

The seal of the Office of Management and Budget, Government of the U.S. Virgin Islands, is a circular emblem. It features a central shield with a blue field containing a white anchor and a yellow field containing a white anchor. The shield is set against a background of a blue sky with white clouds and a yellow sun. The shield is flanked by two yellow wings. The entire emblem is enclosed in a blue circular border with the text "OFFICE OF MANAGEMENT AND BUDGET" at the top and "GOVERNMENT OF THE U.S. VIRGIN ISLANDS" at the bottom.

Committee on Budget, Appropriations and
Finance

Bill No. 36-0236

Virgin Islands Insurance Guaranty Fund

Presented by:

Director Julio A. Rhymer Sr.

Good morning the Honorable Senator Novelle E. Francis Jr, Chairman of the Committee on Budget, Appropriations and Finance, members of the Committee on Budget Appropriations and Finance, other members of the 36th Legislature and the viewing and listening audience.

Introduction

I am Julio A. Rhymer Sr., Director of the Office of Management and Budget. I am here to discuss **Bill No. 36-0236**, which proposes to increase the statutory minimum balance of the Virgin Islands Insurance Guaranty Fund from fifty million dollars (\$50,000,000) to fifty-five million dollars (\$55,000,000). The Insurance Guaranty Fund was established to support the financial stability of the Virgin Islands Insurance Guaranty Association, which plays a crucial role in fulfilling the obligations of insolvent insurers. This fund is particularly vital in the wake of natural disasters that can affect our Territory.

Earlier this year, this body appropriated \$4,000,000 for territory-wide streetlight improvements through the Virgin Islands Water and Power Authority, based in part on the assessment that the Insurance Guaranty Fund has maintained excess capacity.

Current Fund Status

At present, the Insurance Guaranty Fund maintains an approximate balance of \$62 million. Current projections indicate that the Government expects to collect approximately \$22 million annually, with \$20 million allocated to the General Fund to help support budgetary balance.

Under the existing statutory framework, the fund maintains approximately a 20 percent cushion above the required minimum, providing a valuable buffer for emergencies or unexpected insurer insolvencies.

Constructive Considerations Regarding the Proposed Increase

While the proposed increase may appear modest, we respectfully encourage consideration of several fiscal and economic factors that suggest maintaining the current statutory minimum at this time may be the more prudent course.

1. Maintaining Financial Flexibility

It is essential for the Government of the Virgin Islands to preserve sufficient liquidity and budgetary flexibility to navigate economic downturns, revenue fluctuations, and urgent response needs. Increasing the statutory minimum would effectively set aside an additional \$5 million, limiting the Government's ability to allocate resources during periods of fiscal uncertainty. In a small island economy, even modest constraints on liquidity can significantly affect the Government's responsiveness to the public's needs.

2. Utilizing Capital for Greater Impact

Insurance guaranty funds typically operate under conservative investment guidelines that yield minimal returns and limited economic impact. Requiring additional funds to remain in reserve increases the opportunity cost of capital that could otherwise support essential services, infrastructure projects, or other critical investments. Ensuring that public funds remain optimally deployed is an important component of sound fiscal management.

3. Limited Incremental Consumer Protection

The primary mission of the Fund is to protect policyholders in the event of insurer failure, and the Fund currently maintains a balance that exceeds the existing statutory requirement. Increasing the minimum threshold by 10 percent is unlikely to produce meaningful improvements in consumer protection, insurer solvency, or systemic risk reduction. An actuarial analysis would help determine whether a true funding deficiency exists before pursuing such an increase.

4. Long-Term Structural Rigidity

Historically, statutory fund minimums tend to increase over time and are rarely reduced. This upward ratchet can divert resources from critical services, constrain strategic investments, and increase reliance on borrowing, potentially contributing to long-term debt pressures. As fiscal agility remains essential, it is important to carefully consider the long-term implications of introducing additional rigidity into statute.

Conclusion

In summary, while the proposal to raise the Insurance Guaranty Fund minimum from \$50 million to \$55 million is well-intentioned, it would:

- reduce the Government's financial flexibility
- limit capital availability while generating minimal return
- provide only marginal additional consumer protection
- introduce unnecessary budget rigidity

Given these considerations, we respectfully encourage the Committee to revisit **Bill No. 36-0236** and allow the Government's financial management team to continue overseeing the Fund under the current statutory threshold of \$50 million, thereby optimizing resources for the benefit of the Territory.

Thank you for the opportunity to testify. I, along with Commissioner McCurdy, am available to answer any questions the Committee may have.