

JUNE 2012

*Staying Connected*

For the Alumni of the ECCB Savings and Investments Course

YOUR FINANCES .....YOUR FUTURE

**YOUR FINANCIAL NEWS**

**Resolution Trust Corporation  
To Assist The Restructuring of Financial Institutions**

**Collaboration with the relevant regulators**

**Single Financial Space**

The Establishment of Professional Standards

**Active Engagement of the ECCU Public**

**CONFIDENCE**

**Review of the Arrangements for  
Upgraded Regulation and Supervision**

**Consolidation of Major Financial Institutions**

**Eight Point Stabilisation and Growth Programme**

Workshops to Enhance Accounting Standards and Improve  
the Level of Regulation in the Non-Bank Financial Sector

**Global Crisis**

**Recommendations**

**Challenges**

**Facilitate**

**Policies**

**Resolution Efforts**

**Task Force on ECCU Financial System**

**The ECCB - Committed to Providing the People of the ECCU with  
a stable currency and financial system**

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## Financial Stability in the Eastern Caribbean Currency Union

Eastern Caribbean Central Bank



Annual Report 2011/2012

**M**aintaining confidence in the financial system is a central theme that reverberates in the Governor's Presentation of the Eastern Caribbean Central Bank Annual Report 2011/2012, delivered on 27 June. The Governor identified concrete measures taken by the ECCB to address challenges in the area of financial stability stemming from the knock-on effects of the global crisis on the economies of the member countries.

Among the measures adopted by the Bank in this regard are the intensification of efforts towards the realization of points (6), (7), and (8) of the ECCU Eight Point Stabilisation and Growth Programme namely, **Financial Sector Safety Nets; Amalgamation of the Indigenous Commercial Banks; and Rationalisation, Development and Regulation of the Insurance Sector.** These points are designed to strengthen the framework of regulatory oversight and coordination among regulators in the Eastern Caribbean Currency Union and move the region closer to the establishment of a single financial space *“in which there will be a consolidated supervisory framework covering all of the financial institutions, and a rationalisation of the operations of the major institutions such as banks and insurance companies.”* (ECCB 2011/2012 Annual Report). The end result will be more comprehensive supervision, stronger regulation and financial institutions.

## Structure of the ECCU Financial System

As at 31 June 2012

INSTITUTIONS	REGULATOR	ECCU Countries								TOTAL
		ANG	ANT	DOM	GDA	MRT	SKN	SLU	SVG	
<b>Commercial Banks</b>	<b>Eastern Caribbean Central Bank</b>	<b>4</b>	<b>8</b>	<b>4</b>	<b>5</b>	<b>2</b>	<b>7</b>	<b>6</b>	<b>4</b>	<b>40</b>
Development Banks/Boards	Single Regulatory Unit/Ministry of Finance/National Regulator	1	1	1	1	0	1	1	0	6
Credit Unions	Single Regulatory Unit/Ministry of Finance/National Regulator	1	10	10	13	1	4	13	9	61
Domestic Insurance Licensees	Single Regulatory Unit/Ministry of Finance/National Regulator	20	24	21	23	7	15	26	23	159
National Development Foundations	Single Regulatory Unit/Ministry of Finance/National Regulator	0	1	1	1	1	0	1	1	6
<b>Licenced Finance &amp; Mortgage Companies</b>	<b>Eastern Caribbean Central Bank</b>	<b>0</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>7</b>	<b>2</b>	<b>16</b>
Licenced Finance & Mortgage Companies	Single Regulatory Unit/Ministry of Finance/National Regulator	1	0	0	0	0	0	0	0	1
Building and Loans Associations	Single Regulatory Unit/Ministry of Finance/National Regulator	0	0	1	1	1	0	0	1	4
International Banks	Single Regulatory Unit/Ministry of Finance/National Regulator	3	14	3	0	4	1	8	2	35
Money Services Businesses	Single Regulatory Unit/Ministry of Finance/National Regulator	2	6	6	4	2	9	5	4	38
<b>TOTAL</b>		<b>32</b>	<b>67</b>	<b>48</b>	<b>50</b>	<b>18</b>	<b>38</b>	<b>67</b>	<b>46</b>	<b>366</b>

### Mission Statement



To maintain the stability of the EC dollar and the integrity of the banking system in order to facilitate the balanced growth and development of member states.

# You've come a LONG way EC...

## Bank Notes

During the 1940s, bank notes issued by British and Canadian banks circulated freely throughout the islands. In 1836, The Colonial Bank (*Predecessor to Barclays Bank*) was established in the West Indies by merchants and bankers from London. Offices opened in 1837 in Barbados, Trinidad and Tobago, British Guiana and later in St. Lucia, Grenada, Antigua,



Dominica, St. Kitts, St. Vincent, the Danish Virgins and Kingston, Jamaica. The Royal Bank of Canada (RBC) acquired its first branch in the British Caribbean in 1910 in Port of Spain, Trinidad after opening a branch in London. RBC soon spread throughout the territories and came to St. Kitts in 1915.

## British West Indies Currency

The West Indian Currency Conference held in Barbados recommended, “*The establishment of a Regional Currency Board and the Unification of the Currency of the Eastern Group of the West Indies on the basis of the British West Indian dollar worth four shillings and two pence sterling*”. (**Colonial Office, Report on Barbados, 1947**).

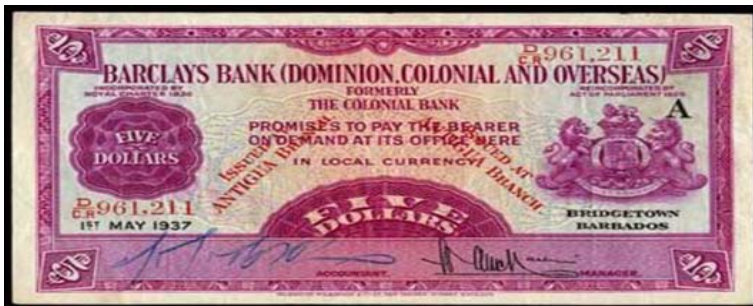
This led to the establishment of the British Caribbean Currency Board (BCCB), the institution with the sole right to issue currency in Barbados, British Guiana, the Leeward Islands, the Windward Islands and Trinidad and Tobago. **The first British Caribbean currency notes were issued on 1 August 1951, and British Caribbean coins on 15 November 1955.**

**1965 - ECCA Currency**

After Trinidad and Tobago and British Guiana obtained their political independence from the United Kingdom, these two countries elected to withdraw



Bank note from the Colonial Bank that was issued in all British Caribbean Territories dated 1<sup>st</sup> September 1926.



Bank note from Barclays Bank (Dominion, Colonial and Overseas) formerly the Colonial Bank dated 1<sup>st</sup> May, 1937.



Royal Bank of Canada bank note dated 3<sup>rd</sup> January, 1938.

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BCCB note featuring George VI, King of Great Britain and Ireland (Head of state 1936-1952). Queen Elizabeth replaced the face of her father, King George VI on the banknotes after he died on February 6, 1952.

- external relations including overseas representation;
- international trade agreements and other external economic relations;
- financial and technical assistance from external sources;
- The judiciary and the administration of justice, and
- currency and central banking

from the British Caribbean Currency Board to establish their respective central banks. Their withdrawal led to the dissolution of the BCCB and the establishment of the East Caribbean Currency Authority (ECCA) in March 1965 as the authority to issue and manage a common currency for Barbados, and the Leeward and Windward islands with the exception of Grenada, which became a member of the ECCA in 1968.

On 31st March 1974, Barbados withdrew its membership from the Eastern Caribbean Currency Authority to establish its own central bank. The headquarters for ECCA was subsequently moved from Barbados to St. Kitts.

The emergence of the United States as the region's main trading partner, gave rise to the decision to shift the peg to the US dollar in 1976 at a fixed exchange rate of EC\$2.70 to US\$1.

The ECCB Agreement was signed on 5 July 1983 and the Eastern Caribbean Central Bank came into being on 1st October. The transition from a currency authority, ECCA, to a full fledged central bank, the ECCB, gave the region an institution that was better equipped than its predecessor to influence the economic transformation of its member territories. **The first ECCB notes were issued on 15 November 1984 to commemorate the ECCB's first anniversary.**



**The first ECCA notes which were issued on October 6, 1965 were pegged to the pound sterling at an exchange rate of EC\$4.80 to £1.00.**

### 1984 - ECCB Currency

In 1981, the nine small English speaking islands of the Eastern Caribbean continued the joint pursuit of their economic development with the signing of the Treaty of Basseterre on 18 June 1981. The member states agreed to collaborate on 18 main areas including:

On 7 July, 2012 the EC currency celebrates 36 years (1976 - 2012) of being pegged to the US\$ at a fixed exchange rate of EC\$2.70 to US\$1. **The monetary policy of the ECCB is centered around the maintenance of the stability of the EC currency.**

## Is renting a house a better option than building or buying a house?

By Dennis Cornwall, Manager, Research & Marketing, Eastern Caribbean Home Mortgage Bank

**B**uilding or buying a house is one of the largest investments that one would make in his or her lifetime. In reality, not everyone would afford to build or buy their dream house. Not everyone would meet benchmarked standards to contract a mortgage loan based on the established requirements of the financial institutions and therefore one may have no choice but to rent.

The Question is therefore: **Is renting a house a better option than building or buying a house?** What is your take on this controversial issue?

There are persons among us who are of the opinion that:

- a) *“If you rent, you are throwing away your money.”* In other words, you are paying off someone else’s mortgage;
- b) “Owning your own home is a forced savings plan.” You are required to put aside from your earnings towards your mortgage. In addition, one is required to contribute between 10 - 20 percent in down payment. This is considered as a forced savings, since you do not earn interest on some of that money, but you will build equity over time. Renters do not build equity.

- c) “Home ownership is an excellent path to building wealth.” There is wealth in owning a home.

Lets us examine the pros and cons of homeownership versus renting:

### PROS:-

- i. **Esteem** - Owning a home gives esteem and a sense of achievement.
- ii. **Better Credit Rating** - Having acquired the experience of paying on a mortgage or saving regularly, can improve one’s creditworthiness.
- iii. **Taxes** – In some of our jurisdictions in the Caribbean and most developed nations, homeowners may benefit from income tax refund on interest paid on their mortgages. It means every dollar spent on interest, the homeowner will receive a portion of that dollar in return.
- iv. **Building Equity** – Owning a home by means of the gradual retirement of the mortgage, allows one to build equity over time. Someone paying rent does not build equity. The landlord will benefit from the

payment of rent. The homeowner can also pass on the house to his or her children.

### v. **Generally, Fixed Rate Mortgage (FRM) payment** -

One can contract a fixed interest rate mortgage, which implies that the monthly payment will be fixed for the life of the mortgage until maturity. In the case of an Adjustable Rate Mortgage (ARM), the monthly payment may change based on the state of the economy. This means that the rate can go up or down. Renters may be faced with an increase in rent over time.

- vi. **Pets** – One can raise pets without having to seek approval if he or she owns the property, and where there are no health or planning restrictions. In the case of a renter, the landlord may have restrictions which may preclude the renter from raising pets that are not related to health or planning restrictions.

- vii. **Privacy of Information** – In the case of a renter, he has no control over the information

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that he gives to the landlord. When one owns a home, he or she has control over the privacy of the information that can be disclosed.

viii. **Neighbours** – A renter in an apartment cannot guarantee that there will not be another neighbour just a wall away. The renter has no control over his neighbours, or who can be also renting from his landlord.

ix. **Family**– In the case of a renter, he may have to seek permission from the landlord to have extended family members occupy the premises. However, if he or she owns the house, he or she does not have to seek permission from anyone. No permission is required to move in extended family members such as elderly parents.

x. **Access** - In a renting environment, the landlord has access to the house once he gives adequate notice to the renter. In the event he or she owns the house, he or she will have the privilege to determine who has access.

xi. **Living Free Once you pay off Your Mortgage** – Once you are finished making all your mortgage payment, there is no further obligation.

xii. **Ability** to remodel and

redecorate to match your needs and desires. – Over time the homeowner may wish to change his living space, he can do so if he owns the property. Renters cannot modify the house as he wishes or desires.

#### CONS :-

i. **Down Payment** 10 - 20 percent. In the case of a renter, he or she is only required to make the security deposit and to pay his or her monthly rent. The security deposit is usually refundable on termination of the lease. In the case of the home owner, he would have had to make cash or equity injection of about 10 – 20 per cent before the financial institution may consider lending the money for building or buying a home.

ii. **Utility Expenses** – the renter usually does not have to pay for all utility- water, electricity, gas, telephone, cable, security etc.

iii. **Insurance** – Fire and peril insurance is required on all mortgages and sometimes the homeowner is also required to carry life insurance. The renter usually only insures the contents of the house if he had to purchase them himself.

iv. **Appliances** – the homeowner

may choose to rent the house unfurnished or furnished. If the house is rented furnished, the landlord has to acquire all appliances and therefore incur additional cost.

v. **Depreciation** – A house depreciates on an ongoing basis and the homeowner is required to provide for regular maintenance to enhance the value of the house. The renter does not have to incur such cost.

vi. **Mobility and Lifestyle.** – It is more difficult for the homeowner to move from place to place or adjust his or her lifestyle at relatively short notice. The renter has more flexibility with respect to mobility and changes in his lifestyle if he or she chooses. Once you build or buy a home, it demonstrates a level of stability/permanence.

vii. **Adjustable Rate Mortgage (ARM)** – This type of mortgage can be more challenging for the homeowner to manage since the interest rate can go up or down. In the event that the rate goes up, the monthly mortgage payment could change significantly over time. If the interest rate falls then it's a plus to the homeowner. The renter's rent

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can increase over time also. However, the renter does not have to preoccupy himself or herself with an increase in mortgage payments.

viii. **Closing Cost** – The renter is not required to pay closing cost. However, the homeowner will have to pay legal fees, survey cost, and cost for preparation of Certificate of Title or Title Deed.

ix. **Property Tax/Land Taxes** – The homeowner is required to pay property and land tax on an annual basis. However, the renter does not have to incur those cost related to the property.

x. **Outdoor Upgrading** – the renter is restricted from making any enhancement to the outdoors or to improve the esthetics of the surrounding landscape. However, the homeowner can upgrade his outdoors to enhance the value of his property at a cost which the renter does not have to incur.

xi. **Wear and Tear** – The homeowner's house is exposed to wear and tear on heaters, painting, roof, windows etc. These items have a limited life span and the homeowners will have to

incur cost in replacing or maintaining them. The renter does not incur these costs.

xii. **Possible Falling Home Price** – The renter does not have to worry about possible fall in home price. On the other hand, the homeowner would be concerned where the value of the house is worth less than he or she owes the bank or financial institution.

The decision to build, buy or rent a house does not always depend on the economics of it. One would consider all of the consequences, financial, emotional, cultural or traditional practices etc., and conclude that buying a home is the best decision.

My advice is to get all the facts and make your own decision.

**“Home ownership is the cornerstone of a strong community.”**

**Rick Renzi**  
Former American politician

## News Flash



### BAICO Judicial Managers and ECCU Governments Sign Agreement

The Judicial Managers of British-American Insurance (BAICO) together with the Governments of the Eastern Caribbean have announced the agreement to recapitalise and sell part of the BAICO business to Sagicor Life Inc.

The business being sold is made up of Group Pensions and the following traditional life policies issued by BAICO in Anguilla, Antigua, Dominica, Grenada, Montserrat, Saint Lucia,

St Kitts & Nevis, and St Vincent and the Grenadines:

- Universal Life policies
- Term Life
- Whole Life
- Endowment
- Home Service Life

Approximately 17,500 policyholders are expected to benefit from the sale, restoring the policy values for nearly two in every three BAICO policyholders.

To read the entire news release visit <http://www.eccb-centralbank.org>