



OPENING REMARKS

BY

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PROTOCOL

Good Morning

Congratulations on the start of another Accountant's Week. I pray that you will have a successful period of networking, learning and fun (yes Accountants can have fun).

Hurricane Dorian has shaken The Bahamas to its core. What the residents of Abaco and Grand Bahama experienced just a few months ago was nothing short of total devastation and catastrophic destruction like we have never experienced before. From its turbulent visit with us, Hurricane Dorian revealed many hidden vulnerabilities and forced us to consider our future with a new outlook.

This is why today's theme is so timely and important. "Our Role in Recovery Efforts: Challenges and Opportunities for the Accounting Profession."

Each one of us has been called to seriously examine our outlook on the climate crisis and our preparedness to mitigate and to respond to risks associated with natural disasters. That goes for our personal lives, our professional lives, and at the national level.

How many businesses in The Bahamas have a disaster management plan that assesses their hard and soft infrastructure, financial and social responsibility and vulnerabilities? That has a comprehensive plan to

mitigate the damages and losses associated with natural disasters? If you have a plan, great, but first consider what we are learning from Dorian. What we thought we knew pales in comparison to our new reality of total catastrophic failure of infrastructure and governance systems. It is time for a fresh review of all our plans.

If you don't have a plan, well now is the time to get cracking on establishing one.

The Hurricane Dorian disaster zones are in Abaco and Grand Bahama, but the entire Bahamas is in the disaster zone of the global climate crisis. And, the immediate impact on our second two largest economies is having a ripple effect far beyond their shorelines. In just over a week, The Government will present its 2019 Fiscal Strategy Report, including a Fiscal Adjustment Plan and Supplementary Hurricane Dorian Budget. This fiscal management documents will reflect a government that is already thinking differently about a framework for financial resilience and sustainability in this new climate context.

One time ago, many of us could reliably depend on hurricanes to be somewhat predictable and relatively low-frequency. But in four of the past five years, various parts of The Bahamas have been hit by hurricanes of a category 3 to 5. While the future holds no guarantee, we would be wise to plan and prepare as if there will be an increase in the frequency of significant natural disaster of a less predictable nature.

From its work in studying climate resilience strategies following the last few major hurricanes in the Caribbean, the IMF has landed on three main pillars to building climate resilience.

Infrastructure Resilience

Powerful storms are forcing us to consider the public and private sector investment in building hard and soft infrastructure resilience in preparation for super storms. The domestic and international response in the aftermath of Dorian has been nothing short of phenomenal. Because of the overwhelming support, to date we have been able to satisfy the need for emergency relief supplies and shelter.

But what we have learned is that the failure to adhere to building codes has aided in catastrophic destruction and will likely lead to increased insurance renewal premiums, which are already prohibitive for many people. This will create further barriers to home ownership for many. As Bahamian, we love to cut corners and to maybe tip for persons to look the other way, but when you observe the level of building failures due to poor construction techniques, it is an alarming and a costly gamble with life and property.

The lesson then is to do it right the first time. Proper investment up front will avoid a costly recovery and unexpected business interruption.

Proper infrastructure will also aid in reducing assessed property risk and

thus help maintain affordable insurance premiums, which brings us to the next pillar...

Financial Resilience

In the aftermath of a major hurricane, the private sector often incurs the majority of the damage and loss. This is important to know, especially when the bulk of the public dialogue is trained on the Government's emergency management response. However, when a storm hits, the damage and loss to the private sector is significantly larger than the damage and loss incurred by the Government, although cultural and political factors are forcing more and more of the public resources to be spent to cover the private sector insured risk gap.

Unfortunately, too many Bahamians take on unmanageable and unsustainable risk by not taking out insurance coverage on the home and business or, are underinsured. In the event of a significant loss, this exposed risk is transferred to the Government, which is neither tenable nor budgeted for, and thus poses a substantial threat to the country's finances and credit standing. Initial assessments of uninsured risk in this storm is high: as high as 80%.

When Hurricane Irma hit in 2017, the total estimated damage was \$31.5 million, of which 39.2 per cent was public and 60.8 per cent private.

Very soon, we will be publishing the results of our most recent

Hurricane Dorian parametric damage and loss assessment, but we can see the patterns from previous disasters. The assessed cost of Hurricane Matthew in 2016 was \$580 million, of which approximately 87.6 per cent occurred in the private sector.

My point here: There is a critical role for accounting professionals to play when discussing the financial vulnerabilities of the private sector to natural disasters and thereby helping to reduce the risk exposure to government resources. Your proactive examinations and professional advice in this area in the past is commendable, however given today's realities, your clients and the wider public need even more education and support in navigating the minefield of adequate risk coverage and other mitigation strategies.

Many Bahamians have bought into the myth that says "It won't happen to us". Unfortunately many of you Nassauvians in particular have bought into this thinking. But persons and businesses simply cannot afford to operate with this mentality as we know, that day is coming. Persons owe it to their families, businesses owe it to their shareholders, their employees and their customer and to the community at large, to take emergency risk management seriously.

So how do we respond?

On the government side, this past season, we employed a multi layered approach to risk coverage that I invite you to consider for your clients.

1. We prearranged for a \$100M contingent credit line at zero upfront cost that only incurred fees and cost when triggered by a hurricane event and drawn down. This line has given us immediate cash flow to address evacuations, temporary shelter, provisions and down payments on materials necessary to rebuild public infrastructure.
2. We engaged the CCRIF for catastrophic insurance coverage, for which we received a \$12M payout as a result of a restructuring of the policy, which I am proud to say we pioneered.
3. We passed legislation to restrict funds transferred from the expired Dormant Accounts at the Central Bank to use strictly in disaster relief. So far we have drawn down \$20M from the approximately \$40M fund, to be used to support temporary accommodations on the ground in Abaco (\$10M) and to support MSME capital grants and credit programs (\$10M), which to date has resulted in over \$1M and growing, of emergency capital being made available to small business entrepreneurs to get back on their feet and in business.
4. We budgeted and paid into a Disaster Relief Fund via a line item in the Ministry of Finance budget of \$1M per year for an accumulated total of \$2M. The plan is that once past accrued expenses have been paid down, we will budget between 0.5% to 1% of GDP to this Fund, to eventually have a pool of restricted

sovereign investment funds, which will become perpetual and self sustaining.

But there is no one sized fit all solutions. As you deliberate during this seminar, I recommend serious consideration be given to innovative national private sector risk mitigation strategies like those I mentioned above and existing strategies like:

1. Business Interruption Insurance

Far too many businesses know too little about interruption insurance or pay too little regard to its importance. There is no better case study than Hurricane Dorian. Very few companies can finance the cost of asset replacement much less revenue loss. In the short to medium term recovery phase after a catastrophic disaster, the impact on future cash flows can be devastating at a time when employees and business owners need resources at their disposal to recover.

2. Insuring your assets at replacement value

If you are going to spend money on insurance, don't be penny wise and pound foolish. Insure your assets at replacement value, for the chances of needing to rely on your insurance after a natural disaster is high.

3. Disaster relief Clauses

Consider including a disaster relief clause in loan agreements, so that in the event of a loss, principle payments are suspended for a period of maybe up to two years and interest is capitalized, thereby giving the business an opportunity to recover.

4. Electronic Commerce and Information Management

Businesses must consider information management and the benefits of electronic commerce as a key component of their disaster management. This area is directly related to the work of finance officers and accounting professionals. Access to electronic records and access to banking are just two important challenges faced by businesses after a disaster. Decisions around the use of cloud storage, data back-ups are all connected to a company's loss and mitigation strategies, not only operational processes.

5. Contingency Planning

How many businesses are neglecting the need to consistently maintain contingent reserves? How many businesses have contingency plans overall? What happens if your headquarters is hit? What happens if your financial officer has no telecommunications? What is the contingency plan for operating

without a warehouse? Are we treating contingency planning as theoretical exercise or a vital risk management function?

6. Data Protection

Data protection and privacy concerns are important considerations in a disaster. In Abaco for instance you may be aware that several financial institutions were destroyed by storm surge washing records into the streets and God knows where. Electronic data records were also potentially exposed to loss or breach in the aftermath. An effective recovery and protection plan is essential.

7. Simulations

Businesses should not only formulate detailed emergency plans, they need to test them, and run a variety of what if scenarios.

- What if my phone lines don't work?
- What if my power lines don't work?
- What if my water systems don't work?
- What if I don't have access to my premises for an extended period of time?
- What if my employees can't come to work?

- What if I need access to my information?
- How quickly can I get my business information systems up and running?
- What if I have no banking facilities available?
- What if my customers don't have banking facilities available?

Social Vulnerability

This brings me to the final of three pillars to building climate resilience. After addressing infrastructure resilience and financial resilience, we need to look at social vulnerability.

In thinking about this topic, we normally think about it from the perspective of the government's responsibility to its citizens in the case of adversity or loss. But there is a private sector component that has been exposed by this storm not many have considered, and that is the responsibility of a business to its employees.

As pointed out by the Bahamas Chamber of Commerce and Employers Confederation, many businesses have found themselves in an impossible moral dilemma. In the face of business interruption, tremendous demand for cash resources to secure damaged property and begin clean up and reconstruction, employees demand salary payments or severance in order to meet their own needs. So when the business needs its cash

reserves the most to get the business open, they face large downtime social cost with no revenue. It is a real dilemma that businesses must plan for and be prepared to responsibly address.

Conclusion

I have only scratched the surface with these discussions in order to emphasize the point that the accounting profession has an important role to play as we look at the challenges and opportunities that come with disaster recovery.

In the private sector, you are to advise your clients on conservative risk mitigation and risk transfer strategies. To look toward recovery business opportunities arising as a result of the crisis and to maximize resources to build back better and stronger.

On the public sector side, to assist the government by helping to minimize the private sector risk coverage gap, to advance innovative mitigation strategies and products to reduce public sectors financing and expenditure cost and by ensuring value for money for your clients.

I look forward to the ideas that emergence out of the seminar today, and the proactive steps you are taking to lead these discussions and support the business community to rebound and to better prepare for the new realities.

There is no doubt we will need everyone to rally together to recover from Hurricane Dorian and to innovate new solutions for climate resiliency and sustainable development for The Bahamas.

We are in an invisible war, a battle with an unrelenting enemy we did not choose, but must fight. Let us do our part as accounting professionals to make sure the country and its constituent parts have the best defense possible, by being proactive and innovative in our approach.

Thank you.