July 2009

Staying Connected

For the Alumni of the ECCB's Savings and Investments Course

YOUR FINANCIAL NEWS

FINANCIAL FITNESS

Sense & Dollars

If you don't learn to manage your money other people will find ways to mismanage it for you.

http://www.investopedia.com/articles/younginvestors/08/eight-tips.asp

Don't believe all the hype… Be critical and use your common sense, especially if investments promise unrealistically high returns.

Mr. Everett S. Christian Address to the Graduands

ECCB Savings & Investments Course
Graduation Ceremony, July 8, 2009
5th Cohort, Antigua and Barbuda

I wish to start with a quote, from *A Tale of Two Cities* by Charles Dickens and it goes something like this: "This is the best of times, and the worst of times". This is certainly true for Antigua and Barbuda today.

We find ourselves at the crossroads, due to a significant upheaval in the local, regional and international financial community. At the same time, **we now have a golden opportunity to transform our country, by changing the way we do business. Key to this is our response to the external and internal factors that shape the environment in which we operate.** I will focus primarily on regional and local developments, as there are serious lessons for us to learn.

First, during late 2008 we learnt that the C L Financial Group was in serious trouble, for having invested heavily in real estate in the USA, and in derivatives (also in the USA), the value of the investments declined significantly, and the group was unable to meet its commitments to policy holders and investors.

There is no need for me to chronicle details of this development – only to say that hundreds, if not thousands of Antiguans and Barbudans have invested in both Colonial Life Insurance Company and British American Insurance Company, and they stand exposed to significant loss. In Antigua and Barbuda, the investments took the form of the traditional life insurance policies, and in recent years, trended towards "annuity" policies.

In reality, most of the so-called annuity products were in fact fixed deposits, paying rates that seemed too good to be true. And it is said - if it seems too good to be true, it is usually too good to be true. The business model pursued by the CL Financial Group raised numerous concerns, and I recall that, in my other life as a banker, I repeatedly requested the intervention of the authorities, as I feared a collapse, as eventually happened.

At the time I expressed these concerns, some opined that I was merely attempting to protect the interest of the commercial banks, to the detriment

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of depositors who (my critics thought) stood to benefit from the higher rates being paid by CLICO and British American. What many did not appreciate is that risk and return go hand-in-hand. The higher the return, the greater the risk!

Further, some failed to appreciate that insurance companies were not adequately regulated or supervised, and they were free to assume ill-advised risks, in an effort to enhance their return on investment. So too, did the local investors in these two companies, who went in search of a high return without paying due regard for the safety of their investment. Today, local investors stand to lose hundred of millions of dollars, unless a rescue package can be arranged in the near term.

It is important to note that the investors ran the gamut from relatively small investors who received severance payments, and were looking to enhance their returns, to business persons who had surplus funds, on which they were seeking a higher return than was available from traditional deposit products. Not to be outdone also are numerous institutional investors, including banks, credit unions and statutory corporations that went after the "quick buck" and now stand exposed to potential loss.

The next event I wish to reference is the collapse of the Stanford Financial Group. Earlier this year, R. Allen Stanford and two of his senior executives were accused of being the masterminds behind a massive fraud referred to as a Ponzi scheme. The allegation is that the Scheme effectively defrauded investors out of a sum estimated at US$8 billion. Civil charges were filed by the Securities and Exchange Commission of the USA, but more recently criminal charges were laid against Stanford and his cohorts.

In addition, criminal charges were also laid against Mr. Leroy King, the former head of the local Financial Services Regulatory Commission, which has responsibility for regulating the offshore financial sector in Antigua and Barbuda.

None of the persons charged have been found guilty of any of the charges, and we have to afford them the presumption of innocence until proven otherwise. What however, is of great concern is the fallout and the implications for Antigua and Barbuda because of this. As no sooner had the SEC announced its investigation into Stanford International Bank when local investors got jittery and started withdrawing funds from Bank of Antigua, although that Bank was not the subject of any investigation. This precipitated the near collapse of Bank of Antigua and required the intervention of the ECCB to avert such an eventuality.

I chose these two examples because of certain similarities. In the case of the CL Financial Group, they undertook high-risk investments and paid higher than normal rates to investors, and this was not sustainable in the long term.

R. Allen Stanford and his associates were accused of operating a massive Ponzi scheme in which they promised investors rates of return that were significantly higher than going market rates.

While the payment of higher interest rates is not in and of itself illegal, it is just about always an indicator that something is awry. And, as stated earlier, if it seems too good to be true, it is usually too good to be true.

This is the message I wish to leave with you this evening. Having participated in this saving and investment course, you should now have a better appreciation of how to assess risk, and how to manage your finances in order to **avoid the pitfalls of going after a quick high return, to the detriment of the security of your investment.** Each of you needs to understand your risk profile and determine the level of risk you are in a position to assume.

There are a number of questions that should be asked, and I now pose two of these for your consideration. **Can you afford**

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to lose the principal sum invested? Is the potential return on investment worth risking the entire investment? If the answer is no, then you need to walk away from that particular option.

This saving and investment course has been available to participants in Antigua for the past three years, and it is estimated that a total of 150 persons have participated in the five (5) sessions held to date. However, what I would love to see coming out of these courses is the formation of various investment clubs or the formation of new companies, where participants could put what they learned into practice.

I am issuing a challenge to you this evening to form an investment group where you can impart the knowledge gained and be in a position to provide critical advice or even become budding entrepreneurs. Why do I say this? It is critical for us in the private sector to develop new entrepreneurs capable of promoting private sector investment in Antigua and Barbuda.

In these difficult economic times, when the Government is stretched to the limit - they are unable to create the jobs and opportunities required to absorb new entrants into the workforce. The best thing for the Government to do is create the enabling environment, where entrepreneurs could take advantage of the opportunities created to develop new or expand existing businesses. I see this as a golden opportunity for the private sector to demonstrate its worth, and to truly become the engine of growth in the local economy.

With the establishment of the Antigua & Barbuda Investment Authority, we now have access to a one-stop agency, where we can obtain information and support for new investments in Antigua and Barbuda. Let us take advantage of this opportunity with the knowledge we have gained from this Savings and Investment Course to play our part in national development, and so ensure that Antigua and Barbuda remains a shining light in the Caribbean.

It is critical for us in the private sector to develop new entrepreneurs capable of promoting private sector investment

Mr Everett Christian, former manager of ABI Bank, has almost 41 years of banking experience. He is now a financial consultant.

Mr Albert Lockhart, Resident Representative , ECCB

Mr Whitfield Harris, ECCB Board Member, presents a gift to Mr Everett Christian

Graduates, Facilitators, and ECCB Officials

Mr Whitfield Harris, ECCB Board Member, presents graduate with certificate

Keep pressing and pressing your ? button

Considering the investment upheaval that has rocked the globe over the past year, one can easily see how persons may find **guaranteed return investments** to be very attractive.

However, besides being aware of the fact that any guarantee as it relates to investments is only as sound as the guarantor and the foundation of the investment providing the guarantee, one also has to be aware that there is a trade-off between risk and return. The less risk you assume the less return you are likely to obtain.

Considering this therefore, you would not be surprised that I always probe with a series of questions, all investments, particularly those claiming to **guarantee** relatively "high" rates of return.

So when I received an e-mail about a private firm promoting an investment claiming to offer a rate of return of 6.5% guaranteed by a sovereign power *(for the record the sovereign power is not in the OECS)* rather than becoming overly enthusiastic about my prospective riches I starting pressing my "**question button**", and I had a lot of pressing to do.

Is the investment guaranteed by law?

Does the investment firm provide prospective investors with a copy of the guarantee so that they can read the specifics of the guarantee?

What exactly is guaranteed? Is it just the principal that is guaranteed or just the interest or both?

Is the guarantee for the life of the investment or just for an initial period?

What are the downside risks associated with the investment? All investments carry some degree of risk though the risks associated may be minor or major depending on the nature of the investment?

How long does an investor have to be locked into the contract with the investment firm to receive the advertised return? Note, one has to be wary of locked up contracts since one can incur significant surrender charges if one needs to cash in before the end of the contracted period?

What are the investment returns linked to? Certainly they have to be linked to the performance of something? What is that thing? That investment instrument or instruments?

Considering the performance of the global economy in recent times, what investment opportunities exist to be able to provide a stable and guaranteed return that will allow for the investment firm to be able to earn enough to pay the investor 6.5% and still, one would assume, make a reasonable profit?

The thinking that there are more questions than answers, should not be acceptable when it comes to one's money and investments. Any question that cannot be answered should cause one to be concerned and refuse to invest until those questions are thoroughly answered.

Sometimes person may not ask questions for fear of appearing to be stupid. My response to this fear is based on the following comment echoed by a lawyer last week: "the only stupid question is the one we did not ask. However, once the question is asked it could not be stupid."

Mark you, I have not researched the investment alluded to, so I am not in a position to rate its soundness or its stability. But all smart investors should make sure that they ask questions and refuse to part with their hard earned money until they receive what they consider to be satisfactory responses to all the questions posed. As for me I am busy pressing my question button...SLW

The ECCU Eight Point Stabilisation and Growth Programme

What's going on?

Member governments of the ECCU have articulated a set of consistent policies and approaches in the form of an **Eight Point Stabilisation and Growth Programme** to address the protracted negative impact of the global economic and financial crisis on the economies of the ECCU.

1

Financial Programmes

The financial programme assesses the imbalances of the economy by bringing into alignment, in a consistent manner, the four basic macroeconomic accounts namely: Balance of Payments *(External Sector);* National Accounts *(Real Sector);* Fiscal Accounts *(Public Sector)* and Monetary Accounts *(Financial Sector).*

2

Fiscal Reform Programmes

The programmes seek to develop efficient revenue and expenditure systems in the currency Union. The objective is to develop fiscal regimes that are conducive to economic growth and development and are sustainable over the medium term.

3

Debt Management Programmes

This involves the development of a debt strategy aimed at aligning the countries debt to achieve the debt target of 60 percent of GDP by 2020 established by the Monetary Council.

4

Public Sector Investment Programmes

Countries would develop their Public Sector Investment Programmes (PSIPs), which would address: (a) quick disbursing projects which will put people to work and stimulate economic activity to restore growth; and (b) the provision of critical infrastructure for medium to long term development.

5

Social Safety Net Programmes

The programmes' aim is the protection of the poor and vulnerable as the international crisis deepens. The objective is not only to address poverty, but also the creation of a path for advancement towards self-sufficiency for those persons in poverty.

6

Financial Safety Net Programmes

This involves facilitating the restructuring and recapitalisation of the banking and insurance sectors and strengthening of the regulatory and supervisory regimes.

7

Amalgamation of the Indigenous Commercial Banks

This would allow the sector to take advantage of economies of scale and scope, efficiencies in operations and increasing opportunities for more diverse banking services.

8

Rationalisation, Development and Regulation of the Insurance Sector

The aim is to streamline the size of the insurance sector and to improve the regulatory and supervisory infrastructure for insurance companies.

The Strength of the EC$ Is the Strength of the Region !!!

The peg - 7 July 1976

The EC dollar has been fixed to the US dollar at a rate of EC$2.70 to US$1.00 since 7 July 1976. Prior to this the EC currency was fixed to the pound sterling at an exchange rate of EC$4.80 to £1.00. However, following the sterling's depreciation in the 1970's and the emergence of the United States as the region's major trading partner, the decision was made to shift the peg to the US dollar.

The exchange rate of EC$2.7 was the EC dollar equivalent computed based on the exchange rate of the pound sterling to the US dollar at the time of the shift. Consideration was also given to the needs and characteristics of the ECCU economy.

Generally the reasons to peg a currency are linked to stability. A fixed exchange rate has the advantage of reducing transaction costs and exchange rate risk. Hence a country may decide to peg its currency to create a stable atmosphere for foreign investment. With a peg, the investor will always know what his/her investment value is, and therefore will not have to worry about daily fluctuations. A pegged currency can also help to lower inflation rates and generate demand, which results from greater confidence in the stability of the currency.

Any decision to alter the peg of the EC currency rests with the Monetary Council, the highest decision making body of the Eastern Caribbean Central Bank (ECCB). Article 17 (2) states that this decision must be unanimous:

"the Bank shall on the recommendation of the Board approved by a decision of the Council, both such recommendation and decision having been adopted unanimously by all their members declare the external value for the Eastern Caribbean dollar,"

Key to the maintenance of the exchange rate with the currency to which the EC dollar is pegged is the ECCB's maintenance of adequate levels of foreign reserves. The ECCB's foreign reserves pool consists in large part of US currency to which it is pegged. The pool of foreign reserves is maintained through the return on investments and the receipt/purchase of foreign currency from commercial banks and other clients. The minimum level of foreign reserves is set out in the ECCB Agreement, Article 24 (2):

"*Subject to paragraph (3) of this Article the Bank shall at all times maintain the External Reserves in an amount not less than sixty per cent of the value of the currency issued or deemed by the Bank to have been issued by it and in circulation and other demand liabilities but excluding coin issued for commemorative purposes.*"

Decisions regarding the EC dollar exchange rate would have also taken into consideration the issue of its sustainability, *i.e. the economic cycles and the economic drivers of the ECCU economy that result in an inflow of US and other foreign currencies that can contribute to the reserves pool.* Note that our exports are more or less concentrated in a single commodity, tourism. This industry is also cyclical, with the tourism industry period running from October – March, a six month period. Hence decision makers would have had to ensure that what ever the rate chosen is one that is sustainable *i.e. if the market wants to sell the Central Bank EC dollars, it has the requisite foreign reserves to purchase its own (EC) currency.*