.7% of the total liabilities.

Non-life companies, on the other hand, do not have a definite schedule for repaying premiums, as payments are made only when a claim is submitted for damages to or loss of property from fire, theft, or natural disasters. If non-life policyholders do not make a claim, no monies are refunded. Consequently, it is not necessary for non-life companies to build up an insurance fund. However, they do have a general reserve fund which is subdivided into a 'technical reserve' and a 'contingency' reserve.

TABLE IX POLICY RESERVES OF LIFE AND NON-LIFE COMPANIES AS A PERCENTAGE OF TOTAL
(REPORTED) B\$ LIABILITIES, (B\$M)

Years	LIFE AND LIFE / OTHER					NON- LIFE				
	(1) Total Liabili- ties	(2) Policy Reserves ¹	(3) Other Liabili- ties	(4) (2) as a % of (1)	(5) (3) as a % of (1)	(6) Total Liabili- ties	(7) Policy Reserves	(8) Other Liabili- ties	(9) (7) as a % of (6)	(10) (8) as a % of (6)
1978	65.4	55.8	9.1	85.3	13.9	15.0	9.2	4.5	61.3	30.0
1979	75.2	62.0	10.5	82.4	14.0	17.4	10.7	4.8	61.5	27.6
1980	88.8	75.6	11.6	85.1	13.1	19.2	10.6	7.0	55.2	36.5
1981	103.0	88.0	10.4	85.4	10.1	18.5	11.0	6.1	59.5	33.0
1982	121.5	103.8	13.2	85.4	10.9	28.2	12.9	13.3	45.7	47.2
1983	145.0	122.6	19.5	84.5	13.4	28.6	13.4	13.4	46.9	46.9

1: Includes Life Fund

SOURCE: Registrar of Insurance

The former is designed to meet normal claims and the latter, to cover disasters that may occur more frequently than estimated by an actuary. As shown in Table IX, the reserve fund of non-life firms comprises 46.0% to 62% of total liabilities or an average of 55.0%.

As expected, therefore, life companies hold a greater proportion of their liabilities in the form of reserves than the non-life firms. All other items both for life and non-life companies are grouped under 'other liabilities', which include inter alia, commission payable; home office accounts, claims outstanding, anticipated dividend payments; loans due to parent company or to subsidiaries; and amounts due to policyholders.

Section V

The investment policy of insurance companies in the Bahamas is guided by two major principles, one legal and the other, financial. Concerning the former, insurance companies are legally bound to honour their contract with policyholders through the settlement of bona fide claims. In order to satisfy this requirement, insurance companies maintain a broad portfolio mix with high yielding, low risk assets, such as, government securities, mortgages, and real estate. The financial principle relates to the need to maintain a sufficiently liquid portfolio in the form of cash or operational balances to meet recurrent expenses and/or to facilitate quick portfolio adjustment for short-term benefits.

In 1983, insurance companies had 16.1% of total reported Bahamian dollar assets, slightly lower than the 16.4% recorded for finance companies. Commercial banks commanded the highest share of 66.5% (See Table X). The composition of assets vary according to the type of insurance company, its liabilities structure; and yield and risk preference. Owing to the nature of the business of life companies, investment decisions are based on a "matching" concept which seeks to synchronise long-term liabilities, such as, whole life and endowment policies, with assets of a similar maturity, viz. mortgages and securities. The securities mix is usually heavily skewed in favour of long-term securities as these have a higher yield than the short-term ones. On the financial side, while liquidity may be a less important criteria for life companies, they too must hold some liquid assets in order to meet sudden unexpected claims arising from premature deaths and/or surrendering of policies.

The investment decisions of non-life firms are based primarily on the liquidity criteria, as the timing and frequency of claims for loss or damages are very unpredictable. Owing to the short-term and uncertain nature of their liabilities, these firms are not guided by the "matching" principle in making investment decisions. However, they have to pursue a more careful and selective reserves and investment policy in order to ensure that their assets portfolio is sufficiently liquid.

In keeping with the "matching" objective and at the preference for a relatively low risk and high yielding asset, life companies held 33.9% to 44.3% of their assets in mortgages over the period 1978 - 1983 (See Table XI). This high level of participation by

TABLE X COMPARISON OF THE BAHAMIAN DOLLAR ASSET POSITION OF SELECTED FINANCIAL INSTITUTIONS, 1983 (B\$M)

<u>Financial Institutions</u>	<u>Bahamian Dollar Assets</u>	
	<u>\$</u>	<u>%</u>
Commercial Banks	762.4	66.5
Finance Companies	188.6	16.4
Insurance Companies	184.9	16.1
Trust Companies ¹	11.1	1.0
Total	<u>1,147.0</u>	<u>100.0</u>

1: Figures include the five companies with the largest B\$ assets.

SOURCE: Central Bank of The Bahamas, Annual Reports of Finance Companies and the Registrar of Insurance.

TABLE XI . COMPOSITION OF LOCAL ASSETS OF LIFE AND LIFE/OTHER COMPANIES, (B\$M)

ASSETS	1978		1979		1980		1981	
	\$	%	\$	%	\$	%	\$	%
1. Securities or Investments Guaranteed by Bahamas Government	8.8	11.9	13.5	15.5	14.6	14.9	14.0	12.0
2. Mortgages	26.7	36.1	29.6	33.9	35.2	35.8	44.7	38.3
3. Land/Buildings	6.0	8.1	6.8	7.8	6.9	7.0	11.6	9.9
4. Loans on Life Policies	7.2	9.7	8.0	9.2	8.9	9.1	7.6	6.5
5. Cash and Receivables	10.2	13.8	10.0	11.4	11.1	11.3	16.6	14.2
6. Due from Agents and Insureds	1.3	1.8	1.7	1.9	2.0	2.0	2.3	2.0
7. Other Assets	13.7	18.6	17.7	20.3	19.5	19.9	19.9	17.1
Total Assets	73.9	100.0	87.3	100.0	98.2	100.0	116.7	100.0
			1982		1983			
			\$	%	\$	%		
1. Securities or Investments Guaranteed by Bahamas Government			14.7	11.2	19.8	12.4		
2. Mortgages			56.2	42.8	71.0	44.3		
3. Land/Buildings			9.4	7.2	10.4	6.5		
4. Loans on Life Policies			11.9	9.1	13.7	8.6		
5. Cash and Receivables			17.8	13.6	18.3	11.4		
6. Due from Agents and Insureds			2.7	2.1	3.4	2.1		
7. Other Assets			18.5	14.0	23.5	14.7		
Total Assets			131.2	100.0	160.1	100.0		

SOURCE: Registrar of Insurance

life companies in the mortgage market underscores the significant role that they play in the allocation of funds in the Bahamas. This issue will be dealt with more fully, later in this section. Long-term registered stocks comprised 11.2% to 15.5% of the portfolio mix. In satisfaction of the liquidity objective, some 11.3% to 14.2% of total assets were held in the form of cash and receivables. Policy loans, virtually riskless investment, maintained a fairly steady share of roughly 9.1%, except for 1981 when it dropped to 6.5%. Investment in real estate averaged 7.8% over the period.

The highly liquid assets portfolio of non-life companies reflect the unpredictable and short-term nature of their liabilities. As shown in Table XII, apart from 'other assets' which includes many items, cash and receivables was the largest component of total assets. As a share of assets, however, it declined from 34.1% in 1979 to 15.0% in 1983. The proportion of balances from agents and insured fluctuated sharply from year to year reaching a high of 29.2% in 1982. As to be expected, non-life companies had no mortgages and up to 1980 only a minimum of \$0.2 million were held in short-term securities. Real estate is usually an attractive investment for non-life firms, because not only does it appreciate in value but it also provides a hedge against inflation. This is an important consideration for such firms because unlike life companies, future claims are not fixed. In the case of the Bahamas, however, we find that real estate was not a popular form of investment. One possible explanation for this may be the fact that up to 1983 all of the non-life firms were foreign, with little or no autonomy in decision-making. They merely execute head office policies and the preference for highly liquid assets like cash and balances rather

TABLE XII. COMPOSITION OF LOCAL ASSETS OF NON-LIFE COMPANIES, (B\$M)

ASSETS	1978		1979		1980		1981	
	\$	%	\$	%	\$	%	\$	%
1. Securities or Investments Guaranteed by Bahamas Government	.2	1.8	.2	1.6	.2	2.0	-	-
2. Mortgages	-	-	-	-	-	-	-	-
3. Land/Buildings	.1	.9	.1	.8	.1	1.0	.1	.7
4. Cash and Receivables	3.6	32.1	4.3	34.1	2.7	26.7	3.7	26.0
5. Due from Agents and Insureds	2.1	18.8	2.0	15.9	2.5	24.8	1.6	11.3
6. Other Assets	5.2	46.4	6.0	47.6	4.6	45.5	8.8	62.0
Total Assets	11.2	100.0	12.6	100.0	10.1	100.0	14.2	100.0

	1982		1983	
	\$	%	\$	%
1. Securities or Investments Guaranteed by Bahamas Government	-	-	-	-
2. Mortgages	-	-	-	-
3. Land/Buildings	.1	.6	.1	.4
4. Cash and Receivables	3.2	19.0	3.7	14.9
5. Due from Agents and Insureds	4.9	29.2	5.4	21.8
6. Other Assets	8.6	51.2	15.6	62.9
Total Assets	16.8	100.0	24.8	100.0

SOURCE: Registrar of Insurance

than real estate, may reflect a desire to minimise or avoid administrative problems.

Insurance companies contribute to economic growth through a deployment of funds in the private and Government sectors in the Bahamas. In 1983, insurance companies accounted for 30.2% of the mortgage market. (See Table XIII). Table XIV reveals that one company dominated the mortgage market with a share of 47.3%, and secondly, with a total of three firms commanding more than 75%. In 1984, the first year for which data on residential mortgages were collected, insurance companies had 15.9% of the total number of residential mortgages compared with 54.1% for finance companies and 30.1% for the Bahamas Mortgage Corporation (See Table XV). As a proportion of value, insurance companies accounted for 27.0% as against 51.6% for finance companies and 21.4% for the Corporation. If we regard residential buildings as a capital rather than a consumer good, then mortgage loans by insurance companies accounted for a large share of private capital formation, hence economic growth.

The contribution made by the insurance industry to public capital formation is underscored by the consistent growth in the holdings of long-term Government securities. The holdings of securities by Life companies more than doubled to \$19.8 million in 1983 from \$8.8 million in 1978 (See Table IX). These funds are used, partially or wholly, to finance capital expenditure, hence stimulating growth and development. While the participation of life companies in the registered stock market is not as heavy as in the mortgage market, their investments in both markets have a positive and pronounced impact on capital formation in the Bahamas.

TABLE XIII PARTICIPATION OF INSURANCE COMPANIES, FINANCE COMPANIES AND BAHAMAS MORTGAGE CORPORATION IN MORTGAGE LENDING AND MORTGAGES OUTSTANDING AS A PROPORTION OF B\$ ASSETS, 1983 (B\$M)

<u>Financial Institutions</u>	<u>(1) Mortgages Outstanding</u>		<u>(2) Reported B\$ Assets</u>	<u>(3) (1a) as a % of (2)</u>
	<u>(a) \$</u>	<u>(b) %</u>	<u>\$</u>	<u>%</u>
Finance Companies	160.9	68.5	188.6	85.3
Insurance Companies	71.0	30.2	156.4	45.4
Bahamas Mortgage Corporation ¹	2.9	1.3	4.5	64.4
Total	234.8	100.0	349.5	67.1

1: Data covers the period, October 1983 to June 1984

SOURCE: Registrar of Insurance; Annual Accounts of Finance Companies; Annual Report of the Bahamas Mortgage Corporation.

TABLE XIV PARTICIPATION OF INSURANCE COMPANIES IN MORTGAGE LENDING AND MORTGAGES
OUTSTANDING AS A PROPORTION OF REPORTED B\$ ASSETS, 1983 (B\$M)

<u>Firm</u>	<u>(1) Mortgages Outstanding</u>		<u>(2) Reported Bahamas Assets</u>	<u>(3) (1a) as a % of (2)</u>
	<u>(a)</u>	<u>(b)</u>		
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>%</u>
1	33.6	47.3	58.7	57.2
2	11.4	16.1	17.6	64.6
3	9.6	13.5	17.8	53.9
4	4.3	6.0	8.8	48.9
5	3.7	5.2	16.0	23.1
6	2.5	3.5	7.3	34.5
7	2.4	3.4	2.7	88.7
8	1.4	1.9	13.7	9.8
9	1.2	1.6	9.3	12.5
10	1.1	1.5	4.3	24.7
Total	71.1	100.0	156.4	

SOURCE: Registrar of Insurance

TABLE XV PERCENTAGE SHARE OF RESIDENTIAL LOAN COMMITMENTS BY INSTITUTION, NUMBER AND VALUE

<u>Period</u>	<u>Insurance Companies</u>		<u>Finance Companies</u>		<u>Bahamas Mortgage Corporation</u>		<u>Total</u>	
	<u>No.</u>	<u>Value</u>	<u>No.</u>	<u>Value</u>	<u>No.</u>	<u>Value</u>	<u>No.</u>	<u>Value</u>
<u>1984</u>								
QTR I	12.7	18.0	54.8	57.3	32.5	24.7	100.0	100.0
QTR II	14.7	22.3	57.1	59.5	28.2	18.2	100.0	100.0
QTR III	16.2	26.2	50.0	47.2	33.8	26.6	100.0	100.0
QTR IV	19.9	41.6	54.3	42.5	25.8	15.9	100.0	100.0
YEAR	15.9	27.0	54.0	51.6	30.1	21.4	100.0	100.0
<u>1985</u>								
QTR. I	11.5	29.1	58.6	59.5	29.9	11.4	100.0	100.0

SOURCE: Central Bank of The Bahamas

Section VI

While the Bahamian-owned insurance companies have experienced some measure of growth over the review period, they have not made any significant inroads into the local insurance market. Their ability to compete effectively with the large multinational firms remains problematic, owing to certain legal, institutional and financial constraints. Table XVI shows that the number of Bahamian-owned life companies remained stagnant at 5 from 1978. This no-growth situation may have resulted in part from an inability meet the legal capitalisation requirement stipulated in the Insurance Act of 1969. This Act stated, inter alia, that any "registered insurer doing life insurance business shall have a paid-up share capital, or equivalent surplus, if a mutual company, of three hundred thousand dollars". Prior to 1969, there was no precise legislative framework for regulating life underwriting business, hence a large number of companies flocked to the Bahamas for tax and other reasons. By setting a legal minimum for paid-up capital, the Insurance Act sought to protect the public by weeding out the questionable and fraudulent companies.

While the wisdom of the Act was beyond question, the required minimum level of paid-up capital placed existing and potential Bahamian-owned business at a decided disadvantage vis-a-vis their foreign counterparts. The point is that the Act did not require or encourage foreign companies to become locally-incorporated, hence they could continue to operate through branches or agencies without having to be capitalised locally. Backed by the large capital resources of their parent, therefore, the foreign firms had a competitive edge over the local insurers as they were able to assume

TABLE XVI BAHAMIAN-OWNED COMPANIES BY NUMBER AND TYPE

<u>Year</u>	1 <u>Life and Life/ Other</u>	2 <u>Non-Life</u>	3 <u>(1) + (2) Total</u>
1978	5	-	5
1979	5	-	5
1980	5	-	5
1981	5	-	5
1982	5	-	5
1983	5	1	6

SOURCE: Registrar of Insurance

more risks and could offer better rates and services to existing and prospective clients. Having regard to the required level of capitalisation, the local operators had to develop a level of business that was sufficiently large so as to avoid being over-capitalised and ensure a reasonable rate of return on their investment.

The changes in premium income is a useful index for assessing growth and as shown in Table XVII, premium income rose steadily over the period. Between 1978 and 1983, total premiums rose from \$7.2 million to \$20.2 million, or at an average annual rate of 23%. This resulted, in large measure, from the surge in total premiums in 1983 with the setting up of a non-life company. Life premiums grew at an average rate of 10.4%. However, while total premium income of the local insurers rose, their share of the insurance market fell precipitously from 16% in 1978 to 11% in 1982 before recovering to 20% in 1983. This reflects the difficulties faced by local operators in trying to compete in a market dominated by branches and agencies of large multinational corporations.

The changes in the size of total assets, as illustrated in Table XIX, provide further evidence of the growth in local insurance operation. Total assets rose steadily and consistently from \$9.1 million in 1978 to \$21.3 million in 1983, which represented an average annual rate of growth of 7.7%. Indeed, growth may be somewhat understated since all the firms did not submit reports and the numbers that did were not consistent for all years. The firms' share of the total assets of resident companies remained constant at 11% from 1978 to 1980, falling to 10% and 9% in 1981 and 1982 respectively, before rising to 12% in 1983.

TABLE XVII DISTRIBUTION OF GROSS PREMIUMS BETWEEN LIFE AND NON-LIFE POLICIES OF BAHAMIAN OWNED COMPANIES, (B\$M)

<u>YEAR</u> ¹	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
	<u>LIFE/LIFE & OTHER</u>	<u>NON-LIFE</u>	<u>TOTAL</u>	<u>1 AS % of 3</u>	<u>2 AS % of 3</u>
1978	7.2	-	7.2	100.0	-
1979	7.8	-	7.8	100.0	-
1980	9.1	-	9.1	100.0	-
1981	9.5	-	9.5	100.0	-
1982	9.2	-	9.2	100.0	-
1983	11.8	8.4	20.2	58.4	41.6

1: Figures for 1978-1982 cover 3 companies; and for 1983, 4 companies.

SOURCE: Registrar of Insurance

The liabilities structure of the Bahamian-owned companies, the majority of which are in life business, reflect the long-term contractual nature of life insurance. As expected, therefore, the life fund comprised 85.4% to 91.0% of total liabilities or an average of 88.3% (See Table XVIII). Other liabilities, which include claims outstanding and amounts due to policyholder, ranged, in absolute terms, from \$0.7 million to \$2.1 million.

The assets composition of these companies, as shown in Table XIX, reflected the same basic concerns for income, safety and liquidity. Real estate commanded the largest share of total assets in 1978 and 1979, accounting for 40.7% and 38.9% respectively. Mortgages lagged far behind with respective share of 15.4% and 17.6%. In 1980, the share of mortgages jumped to 29.2%, increasing to 33.9% and 41.0% in the following two years, then falling to 31.9% in 1983. Local operators accounted for 9.5% of the total mortgage market in 1983, up from some 5.5% in 1977. This positive shift reflected in part an improvement in the technical and managerial skills of the local insurers. The increase in mortgages was matched by a concomitant decline in real estate. The average share of real estate holdings for Bahamian-owned firms over the period was 23.3%, as contrasted with a low 7.8% for the foreign companies.

Local insurance operators held much less securities than the foreign firms. This is understandable, having regard to the fact that their resource base is much lower, hence they have to hold a more diversified portfolio in order to ensure a proper mix of yield, safety and liquidity. Policy loans, a safe and income-yielding asset, remained fairly stable at around \$0.8 million. Reflecting an increasing need for liquidity, indeed, cash holdings consumed a progressively larger share of total assets over the period,

TABLE XVIII COMPOSITION OF LOCAL LIABILITIES OF BAHAMIAN-OWNED COMPANIES¹, (B\$M)

<u>Liabilities</u>	<u>1978</u>		<u>1979</u>		<u>1980</u>		<u>1981</u>		<u>1982</u>		<u>1983</u>	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	
Life Fund	6.3	90.0	7.0	85.4	8.1	91.0	8.9	89.0	10.1	88.6	12.4	85
Commissions	-	-	-	-	-	0.1	-	-	-	-	-	-
Other Liabilities	.7	10.0	1.2	14.6	.8	8.9	1.1	11.0	1.3	14.6	2.1	14
Total Liabilities	7.0	100.0	8.2	100.0	8.9	100.0	10.0	100.0	11.4	100.0	14.5	100

1: See notes to table XIX

SOURCE: Registrar of Insurance

TABLE XIX COMPOSITION OF LOCAL ASSETS OF BAHAMIAN-OWNED COMPANIES¹, (B\$M)

ASSETS	² 1978		² 1979		² 1980		³ 1981		² 1982		³ 1983	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
1. Securities or Investments Guaranteed by Bahamas Government	.6	6.6	.9	8.3	1.0	8.3	1.0	7.9	1.0	7.2	1.2	5.6
2. Other Securities ⁴	-	-	-	-	-	-	-	-	-	-	.2	.9
3. Mortgages	1.4	15.4	1.9	17.6	3.5	29.2	4.3	33.9	5.7	41.0	6.8	31.9
4. Policy Loans	.7	7.7	.8	7.4	.8	6.7	.8	6.3	.9	6.5	.9	4.2
5. Other Loans	-	-	-	-	-	-	-	-	-	-	-	-
6. Land/Building	3.7	40.7	4.2	38.9	1.4	11.7	1.6	12.6	2.0	14.4	3.3	15.5
7. Cash	.5	5.4	.6	5.6	1.3	10.8	2.0	15.7	1.7	12.2	5.0	23.5
8. Due from Agents & Insureds	-	-	-	-	-	-	-	-	-	-	.9	4.2
9. Other Assets	2.2	24.2	2.4	22.2	4.0	33.3	3.0	23.6	2.6	18.7	3.0	14.1
Total Assets	9.1	100.0	10.8	100.0	12.0	100.0	12.7	100.0	13.9	100.0	21.3	100.0

1. Figures reflect positions at the end of accounting period of each reporting company, which do not necessarily coincide with each other or with the calendar year.

2. Data covers reports of three companies.

3. Includes data for four companies.

4. Includes investments in associated company.

SOURCE: Registrar of Insurance

jumping from 5.4% in 1978 to 23.5% in 1983. However, on a general level, great care should be exercised when interpreting movements in the assets mix, since the coverage of firms is not consistent from year to year. While this may or may not alter the underlying trends, it may affect the magnitudes of the figures.

Section VII

The insurance industry has a significant impact on the services account of the balance of payments resulting from large outflows relating to trade, of life and property and profit repatriation. On the trade side, the Bahamas, like most developing countries, imports c.i.f (cost, insurance and freight) but exports f.o.b. (free on board) which causes a considerable loss of foreign exchange for insurance and freight charges on trade. This is compounded further by the fact that the country earned no foreign exchange from the transportation of goods because it has no ships. As revealed in Table XX, therefore, the Bahamas received no foreign exchange from the transport and/or insurance of its merchandise trade and paid out a total of \$230.4 million over the six year period. This compares with \$166.7 million recorded for the period 1970 - 1977.

The fact that the Bahamas is a persistent debtor in the freight and insurance account is not surprising, having regard to preponderance of foreign insurance companies and the lack of transport services. However, what is less acceptable is the magnitude of the outflows

TABLE XX RECEIPTS AND PAYMENTS OF FREIGHT AND MERCHANDISE

INSURANCE ON INTERNATIONAL TRADE, (B\$M)

<u>Year</u>	<u>Receipts</u>	<u>Payments</u>
1978	-	27.2
1979	-	33.5
1980	-	39.1
1981	-	41.3
1982	-	42.1
1983	-	47.2

SOURCE: Central Bank of The Bahamas

connected to non-merchandise insurance and profit repatriation. While the industrial countries earn considerable foreign exchange from the export of insurance services, in developing countries like the Bahamas where there is a proliferation of foreign companies, little or no foreign exchange is earned from the sale of insurance services. Indeed, the large foreign dominance of the insurance industry does not only constitute a serious draft on the country's external reserves but it may also precipitate a misallocation of resources through what Ramsaran () calls the "allocation effect". Basically, this refers to a situation where an insurance company, particularly one involved in life business, converts money from local currency to foreign currency to settle some foreign claim or for profit remittances. This conversion is usually done at a commercial bank, thus increasing the bank's supply of cash and hence, it's capacity to expand credit. However, the point is that even though credit may rise by some multiple of the amount of cash received, the efficiency with which it is allocated may be problematic since commercial banks lend primarily on a short-term basis; and therefore, the sectors requiring the longer-term credit which insurance companies can provide will be severely squeezed.

The Bahamas has exchange control laws governing all foreign exchange transactions, particularly on the capital account. These are designed to preclude the arbitrary use of the country's foreign exchange resources for investment overseas. The laws relating to the operations of insurance companies are not very stringent, indeed some may argue that they are too lax. The non-merchandise insurance companies have little or no positive impact on the balance of payments. Probably the major reason for this is that resident companies are not allowed to write coverage overseas. The outflows

in the non-merchandise insurance account are very high. Outflows may be in the form of management fees; profit, interest, dividends and rent; investment policy reserves; re-insurance; and to a lesser extent, premiums since Bahamian residents are not allowed to acquire coverage overseas, except in extreme cases where a particular type of coverage is not available locally. However, non-life companies, which are basically agents acting for foreign Brokers, are allowed to repatriate net premiums.

Table XXI shows that, barring 1980, which saw a slight slowdown, non-merchandise-related transactions resulted in a steadily increasing outflow on the services account. The inflow for 1981 may be attributed to the sale of some foreign assets or re-insurance. The cumulative net outflow for the six year period amounted to \$47.0 million.

The increasing outflows in non-merchandise insurance, particularly in the area of management fees or what is termed Head Office expenses, has been and is a cause of great concern to the Bahamian authorities. The fact that there are no corporation taxes makes the tasks of the authorities in terms of closely monitoring the repatriation of funds by residents insurers difficult. Owing to the fact that head office expenses cannot be verified or refuted, there may be instances where funds are remitted ostensibly for Head Office expenses but may in fact be used for investment purposes or possible to pay premiums. Based on Exchange Control data, head office expenses rose consistently from \$0.9 million in 1978 to \$3.0 million in 1981, falling marginally to \$2.8 million in 1982. In 1983, and 1984, a total of \$3.2 million and \$2.4 million respectively was remitted. However, the decrease for 1984 is more

TABLE XXI NET OUTFLOW OF NON-MERCHANDISE INSURANCE, (B\$ M)

<u>Year</u>	<u>(1)</u> <u>Inflow</u>	<u>(2)</u> <u>Outflow</u>	<u>(3)</u> <u>(1) - (2)</u>
1978	--	6.4	- 6.4
1979	--	7.9	- 7.9
1980	--	5.6	- 5.6
1981	1.1	8.6	- 7.5
1982	--	8.3	- 8.3
1983	--	11.3	-11.3

SOURCE: Central Bank of The Bahamas

apparent than real and reflects an administrative delay in approving some \$0.7 million in expenses for 1984. Over the seven year period 1978 - 1984, therefore, the outflow arising from head office expenses totalled \$15.3 million.

In an attempt to alleviate some of the balance of payments pressures arising from massive outflows of non-merchandise insurance, particularly head office expenses, and to enhance the economic contribution made by the insurance companies, the Government, took certain policy decisions in its 1984 Budget.

Firstly, the insurance premium tax was increased by 2 percentage points from 1% to 3%. Secondly, the Government proposed to initiate discussion with resident life and life/other companies to establish an agreed time frame within which home office functions may be undertaken in the Bahamas. The operations of the multinational insurance firms in the Bahamas create hundreds of jobs in their home countries. The transfer of some of these office functions to the Bahamas would not only increase employment opportunities but will also save a tremendous amount of foreign exchange. It is felt that there is absolutely no reason why some of these functions cannot be performed locally. In the pursuit of this important national objective, the Government has opted to deal with the industry in an informal co-operative manner rather than by imposing mandatory measures.

Section VIII

The significant growth in the financial sector in the last two decades is due in no small part to the country's tax haven status and the free-enterprise, anti-nationalization policy of the Government. Over the years, the financial sector has played and continues to play an important role in the growth and development of the Bahamian economy, however, the impact varies from institution to institution. As far as the non-bank financial sector is concerned, while it is recognised that the insurance industry has contributed to economic growth, the impact has generally not been as great as it can and indeed should be. This is due in large part to the structure and policies of the companies themselves but it also reflects to some extent inadequate supervision and regulation of the industry.

Insurance companies attract a significant amount of savings in the Bahamas, and as such they should be required to invest more of these funds locally. In the interest of development, the authorities cannot and should not continue to allow domestic savings to be used to generate income and employment abroad to the detriment of the Bahamas. The insurance industry involves a considerable amount of social waste, as reflected in the high and rising levels of management or home office expenses. In order to reduce this waste of valuable resources and to ensure that insurance companies adhere to their statutory obligations, their operations will have to come under much greater scrutiny. This will require not only improving and expanding the present staff in the Office of the Registrar of Insurance, but also increasing the collaboration between this office and the Central

Bank, which is responsible for granting approvals for the remittance of funds. Indeed, there is a need for greater collaboration generally in order to ensure consistency in the data reported by insurance companies to both offices.

The Government is presently engaged in dialogue with insurance companies with a view to having some home office functions transferred to the Bahamas. This is indeed an encouraging step in the right direction. However, the time may be ripe to go a little further by making it mandatory that all or some major proportion of technical reserves be invested in the Bahamas, with the Government setting guidelines for the type and quantity of local assets that may be held.

While these measures may appear prima facie to be in contradiction to Government's free-enterprise and tax haven policy, they are not. The top priority of any Government is to increase the welfare of its citizens and having regard to the significant amount of local savings that the foreign insurance companies mobilise in the Bahamas, it is only fair to expect that more funds should be invested locally so as to generate domestic income and employment. Indeed, the companies themselves stand to benefit in the long-run as income and employment grow. The authorities, therefore, should take the necessary steps to ensure that the benefits and profits which the foreign companies gain from being in the Bahamas do not continue to overshadow the contribution that they make to the Bahamian economy.

REFERENCES

1. Central Bank of The Bahamas, Quarterly Reviews
2. Department of Statistics, Annual Statistical abstracts
3. Registrar of Insurance, Annual Statistical Abstracts
4. Odle, M.A., "The Significance of Non-Bank Financial Intermediaries in The Caribbean," Institute of Social and Economic Research, 1972.
5. Ramsaran, R., "The Monetary and Financial System of The Bahamas" Institute of Social and Economic Research, University of The West Indies, 1984.