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Proposed Legislation Aims to Boost Stability of Insurance Companies in U.S. Virgin Islands

Government / **Published On April 06, 2023 05:35 AM /**

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With fewer than two months before the start of the 2023 hurricane season, senators on the Committee on Budget, Appropriations and Finance are attempting to pass a bill that would provide added protection to insured Virgin Islands homeowners by creating a mechanism for insurance companies to receive cash in times of disaster.

By amending Title 22 of the Virgin Islands Code, Bill No. 35-0026 would allow insurance companies to be eligible to apply for membership at the Federal Home Loan Bank in New York. The bank provides a safety net by reducing the chances of insolvency for locally licensed insurance companies.

The proposed legislation does not replace the Insurance Guarantee Fund but would serve as secondary protection for insurance companies, according to George Dudley, an attorney from Dudley Newman Feuerzeig LLP representing Guardian Insurance Company. He said the proposed legislation gives insurance companies who have membership in the Federal Home Loan Bank an opportunity to minimize their risk of failure in times where they need significant amounts of cash to finance hundreds of insurance claims.

"We can instead go to the bank to borrow the money to fund those insurance claims while we wait for the refund from our reinsurers or have to repay from future earnings," Mr. Dudley said. "If the bank is not available to us then we're forced to liquidate assets which compounds our risk and compounds the risk of loss for Virgin Islands homeowners."

Glendina Matthew, the acting director of the V.I. Division of Banking, Insurance, and Financial Regulations called the bank "an excellent resource for insurance companies," adding that in the event that an insurer does become insolvent, the bank could be a potential resource to acquire additional funds.

"I'm not suggesting that it will not still be insolvent but it provides potentially additional liquidity during an insolvency or troubled situation for that insurance company," she said. "That benefits policyholders because it's going to provide a way to be able to pay claims."

Meanwhile, Committee Chair Senator Donna Frett-Gregory, who moved the bill, said that there was also a strong possibility that the territory could have a reduction in insurance costs as a result of the measure. However, she said what was most important was to ensure that once residents "place their personal, individual dollars with an insurance company, they are now able to ensure solvency so we can sleep better at night if a storm, a hurricane is heading our way."

Ms. Frett-Gregory added, "They lend to insurance at very competitive rates, providing opportunities to enhance the yield by borrowing at low cost and investing in risk appropriate markets which in theory, like I said earlier, can drive down the insurance payments."

According to the senator, as of March 31, 2022, 552 insurance companies were members of the Federal Home Loan Bank System.

If the bill is passed, insurance companies would have to meet specific financial conditions and other eligibility requirements which gauge whether the company has enough assets to remain viable. One of the main purposes of the Federal Home Loan Banks is to provide advances (loans) to its members, both banks and insurance companies. Insurance companies generally use these advances as a source of additional liquidity when needed.