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The Imperative of Cooperation for the Progress of National Insurance and Business and National Development

Thank you, BICA executives and members for allowing me to participate in this event. Being here allows me to do several things. First, I would like to reflect briefly on the global recession and its impact. Clearly, global and local economic conditions have a direct bearing on the National Insurance Fund and the demands made upon it as part of our country's social security network.

Secondly, it is a part of my responsibility as Director of the National Insurance Board to make public reports on the performance of NIB to ensure transparency.

And thirdly, I would like to reflect briefly on the imperative of cooperation to improve our economy generally and to take National Insurance safely into the future for the benefit of all Bahamians.

Almost two decades ago, "globalization" became a buzzword. The term cropped up in nearly every speech in the early years, even though the process of globalization was nothing new. In fact, it began from the rise of mankind on Earth. Because of the astounding growth of communications technology, however, globalization took on a new character in the late 20th century. There would hardly be an area of the planet that did not experience its impact, and many exciting claims were made for the good that globalization could produce.

For me, as a financial service professional, the most promising of the possibilities of modern globalization was its potential to increase liquidity of capital, which would allow investors from rich, industrialized nations to invest in those on the way to development. The potential to increase cash flow in developing countries opened new vistas of hope for fast-tracking economic growth. When we look around today, however, we see that the world did not give enough thought to guarding against the negative impacts of unrestrained free trade. Three of the most harmful have been:

1. Increased flow of skilled and non-skilled jobs from developed to developing nations as corporations seek out the biggest bang for the buck in the labor market;

2. The spread of a consumption gospel as salvation for the poorer countries. Simply put, if a country was seeking increased prosperity, it had to encourage its people to consume more to rev up the economic engine; and
3. Increased likelihood of economic disruptions in one nation doing harm to economies around the world by a super domino effect.

There can be little doubt that these three things brought about the worst recession that we have seen in our lifetime. As a result of this severe downturn, unemployment in the UK has reached a 17-year high 8.4 percent. Unemployment has reached a troubling high in the United States, owing in large measure to the rapacious behavior of the big guns of Wall Street and in good measure to job migration.

Although overall joblessness in the U.S. has declined since the highpoint of the current recession, it stood at 8.3 percent in January. But consider this: U.S. unemployment averaged about 5.7 percent between 1948 and 2010, except for two anomalies—an extraordinary low of about 2.5 percent in 1953 and a spike of 10.8 percent in 1982. The 8.3 is matter of concern for us, as our economy is so dependent upon that of our neighbor, and even more so because of the public sector losses. Over the past 12 months, the sector has lost 276,000 jobs, with declines in local government; state government, excluding education; and the U.S. Postal Service.

Unrestrained consumption and a lifestyle of increased materialism have reached their bitter extreme in the economy of Greece. To stave off bankruptcy the Greek government has had to impose severe austerity measures, which has led to rioting in the streets of that country. To put it in a nutshell, globalization, for the most part, has turned into the greatest opportunity for exploitation that the world has ever known. The worst of it is that because of the indecent growth of profiteering, the concepts of community and cooperation have lost much ground.

The Bahamian economy has undoubtedly felt the backlash from these developments. While we have managed to keep our heads above water through the worst of the recession to date, can we rest easy? Not if we wish The Bahamas and Bahamians to survive with any degree of dignity and sovereignty. I say this for two reasons.

- 1) A recent release from the Department of Statistics, which pegged national unemployment at 15.9, and noted that joblessness among young people was up by a third. In fairness, this can't all be attributed to the recession, but is the result of a constellation of negatives, including poor performance in education and a lack of marketable, competitive skills.
- 2) I know from personal experience that where great talents, skills, opportunities and profits exist, as in the accounting profession, isolationist thoughts arise frequently. It becomes easy to promote individual benefit over community health.

I have come here to tell you also that countries and peoples around the globe are inevitably interconnected, however. When Krakatoa, a volcanic island in Indonesia blew up in 1883, the shock wave from it was recorded around the globe and ash clouds from it circled the earth. Consider how our own archipelago functions. Hurricane Irene battered communities throughout The Bahamas in late August last year. Do you think we could have been sitting here comfortably today, if our country had been a small, single-island state, such as one finds in the Eastern Caribbean? Thank God we are a multi-island state and we can still come together in common cause. This means that if one part of the country suffers loss, other parts can come to the rescue and help to rebuild. As the great Martin Luther King, Jr. once said, "We may have all come on different ships, but we're in the same boat now."

Our personal and professional development cannot be considered or carried out in isolation from the wider community. Nor can we achieve sustainable development and profit, where they are growing pockets of vulnerability and despair in our society.

When The Bahamas achieved independence from Britain, the government of the day understood this interdependence. Our leaders understood the need to institutionalize the concept of cooperative effort in building and maintaining a strong nation. This understanding was reflected in the formation of a contributory social security plan, which was concretized with the establishment of the National Insurance Board and the supporting National Insurance Fund.

As the organization charged with administering the social security program of The Bahamas, the National Insurance Board (NIB) is mandated to provide income-replacement in respect of sickness, invalidity, maternity, retirement, death, industrial injury/disease, and involuntary loss of income and unemployment. Additionally NIB's mission encompasses assistance for needy citizens and contributing to the social and infrastructural development of the country.

Among the challenges and opportunities of the National Insurance Board is the geography of The Bahamas. We are a large archipelago covering 100,000 miles of ocean with significant populations on thirty islands of the chain. This distribution has required NIB to establish and maintain local offices and sub-offices in these islands to ensure equality of access to all for whom the National Insurance provides benefits.

NIB plays a vital role in strengthening Bahamian society by institutionalizing cooperative action for mutual benefit. In this regard, all our processes and the success we enjoy are propelled by the following beliefs and values:

1. Fundamentally, National Insurance is an investment by and for the benefit of the people of The Bahamas.
2. We of the National Insurance Board are stewards mandated to nurture, protect and grow this essential investment.
3. We must keep current our knowledge of the Bahamian society and economy and what Bahamians need to become contributing members of the society and economy. To achieve currency requires ongoing research and dialogue.

4. We do not possess all of the expertise, knowledge, skills and facilities required to respond effectively and appropriately to prevailing needs; hence the importance of forging a range of partnerships.

Many resent National Insurance and question their need to participate and the value of the program to the nation. I point out to you today that the degree to which NIB plays a role in supporting Bahamians at critical periods in their lives came unmistakably to the fore in 2009 a high point of the recent recession. To mitigate the distress experienced by individuals and families owing to mounting layoffs and job loss, the Unemployment Benefit became a fixture in the National Insurance Benefits Program. By December 2010, some 19,738 Bahamians had availed themselves of the temporary income-replacing benefits, and approximately \$30 million was paid out in this connection.

As at January 3, 2012, our records show the following cumulative totals since April 2009. There have been 24,635 UEB awards to the beginning of this year. Total cheques issued amounted to \$37,297,668. The total weekly benefit amounted to \$3,393,986, while the average weekly benefit was \$138.

Encouragingly, there has been a significant decrease in the number of new claims every week. I note three periods as illustration. In April 2009 there were 5,010 claims awarded for a total weekly benefit of \$671,309. Total cheques issued stood at \$8,103,632. Ninety-nine (99) claims were awarded for December 2011; the weekly payout averaged 17,304; the average weekly benefit was \$175 and the total payout amounted to \$31,579. For the week of January 3 of 2012, there were 51 claims, a total weekly benefit of \$8,977 and an average weekly benefit of \$176.

Those who denigrate National Insurance and who refuse to comply with their obligations in that regard, ought to ask themselves—What if National Insurance had not been there to come to the rescue of the jobless? We at NIB like to think in the positive—The Fund helped to avert much hardship and continues to do so.

As a result of its great importance, we have given much thought to the sustainability of the Unemployment Benefit, and have instituted stringent guidelines and monitoring systems to ensure that this essential aid goes only to those who are entitled.

The depth and impacts of this recession tell us this country must make some fundamental changes in operational philosophy. The way employed persons, the self-employed and employers think about fulfilling their obligations to National Insurance has to change. Every country needs a social security network for the uplift of those who fall into crisis or reach the age of retirement. Failure to do so is likely to have the direst of consequences. We have only to look around to see how the dissolution of community and rising criminality are increasing the cost of doing business and hindering growth. Unemployment without a benefit to fall back on could only add to the disorder.

No enterprise in a country such as ours can survive on purely extractive trade. There is an urgent need for an evolution that enthrones collaboration and community development. It is imperative for creating a climate in which our various endeavors and goals can thrive. When sectors cooperate, we contribute to strengthening of the society and economy globally. We create a climate in which all can grow and prosper.

It is no less incumbent upon the National Insurance Board to change—not in purpose, but in mode and quality of operation and outreach in response to changing times. With the advent of the new millennium, the National Insurance Board had to evolve into an organization uniquely aligned with what research projected that the 21st century needs of the Bahamian people would be. We were fully aware that NIB would also have to devise the means to keep the National Insurance Fund healthy and progressing in order to respond adequately to the needs that would arise.

One of the first steps was to engage the 8th Actuarial Review of the National Insurance Fund to assess National Insurance in terms of effectiveness and sustainability. The results brought a sobering prediction— If the present contribution rate and benefit provisions were maintained, the National Insurance Fund would be exhausted in 2029.

Key recommendations coming out of the Review were as follows:

1. Review the level of the insurable wage ceiling and thereafter increase it annually with rules governing such adjustments placed in National Insurance Regulations.
2. Increase pensions and wage ceiling annually in line with changes in the cost of living.
3. Consider paying more than just the greater of Retirement and Survivors benefits where the widowed spouse has earned his/her own pension.
4. Review the terms under which pensionable civil servants participate in the National Insurance program with an objective of enacting similar provisions for all insured persons.

In addition to the foregoing predictions and recommendations, statistics from the health sector brought to our notice that chronic diseases as diabetes, high cholesterol and high blood pressure were imposing ever- increasing burdens on the financial means of individuals and the national health budget. We discovered that, as costs rise, many patients cut back on dosage or abandon medications altogether. Needless to say, the ultimate cost of such behavior would prove too high socially and economically. It suggested a need for the involvement of NIB in promoting better health among Bahamians.

I'm proud to say that over the course of the past three years, NIB brought all of the key recommendations of the 8th Actuarial Review and much more into being.

As regards supporting health promotion, we have increased the pace of funding health care-related facilities, such as the \$12 million Robert Smith Child & Adolescent Centre at Sandilands in Nassau and community health centres throughout the islands. In the case of the latter, we opened a state-of-the-art facility in Inagua just last month.

Furthermore, National Insurance launched the National Prescription Drug Program in the fall of 2010. We are managing the program and its \$10 million budget exceptionally well to the benefit of thousands of Bahamians. Initially, the Plan covered 11 chronic diseases, including Asthma, Arthritis, Breast Cancer, Diabetes, Glaucoma, High Cholesterol, Hypertension, Ischaemic Heart Disease, Major Depression, Prostate Cancer and Psychosis.

The original beneficiaries of NPDP were NIB pensioners, NIB invalids, children, and Bahamians over 65 years of age, but we strive continually to extend benefits to more Bahamians. Consequently, in March of 2011, the Prime Minister, who is also Minister responsible for National Insurance, announced the launch of Phase 1A of NPDP, which authorized the inclusion of the following as the newest beneficiaries:

1. Indigent persons;
2. Staff of Her Majesty's Prison and the Industrial Schools;
3. Members of the Royal Bahamas Police Force;
4. Members of the Royal Bahamas Defence Force;
5. Officers employed in the Public Service;
6. Persons receiving ante-natal care, care connected with child birth, post natal care or any other medical care associated with pregnancy; and
7. Persons in receipt of disablement benefit assessed at one hundred per centum under the National Insurance (Benefit and Assistance) Regulations.

The Drug Plan is now supplying prescription drugs FREE of charge to Bahamians in 11 categories, and this year will be adding to the list of covered diseases:

- Benign Prostate Hypertrophy (or BPH)
- Epilepsy;
- Sickle Cell Anemia, and
- Thyroid Diseases

I can report that NIB's \$1 million investment in new technology to assist in the management of the plan is paying off in so many ways. With on-line, real-time adjudication and processing of claims, we have committed to and are succeeding in settling of pharmacy claims within seven working days.

We will soon move to introduce the second phase of the Prescription Drug Plan whereby all workers will be required to pay into the program and will therefore be covered. Our recommendation is that the contribution rate increase by 1% to 10.8% of the insurable wage in order to fund this extended benefit.

Additionally, two of the original disease categories were expanded to include more related conditions. Ischaemic Heart Disease has been expanded to Ischaemic Disease, which will allow patients who have had a stroke to access medications to prevent a second occurrence of this life-threatening condition. Major depression and psychosis will be combined under the diagnosis of Psychiatric Illness. This will allow any eligible patient suffering from any psychiatric disorder access to the medications covered under the Drug Plan Formulary.

I would like to share with you briefly some numbers to demonstrate the need for and the success of the Drug Plan to date:

- There are currently a total of 17,127 persons registered with the Drug Plan, 2,099 of them Grand Bahamians.
- Number of claims total 191,000 to date
- Amount paid out to private pharmacies (as at Jan. 2012): \$3.8 million, of which \$305,222 went to participating Grand Bahama pharmacies.
- Average # of Claims Paid Weekly to private pharmacies—All Bahamas: 3,923 and 400 in Grand Bahama
- Average Amount Paid Weekly: \$82,531, All Bahamas and \$7,209 in Grand Bahama.

The second component of the National Prescription Drug Plan is our Healthy People Program, which aims to develop a culture of wellness in our community in order to increase healthy life expectancy, reduce the burden of illness and enhance the overall quality of life of the population. The Get Well Bahamas Health and Fitness Challenge, the flagship initiative of HPP, provides financial grants to qualified organizations for well-conceived programs aimed at implementing community wellness activities and enhancing knowledge of health risks and personal responsibility for wellness.

We have completed Phases 1 and 2 to great success, with Get Well Challengers recording significant reductions in weight and blood pressure, cholesterol and glucose levels. Many have reduced their need for medication in cases of diabetes, high blood pressure and high cholesterol. Encouraged by the success of these results, we launched Phase 3 of Get Well Bahamas in Nassau last month. I'm pleased to inform that we are about to launch the Wellness program in Grand Bahama, where our second largest population center is located. Furthermore, we continue to work towards finding ways to spread elements of the program to more communities.

Further highly beneficial amendments to the National Insurance Program have been approved by government and will come into force this year. Those of you who attended the Business Outlook yesterday would have heard already, but any case they bear repeating.

This year, July 1, 2012, for the first time, NIB will automatically adjust pensions by CPI change for 2010 and 2011 and the wage ceiling will change from \$500 to \$600 in July. Although we will be paying more into National Insurance, we will receive more in benefits. Again with the view

to keeping the National Insurance Fund viable, automatic adjustments to the wage ceiling will occur every second year starting in 2014.

It is important that National Insurance provisions be updated periodically to ensure that NIB contribution and benefit provisions are consistent with prevailing socio-economic conditions. NIB is initiating a number of groundbreaking changes to our benefits program that became effective in January.

In the case of the Retirement Benefit, we have done much to ensure that retirement is a time of comfort rather blighted with financial worries. We have changed the age at which persons are allowed to receive their retirement benefit without an income test from age 70 to age 65.

The 2012 amendments now allow the payment of Retirement Benefit to persons 65 and over, who remain employed with wages in excess of 50% of the wage ceiling. Previously, the age at which this provision came into effect was 70. It meant that persons over 60 but less than 70 who earned an income of \$250 or more; that is, if they earned half or more of the current \$500 weekly contribution ceiling, they were ineligible to receive retirement benefit.

There is still more good news. If Retirement benefit is awarded after 65, NIB is increasing the amount payable by 7/12% for each month over age 65. This is similar to the reduction that now applies if the benefit is awarded before age 65.

The very best news for those nearing retirement is that, as of January, when we are determining the insurable wages to be used to calculate pensions, we will now calculate your entitlement based on the 5 years with the highest average insurable wages over one's entire career. Compare this to the previous regulation whereby we could use only the average of the best 5 years wages in the last 10 years.

What we have done for the Survivors Benefit reflects the same concern to make difficult times more bearable for our beneficiaries when their need is greatest. Therefore, we have removed the requirement that a couple must have been married for at least one year before bereavement to be eligible. So now the requirement is simply to be married.

Similarly, the new amendments allow orphans to receive Survivors Benefit if they are in part-time education. Previously, if the surviving child was not in fulltime education, the benefit would be suspended.

The 2012 amendments also reflect our need to be constantly vigilant to protect the National Insurance Fund from adverse conditions, mismanagement or deliberate fraud. In this regard, we now impose a limit of 6 months for Funeral Benefit claims and 3 months for all others.

I will now share briefly some financial performance indicators for the years 2008 to 2011 to assure you of our fidelity to and success in this commitment. In 2008, NIB's contribution was \$155.2 million. In 2009, which by every indicator, has been the toughest year of the recession

so far, good management of collections and other processes effected contribution growth to the tune of \$4.9 million for a yearly total of \$159.9 million. In 2010 contribution income rose by \$7.9 million to \$167.8 million. Last year All Bahamas contribution totaled \$189.4 million. We have marked some gains on this island as well, from \$17,722,743 in 2009 to \$19,091,652 in 2011. These advances result from well-planned strategies to encourage and facilitate customer contribution and to enhance collection processes.

The All-Bahamas benefit payouts from 2008 to 2011 were \$152.1 million; \$178.7 million, \$176.0 million and \$182.0 million, respectively. Reserves for the years under review were as follows: \$1.5 billion in 2008; \$1.55 billion in 2009; \$1.57 billion in 2010 and \$1.6 billion in 2011. You can see that we have steered a good course in enhancing contribution income and benefits, while protecting the integrity of the Fund.

NIB's income from investments, which include leased properties, totaled \$81.3 million in 2008, the following year, \$74.3 million, a decline that was not unexpected at that high point in the recession. In 2010 investment income rebounded for a yield of \$91.5 million, a growth spurt of \$17.2 million. Income totals recorded by year for the three years were \$236.5 million, \$234.2 million and \$259.3 million. The three-year benefits payouts were \$152.1 million \$178.7 million and \$176.0 million.

Over the three-year period, we spent from Contribution Income \$32.8 million, \$35.2 million and \$38.2 million to pay Administrative expenses, which encompass sums paid out for the management of the fund and the Board. Administrative expenses as a percentage of contribution income were 21.1%, 22.0% and 22.8%. I think these figures show a management and containment of expenses any organization would be proud of.

I spoke earlier of the need for cooperation in securing our economy. Without a doubt, National Insurance is one of the finest examples of cooperative action for community benefit and it works. I often compared contributing to the Fund to paying a hand in A-sue—What you put in eventually comes back to you in some form or other, either through direct payments of benefits to you or in the form of much-needed investments in health care or other public facilities.

With the inevitable march of globalization, small countries like us are most vulnerable. However, the relative smallness of our population can be a positive with a pooling of knowledge, talents and resources. Professions like yours profit or lose, grow or fail in the context of societies, economies, networks and partnerships. I invite BICA and its members to consider including in your skill development and practice the creation of more networks of mutual respect and benefit. It is essential for the survival of our several enterprises and the Bahamian economy in these times of global upheaval and transitions.

The National Insurance Board invites and needs your partnership. We have done much to increase the efficiency of our collections and have seen a steady rise, but compliance in paying contributions is still too low. It is especially so among the self-employed, although the level of

employer participation should be far more buoyant. Today, I stress particularly the need for your partnership in raising compliance levels among your clients.

As accountants you can do much to ensure your clients are compliant. In this sector, we have less than 30% of businesses compliant. In partnership with NIB, you can work to convince them that they endanger their future as individuals and the future of their businesses by not acquitting this obligation.

For the sustainability of the Fund, we **MUST** act, even in the face of the current economic conditions. I would even go so far as to say that our very survival as a people depends on understanding our interdependence and contributing to our mutual sustenance. The foundation for your development as accountants is the community and world you help to create. It is the same for us all, whatever our calling, race, nationality or creed.

It is urgent that we begin to collaborate in a more structured way and take strong steps to shore up our economy and those of our fellow Bahamians who are most vulnerable. I leave with an appeal to each of you, to us all, to become an active part in rewriting the Bahamas chapter of the great book of humanity. We need to re-vision and revise how we interact with each other and how we acquit our personal and professional obligations to self, neighbor and country.

Thank you.