



# The Consumer Voice

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Trusts - a superior  
alternative to wills?

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Is it time for a more  
robust pension  
system?

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Are you saving  
enough for  
retirement?



## The investment alternative

AN INNOVATIVE  
ADDITION TO  
TRADITIONAL BANKING



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# The investment alternative

## AN INNOVATIVE ADDITION TO TRADITIONAL BANKING

ONE of the most compelling reasons for you to invest is the prospect of not having to work your entire life! It is the means by which you create and build wealth.

Whether your goal is to send your kids to college or to retire on a yacht in the Mediterranean, investing is essential to getting you where you want to be.

The great economic recession of 2009 meant that the pool of qualified borrowers in the banks had greatly diminished.

This in turn meant that the banks were sitting on a lot of cash but had nothing to do with it. Thus the rates earned on fixed deposits dropped drastically, further increasing the need to consider investing.

Investments add another dimension to building wealth by providing an option to earn a higher rate than that offered on a savings account or fixed deposit over a long term. There are only two ways to make money: by working and/or by having your assets work for you. If you are indeed serious about turning your money into wealth and achieving your goals, there are a few factors you must take into account, such as controlling your debt, length of time in which you want to accomplish your goals, and a knowledge of investment vehicles that can be used to get you to your destination.

If you don't have it, you can't save it... and you certainly can't invest it. Unfortunately, the truth is as harsh and as simple as this. It will be difficult to lock up funds for five or more years if you are having difficulty meeting expenses or lack an emergency savings account. Note that you should have at least six month's salary on a savings account to use for emergencies.

The first step to investing is managing your debt through a debt consolidation. Debt consolidation increases your cash flow, by paying off all your existing loans and giving you one, lower monthly payment. The key is to save a portion of the new cash flow, and to NOT borrow again except for noble purposes such as purchasing a home or a car to get to work.

Savings accounts and fixed deposits are designed to be short term. Investments, on the other hand, are designed to be long term, and tend to earn more over that long period. Investments are best for any goal you have that will take five years or more to achieve. For example, a mortgage is a major investment that lasts 20-30 years. A business is another type of investment that requires a long term commitment. We will focus more on what we call paper investments, that is, stocks,



bonds and mutual funds.

One type of paper investment is stocks, which are also called shares or equity. Stocks are a share in the ownership of a company. As you acquire more stock, your ownership stake in the company becomes greater. Holding a company's stock means that you are one of the many owners (shareholders) of a company. As an owner, you are entitled to your share of the company's earnings as well as any voting rights attached to the stock.

People sometimes need to borrow from a bank to get the money they need. So do companies and governments. Large organisations - like companies and governments - typically look to banks as well as capital markets to finance their various projects. In the capital markets, they can raise money by issuing bonds, another type of paper investment to a public market. Thousands of investors then each lend a portion of the capital needed in return for the promise from the organization to repay the money at a specified rate over a specified period of time.

Of course, nobody would loan his or her hard-earned money for nothing. The issuer makes interest payments to bondholders at a specific time and at a specific rate. The interest rate is often referred to as the coupon. The date on which the issuer has to repay the amount borrowed (the amount borrowed is called the face value of a bond) is called the maturity date. Bonds are known as fixed-income securities because you know the exact amount of cash you'll get back if you hold the security until maturity.

A mutual fund is another paper investment. You can think of a mutual fund as a company that brings together a group of people and invests their money in stocks, bonds, and other securities. Each investor owns shares, which represent a portion of the holdings of the fund.

You can make money from a mutual fund in three ways:

1) Income is earned from dividends on

stocks and interest on bonds. This income is not paid directly to mutual fund shareholders, but instead goes back into the fund, which increases the assets in the fund. As the assets increase, the price of each individual share also increases.

2) If the fund sells securities that have increased in price, the fund has a realized capital gain. This gain is also passed into the fund to increase the overall assets.

3) If fund holdings increase in price but are not sold by the fund manager, it's called an unrealised capital gain. As with other gains, the fund's assets increase in value, and, in turn, so do the individual share values. You can then sell your mutual fund shares for a profit.

### Advantages of Mutual Funds

**Professional Management** - The primary advantage of funds is the professional management of your money. Investors purchase funds because they do not have the time or the expertise to manage their own portfolios. A mutual fund is an inexpensive way for a small investor to get a manager to buy and sell securities on their behalf.

**Diversification** - By owning shares in a mutual fund instead of owning individual stocks or bonds, your risk is spread out. It is highly unlikely that all the investments in a fund will be performing poorly at the same time. So while some investments may be suffering a loss, others are earning gains and this minimises your risk for loss. It's unlikely that an investor could build this kind of a portfolio with a small amount of money.

**Liquidity** - Just like an individual stock, a mutual fund allows you to request that your shares be converted into cash at any time. However, with an individual stock you have to wait on a buyer, and in our slow-moving market, that could take some time. Also, if the stock you are selling is declining in value, it's even more unlikely that you will be able to find a buyer for it in the market. In these cases, you will

probably be left holding this asset and be forced to suffer the losses. With a mutual fund, the fund is your buyer, alleviating these concerns.

Imagine this. You have worked for years and now you are aged 60 or 70, what is known as the Golden Years. Are you traveling the world or are you struggling to make ends meet month to month? An investment can make the difference between one reality and the next. The only money you will have during retirement is the money you've saved over the years, and the pension you received, if any. Many companies offer pension plans for their employees, but if your job does not offer one, it is recommended that you join one of your own. Pension plans invest your money in stocks and bonds to yield a return.

It is important that you get rid of as much debt as you can before you retire, which includes your home loan. Your income will be limited to what you have saved, and you do not want to have to pay out large cash amounts each month for expenses.

Before you can consider investing, your ducks need to be lined up. If you are consumed by debt, it will be impossible for you to save or make any investments. So, the first step to investing is to consolidate and get rid of debt. Once this is done, you can start focusing on accomplishing those goals you set for yourself. For those long term goals, you should carefully select the types of investment that best suits you. It would be an excellent idea to sit with a financial advisor when walking through these steps and making these decisions. Your advisor can also point you in the right direction as it relates to retirement and estate planning, ie making prior arrangements to ensure that your assets go to the intended persons in a timely manner.

Holding savings and fixed deposits are practices embedded within the Bahamian culture, and hopefully this will not change. We should continue to teach our children the value of putting something away for a rainy day. The truth, however, is that the world has changed drastically. The recent recession in 2009 has altered the way banks operate, and just owning a fixed deposit will not generate the type of income it used to in years gone by.

Therefore, for an individual seriously considering building their wealth, transitioning from being a borrower to being a lender, and giving their loved ones the type of lifestyle they deserve, investments are the only way to go.

By Tishrea D Grey,  
Securities Investment Advisor  
Royal Fidelity Merchant Bank  
& Trust Ltd.

Cover photo courtesy of  
Bahamas Sport Fishing Network  
Julian Romer aka Cheetah pictured  
fishing in Great Exuma  
Photographer: Andrea Saline Frank



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**Deposit Rates Effective May 1, 2014**

Account Type	Balance Range	Term	Interest Rate
<b>Regular Share Savings</b>	\$100.00 - \$4,999.99	n/a	3.00%
	\$5,000.00 - \$9,999.99	n/a	3.25%
	\$10,000.00 - \$19,999.99	n/a	3.75%
	\$20,000.00 +	n/a	4.00%
<b>Term Deposits</b>	\$1,000.00 - \$100,000.00	3 months	2.75%
	\$1,000.00 - \$100,000.00	6 months	3.00%
	\$1,000.00 - \$100,000.00	9 months	3.25%
	\$1,000.00 - \$100,000.00	1 year	4.00%
	\$1,000.00 - \$100,000.00	2 years	4.25%
	\$1,000.00 - \$100,000.00	3 years	4.50%
	\$1,000.00 - \$100,000.00	4 years	4.75%
	\$1,000.00 - \$100,000.00	5 years +	5.00%
<b>Fix &amp; Add Deposit</b>	\$500.00 - \$100,000.00	1 year	4.00%
<b>Vacation Savings</b>	\$100.00 +	n/a	3.00%
<b>Back to School Savings</b>	\$100.00 +	n/a	3.00%
<b>Educational Savings</b>	\$100.00 +	n/a	6.5%
<b>Retirement Savings</b>	\$100.00 +	n/a	Nassau Prime + 1%
<b>Deposit Account</b>	\$100.00 +	n/a	1%
<b>Christmas Savings</b>	\$100.00 +	n/a	5%
<b>House Savings</b>	\$100.00+	n/a	4%

**\* Early redemption of term deposits may result in forfeiture of accrued interest.**

# Is it time for a more robust pension system?

GLOBALY, there is a problem with defined benefit pension plans in that most of them tend to be underfunded. A pension plan, which is a traditional Defined Benefit Plan, provides a pre-determined monthly retirement benefit to an employee based on the employee's earnings history, years of service and age. The cost of these plans is generally funded by Employer Contributions into a trust fund.

An underfunded pension plan is one where the known liabilities (obligation to pay future pensions) are far greater than the assets that could be used to pay those obligations. Further, in all cases, those assets belonging to the pension plan are not always separated completely from those of the operating company (employer).

It is said that most, if not all, of the statutory corporations including BEC, Broadcasting Corporation, BAIC and Water & Sewerage Corporation all face massive shortfalls in funded status.

## Pension participation

In the Bahamas today, we have a working population of around 194,000 persons, of which, it is estimated that less than 40,000 of those workers, or about 23 per cent, are covered by a pension plan. The other 77% must then rely upon the National Insurance pension benefit.

Notwithstanding recent changes to the National Insurance Act, this has resulted in, among other changes:



a. An increase in the insurable wage ceiling, and

b. An increase in the amount of required National Insurance contributions before one becomes eligible for a pension.

Whilst the maximum available benefit can be as much as \$1,500 per month, the average pension benefit is less than \$500 per month. Will this be sufficient income to sustain our retirees? We must remember that National Insurance was never intended to be a National Pension Plan – but rather to provide supplemental retirement assistance.

## Living longer

The fact of the matter is that, because of advances in healthcare and health therapies, people are living longer. Some studies clearly show that retirees are the fastest growing segment of the population in

most developed countries. Further, some studies also now suggest that the average retiree could end up spending as much as one third of his/her life in retirement.

## How much do you need in retirement?

The old rule of thumb used to be that you need 60%-80% of your pre-retirement income to maintain your current lifestyle in retirement. This assumed that you had no mortgage; your children have completed their education and moved away from home; and you have relatively little consumer debt.

Newer studies now suggest that 60%-80% is simply not enough and that a more realistic number is 80%-110%. Wow! How can it be more?

The rationale is: in retirement, medical expenses and certain capital expenses must be factored in. Let's assume that you will live another 25 years after you retire. If you own your own house, you will have periodic repairs to contend with – a new roof, refurbishment of the plumbing or electric wiring. These are in addition to annual expenses such as utility bills, real property tax, insurance and the like. If you own a vehicle, how long will that last you? The lifespan of an average car today is less than 10 years, if not properly maintained. So obviously, you would need to consider one or more vehicle replacements during retirement.

In retirement, some health insurers will automatically drop coverage once you reach a certain age. Speak with your insurance agent

about this; planning ahead mitigates against disappointments and unpleasant surprises.

## The need to plan and save

There are still a large number of working Bahamians who will enter retirement without any real net assets that can be liquidated to fund retirement. You would be surprised at the amount of retirees with huge mortgage obligations still outstanding. There is an urgent need therefore, for Bahamians to start saving more for retirement.

## Conclusion

Our conclusion is twofold:

1. Bahamians are generally un-perturbed about how they will finance their retirement. We are too pre-occupied with instant gratification and not at all focused on our long term welfare. Bahamians need to accept greater personal responsibility for retirement planning.

2. The need for pension legislation in this country is compelling. As a country we must drastically increase the percentage of the workforce covered by a private pension plan. The Bahamas is among a minority of regional countries that does not have a mandatory pension regime in place. Most countries in the hemisphere have recognised the importance of having in place a clear regulatory framework and an appropriate supervisory authority.

*Larry R Gibson, a Chartered Financial Analyst, is Vice President - Pensions, Colonial Pensions Services (Bahamas) Limited, a wholly-owned subsidiary of Colonial Group International Ltd. The views expressed are those of the author.*

## SAFEGUARD YOUR FAMILY'S FUTURE

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# INSURANCE AND YOU: ARE YOU SAVING ENOUGH FOR RETIREMENT?

**P**LANNING for retirement should start with your first paycheck. You can get a real head start on building your financial future if you start investing early. The general rule of thumb is that, unless you have loans to repay, in order to ensure a comfortable retirement, you will need 70- 80% of your pre-retirement income. This means if you were making \$50,000 before you retired, you will need \$35,000 or \$40,000 per year, or \$2,917 to \$3,333 per month to retire. And, assuming you plan on living at least another 20 years after you retire, you may need up to \$800,000 to fund those twilight years. That's a lot of costs to cover without a paycheck.

This information is very important because many persons are under the assumption that when they retire their bills stop. But this is not the case. The only major thing that stops is your regular salary. You still have to pay most of your utility bills, insurances, food, clothes, etc.

If you still have loans to repay when you retire you may need 100 to 120% of your pre- retirement income to meet your costs.

## HOW MUCH DO YOU NEED FOR RETIREMENT? (See chart)

The million-dollar question...where is this money going to come from? Primarily three sources:

- 1) National Insurance Benefits
- 2) Personal Savings (including insurance, annuities etc.)
- 3) Employer Sponsored or Personal Pension Plan.

The most generous pension plan is unlikely to provide more than 30%-40% of your pre- retirement income. But if you change jobs more often, the chances are you will have even less than that. National Insurance is only predicted to cover 15%. What this means is that, in addition to participating in a pension plan to the fullest, and making your NIB payments, you must supplement it by saving for the long-term either through additional voluntary contributions to your pension plan or some other type of retirement investment account. Even then, and even if you start early, you will need to maximize your investments to get to 70% or 80% of your retirement income.

The most amazing thing is that, if you start early, you do not have to invest a lot of money each month to build a sizeable nest egg. All it takes is time and the power of compounding to work. Most borrowers are familiar with the power of compounding, its when the amounts they owe start to grow rapidly if they are delinquent on their payment. It is the same power that can work for you when you are investing.

The earlier you start investing for retire-

## RETIREMENT ANNUAL

INCOME	NUMBER OF YEARS REQUIRED	INVESTMENT RETURN RATE	INFLATION RATE	REQUIRED PORTFOLIO VALUE
\$40,000	20	5.00%	3.0%	\$654,057.33
\$50,000	20	5.00%	3.0%	\$817,571.67
\$60,000	20	5.00%	3.0%	\$981,086.00
\$70,000	20	5.00%	3.0%	\$1,144,600.33

ment, the smaller the monthly amounts you will have to invest to reach your goal. Remember, the higher the rates of return on your investment, the more profound the impact on your retirement income. Choosing the right investment is key.

## WHAT INVESTMENTS PRODUCTS ARE AVAILABLE TO SAVE FOR RETIREMENT?

As we mentioned earlier, when it comes to saving for retirement it is better to start sooner rather than later. While there are many investments to choose from, in general, each will fall into one of the four main categories below. These categories are also called "asset classes".

### CASH AND CASH EQUIVALENTS

This includes money in your bank account and "cash-like" investments, such as term and savings deposits, Bahamas Government Treasury bills and money market funds. These are generally very safe and give you quick access to your money. However, they have relatively low rates of return compared to other kinds of investments.

### OTHER OPTIONS

In seeking the right investments mix for your golden years, it is recommended that you sit with a professional financial, or securities investment advisor. You may want to consider adding shares/equities, bonds/fixed income securities, and/or mutual funds to your investments portfolio as well.

### INVESTMENT PROPERTY/REAL ESTATE

This is one of the most familiar forms of investment for Bahamians. Real estate is generally considered a good inflation hedge, meaning that its value rises at least in line with the general price level (inflation). However, there are many characteristics that make real estate less attractive as an investment vehicle, including high transaction costs such as stamp tax, legal and bank fees, its lack of liquidity the need for constant maintenance and the difficulty in achieving a diversified portfolio. If you own a portfolio of investment

properties, and know what you are doing, they can make great retirement investment.

## ASSET ALLOCATION DEPENDS ON YOUR STAGE IN LIFE

Asset allocation involves dividing your portfolio between the four basic investment categories

1. Cash
2. Shares
3. Bonds
4. Real Estate

No one mix of assets is right for everyone. If you are younger with a long time to retirement, the bulk of your assets should be in equities, as they provide better returns than bonds, real estate and cash. For those persons in the 30 -50 year range, their assets should be evenly split

between, equities and fixed income securities. A person closer to retirement for example should place a higher percentage of his assets in fixed income and cash equivalent securities. Time is essentially the biggest factor in determining risk tolerance.

## CLOSING THOUGHTS...

A secure financial future requires discipline, strategic planning and smart investing. Setting financial goals will help you impose discipline on your spending habits and help to develop a road map that you can follow. Keep in mind that you may spend one-third of your life as a retiree. The steps you take today will provide your safety net tomorrow.

*By Cleora Farquharson,  
Manager of Pensions. Roval Fidelitv*



# Trusts - a superior alternative to wills?

**H**ave you ever wondered if it were possible to see your Will in action prior to the grave, or if there was a way to ensure independence in thought of your wishes for the distribution of your assets from beyond the grave? What if your intentions don't pan out as envisioned, can you change it?

The answer is YES! To all of the above! This can be achieved by entering into a trust arrangement commonly known as a living WILL. Guided by a Letter of Wishes, this arrangement will ensure that your wishes and intentions prevail before and after death. In the trust relationship an individual or any legal entity (the Settlor) transfers assets (title) to a third party (the Trustee) who manages the assets in accordance with the terms and conditions (agreed together) of a document called the Trust Deed. Legal ownership of the trust assets rests with trustees while beneficial ownership is conferred upon the settlor's designated beneficiaries. Imagine being able to separate these two!

According to Dianne Bingham, Senior Manager Trusts at Bank of The Bahamas Limited, trusts are far superior to wills for a number of reasons.

'A major advantage of Trusts is they are not subject to costly, time consuming probate filings like Wills are. A Trust allows the disbursement of funds to beneficiaries as you direct and in confidentiality, without exposure to public records and a court probate process,' Mrs. Bingham explains.

Many Bahamian families have experienced long and expensive delays while waiting for the courts to review and validate a Will. Still more know the disputes and conflicts that can arise among beneficiaries when a testator dies.

As a result an increasing number of Bahamians are looking at Trusts as an alternative means of passing on their legacy and providing for loved ones after they are gone. In terms of estate planning, there is a growing trend of acceptance of the Trust as the alternative planning tool of choice for Bahamians.

All Trusts in The Bahamas are governed principally by the Trustee Act 1998, the Trustee (Amendment) Act 2011 and other supporting legislation which allow the settlor to retain certain powers which include:

- Power of revocation
- Power of appointment (at times with Trustee consent) over any part of the Trust property
- Power of amendment
- Power of addition or removal of trustees, protectors or beneficiaries; and
- Powers to direct the trustees

Some settlors also choose to retain sole powers of investment.

'Although the settlor has essentially transferred legal ownership of assets to the Trustee he or she still can maintain a great deal of influence as to how those

assets are managed without the legal responsibility for those assets. He or she can amend the terms and conditions of the arrangement inclusive of designated beneficiaries or amend what is left to a beneficiary at the settlor's pleasure without interference or the need for approval of any other party.' Mrs. Bingham said.

According to Dianne Bingham trusts can be set up as quickly as the parties are able to agree on the terms and conditions of the arrangement and proper due diligence has been completed and accepted by the Bank.

In standard arrangements the fees are represented as a percentage of the trust assets. The cost of management of the trust unlike the probating for a Will is spread over the lifetime of the arrangement. These costs can be negotiated between the parties during one's lifetime so that there are no surprises in the imminent future.

When planning to pass on an inheritance she says there are a number of Trust options that a client may find useful. These include a Personal, Beneficiary, Court Appointed Trust or an Executor/Will Trust.

The Beneficiary Trust arrangement is a new and innovative approach to estate planning that is being widely accepted by the Bahamian Market. It allows the use of a Trust as a beneficiary to a life insurance policy/ies and provides options not available in the standard insurance policy arrangement. One has the ability to expand or contract the beneficiary group without the necessity of consent. There is also ability to control the distribution or flow of funds to the ultimate beneficiary.

In cases where a loved one passes, leaving behind minor children to be cared for, or where funds are awarded to a minor in a settlement, a court appointed corporate trustee ensures that assets are managed and administered prudently, so they will be available to care for the minor until legal age is attained. This arrangement is known as a Court Appointed Trust.

With an Executor/Will Trust a corporate Trustee serves as Executor to ensure that settlor's assets are immediately collected, properly managed and distributed as required. The potential for conflict is reduced as there is independence and transparency in this process. The corporate entity also provides the Settlor with the comfort of continuity.

The Personal Trust is a vehicle used most commonly for individual estate planning. This Trust arrangement allows an individual to organize all assets under one structure. A modified version of this personal arrangement also now allows for the transfer of personally held real estate without the imposition of government taxes. Timing of distribution of the assets is an integral part of this process where individuals do not wish for all of the assets to fall into the hands of any one or

more persons immediately.

Trusts, however, are not limited to personal planning. These structures can be used for commercial purposes. Special Purpose trust vehicles are now being visited more frequently.

Trustee independence is also a critical factor where there are Pension Funds. With an independent Trustee a member of the beneficiary class in a Pension Fund, there is the comfort of knowing that truly "independent oversight" is provided for the Funds that are being set aside each month on their behalf.

'We have seen the results of not having this independence and it's not been pretty!!' said Mrs. Bingham. 'How much should we be doing to protect those persons who allow their funds to be channeled away every month for future years? Do we have a moral obligation in this regard?'

The above are some applications of the Trust, however with the use of the Purpose Trust model the application can extend to charitable arrangements. Individuals with Philanthropic intentions can make use of this tool to achieve their objective.

'Wills have been the common tool used and trusted by Bahamians for years. The Trust concept is new to most Bahamians but not foreign at all to the international clientele serviced from within The Bahamas for decades. It has been a very useful tool for tax planning purposes, however within The Bahamas where tax was also a foreign concept, we are beginning to develop an interest in structuring or succession planning as taxes become more and more a common topic of discussion within the local market,' Mrs. Bingham said.

'Assets held in a Bahamian Trust are held confidentially and protected against potential predators and creditors. Time delays are minimized and there is less chance of a beneficiary who is in need of immediate support being denied that continued access to financial means. The "hold up" which may occur with the probate process is far less and a Settlor's wishes are not disturbed,' Mrs. Bingham said.

Under Bahamian Trust law the Trustee can be any individual who has the legal capacity to enter into a contract or any corporation licensed by the Central Bank of The Bahamas under the Banks



DIANNE BINGHAM

and Trust Companies Regulation Act to so act as Trustee. The use of the corporate entity however provides for the additional regulatory environment and longevity which comfort is absent with an individual.

When selecting a Trustee Mrs. Bingham advises that persons seeking to enter these arrangements ensure that the Trustee is a reputable firm or person who is knowledgeable, experienced and possesses the requisite skill sets.

'The Trustee is a fiduciary and subject to high standards of performance in all aspects of its business. You want to have a degree of comfort that the individual or institution is indeed competent and capable of administering the trust,' Mrs. Bingham said.

She also advises that persons give thought to creating a Trust or a Will well in advance of retirement.

'It is so easy to set up an arrangement that will ensure that your wishes are carried out. With a little planning and assistance from a qualified professional each of us can do our part to prevent confusion, and have the comfort that our intentions will be carried out while ensuring that our loved ones are well provided for in our absence,' said Mrs. Bingham.

Dianne Bingham has over twenty-five years' experience in trust administration. A member of the Society of Trust and Estate Practitioners (STEP), Mrs. Bingham recently chaired the most successful STEP Caribbean Conference in May 2014 at Atlantis which attracted more than 350 delegates from the Caribbean, Latin America, the USA, Canada, the UK and Europe.

.....  
• DIANNE BINGHAM, Senior Manager, Trusts, Bank of The Bahamas Limited

# BISX and Retirement Planning

The Bahamas International Securities Exchange Limited (BISX) is a securities exchange for the listing and trading of local public companies for the domestic market. BISX was successfully launched in May 2000 and has over twenty domestic public companies listed.

BISX is the stock exchange for Bahamian companies that allow Bahamian investors to purchase shares in the listed companies. It is the platform for investors to buy and sell their shares in these companies as they see fit.

The companies listed on BISX are listed below:

- AML Foods Limited
- Arawak Port Development Limited
- Bahamas Property Fund
- Bahamas Waste
- Bank of The Bahamas
- Benchmark
- Cable Bahamas
- CIBC FirstCarribbean Bank
- Colina Holdings
- Commonwealth Bank
- Commonwealth Brewery
- Consolidated Water
- Doctors Hospital
- Fanguard
- Fidelity Bank
- FINCO
- FOCOL
- ICD Utilities
- J.S. Johnson
- Premier Real Estate

Based on the companies listed; many

different industries that make up our economy are represented on the BISX. BISX may not be as developed as exchanges that you will find around the world. However, we do have important areas such as banking, insurance, health, and consumer durables represented. These companies and industries all experience a period of expansion and contraction due to growth or a downturn in their business or the overall economy.

More importantly, BISX is the central platform that allows Bahamians to participate in the capital markets as it relates to ownership.

This is significant because it allows Bahamians to invest their savings into 'equities'/'shares' in various companies as a potential investment vehicle for their savings to grow. Historically, stocks have represented the greatest risk in the investment world due to the volatility of the markets and difficulties related to operating a successful business as a whole. Equally important, stocks are also known to have the greatest growth potential compared to other financial investment vehicles that are available.

Hence, stocks represent the greatest risk as well as the greatest reward.

The other investment vehicles that are available to Bahamians investors are Fixed Income Securities. Fixed Income securities can be loosely defined as "a contractual obligation to pay back the principal and interest of an investment". Essentially, Fixed Income Securities operate similar to a loan as it relates to the

structure of the investment. The time period and interest payments are clearly defined and can be offered by either the Government or a corporation.

On the surface, it may seem that BISX, retirement and retirement planning are NOT connected. They are literally different concepts with one concept tackling investors investing in institutions while the other concept focuses the last stage of an individual's financial plan.

The common denominator between BISX and retirement is the notion of "investing ones savings for greater growth". Investors invest their money (savings) in various stocks in the market for the growth potential associated with them. They believe in the growth potential of the company they want to invest in and sincerely believe that the value of their investment will grow over a period of time.

By definition; retirement planning is "the process of determining retirement income goals and the actions and decisions necessary to achieve those goals. Retirement planning includes identifying sources of income, estimating expenses, implementing a savings program and managing assets"

Two significant parts of retirement planning is the notion of (i) saving consistently towards your retirement and (ii) 'growing' your retirement savings through investing to increase the earning potential of your savings for the day you retire.

Again, the common dominator between BISX and retirement planning is

centered on the concept of "growing your savings by investing". Simply put, retirement savings are usually invested into different assets such as Equities (stocks) or Fixed Income Securities (bonds) through a structured savings program such as a company sponsored Pension Plan or Individual Retirement Account.

A major driving force for companies to be listed on the exchange is to accommodate investors who believe in their company and that are able to invest in their business by purchasing shares. This injection of capital highlights the relationship between retirement planning and BISX. Retirement savings represent a good and viable source of capital for the companies listed on the exchange.

Retirement savings should be invested with the understanding of trying to grow the value of the 'savings' itself. However, every relationship needs a common ground for the relationship to function.

This is the role of BISX. BISX provides an exchange and marketplace for this relationship to function and flourish. The buying and selling of shares is done under an organized and systematic process making it easier for individuals and institution to invest their retirement savings. Hence, they are two very different sides of the same coin.

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# Here to protect investors

## Securities Commission: Here to Protect Investors

Many people feel that when they put money in a bank, in the form of a chequing account, savings account or fixed deposit, it is 'safe'. After all, in The Bahamas, banks are supervised by the Central Bank, with effective systems in place and a history of preserving the integrity of the banking system.

But what about when you invest your money in securities like stocks, bonds and investment funds? Do you feel that there are safeguards in place to protect you when you are buying a stock, lending money to a company in the form of a bond or investing in an investment fund? Any investment involves risk, however, investors need to know that an Authority exists to regulate securities and protect them from scams, fraud and other financial abuses. Investors need to know that the individuals and firms operating in the industry and the investment products being offered are licensed and regulated and all material information is publicly available. They need to know that there is an authority they can bring their complaints or concerns to if they feel they are being taken advantage of. They need to know that the market is operating fairly and honestly for them to make sound investment decisions. This is where the Securities Commission of The Bahamas (the Commission) comes in.

### ROLE OF THE COMMISSION

The Commission is dedicated to the effective oversight and regulation of the investment funds, securities and capital markets. Broadly speaking, it exists to protect investors, to ensure these markets are fair, efficient and transparent, and to reduce threats to the entire financial system.

The Commission was established in 1995 and is responsible for the administration of the Securities Industry Act (SIA) and the Investment Funds Act (IFA), which together provide for the supervision and regulation of the activities of the investment funds, securities and capital markets.

The Commission's functions under the SIA are to: advise the Minister on all matters relating to the capital markets and its



HON. D. Shane Gibson, Renae Makay, Chairman Prices Commission, US Elise Delancy, DPS Alphaeus Forbes and staff pay courtesy call on H.E. Governor General during Consumer Education Month.

participants; maintain surveillance over the capital markets and ensure orderly, fair and equitable dealings in securities; foster timely, accurate, fair and efficient disclosure of information to the investing public and the capital markets; protect the integrity of the capital markets against any abuses arising from financial crime, market misconduct and other unfair and improper practices; promote an understanding by the public of the capital markets and its participants and the benefits, risks, and liabilities associated with investing; create and promote conditions that facilitate the orderly development of the capital markets; and perform any other function conferred or imposed on it by securities laws or Parliament.

### EYES ON THE INDUSTRY

The Commission's efforts to protect investors is carried out through its authorizations, surveillance, and enforcement processes in its oversight of the more than 130 registered securities firms, 64 investment fund administrators and approximately 800 registered investment funds currently operating in or from The Bahamas.

The 'gatekeeper' function of the Com-

mission is carried out through its Authorisations department, whose aim is to ensure that firms, products and investment fund structures registered with the Commission are 'fit and proper' to operate in the capital markets.

The department conducts due diligence on businesses and personnel applying to be registered to prevent unscrupulous persons from operating in the market. The department assesses the business to ensure it meets the necessary prudential requirements and vets individuals to ensure they are fit and proper.

To accomplish these, the Department reviews the documents used to form the business, such as the Memorandum and Articles of Association, Partnership Agreement or Trust Deed. The Department also ensures the business has the appropriate capital and indemnity coverage as well as information on who the shareholders, partners or trustees are before approving that firm to conduct securities business. It reviews the business plan and considers applications for the approval of many of the key decision makers in these businesses, as well as those who will interact with the public to offer advice about investments.

The vetting process for personnel to be

registered with the Commission involves reviewing items such as passports and documents which verify their addresses. Other documents, such as character references, financial references, and a current curriculum vitae, are also assessed to ensure they are qualified and competent. Based on the information gathered, the Commission may make additional background checks as well, to ensure the individual is fit and proper to be registered.

In addition, this Commission reviews and approves certain promotional literature that firms want to use to market an investment product to the general public. This is solely to ensure the documents are fair and accurate, and have all the key information investors will need to make an informed investment decision. A prospectus for a new issue of shares, or an offering memorandum for a new investment fund, are examples of such promotional literature which must be registered with the Commission.

Once the investment product, firm or individual is registered with the Commission, its Market Surveillance Department monitors them from the Commission's offices. The department monitors registered businesses and personnel for any

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# Here to protect investors

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possible breaches to their requirements under securities laws. For instance, one of these requirements is the obligation for registered businesses and investment funds to submit annual audited financial statements and interim financial reports, including public companies listed on the Bahamas International Securities Exchange (BISX). This is important because audited financial statements allow investors to look at the financial performance of a company and take some comfort knowing an independent auditor believes that the financial reports are fair, consistent, and in-line with international accounting standards.

Public companies have to report any material changes that can be perceived to reasonably impact their bottom line. This can include change in CEO and Chairman/members of the Board; and the acquisition or loss of a major contract. Registered businesses have ongoing reporting obligations, which include audited financial statements, capital requirements and material changes such as change in address.

Certainly, the Commission, does not rely exclusively on reports and paperwork sent to its offices to execute its oversight

duties. Officers from its Inspections Department go on-site to registered businesses and conduct periodic examinations to ensure they are complying with relevant legislation.

While many of these examinations are 'routine', the Commission may dispatch its Inspections officers to investigate specific complaints against registrants that come to the Commission's attention. These examinations 'for cause' may be executed swiftly and without notice to the registrant, so as to protect investors.

As a result of examinations, the Commission may find it necessary to pursue disciplinary action against persons who are determined to have violated securities laws. The Commission's Enforcement Department is responsible for carrying out its disciplinary proceedings.

Under the SIA, the Commission has a number of possible enforcement measures it may take, including the authority to seek or impose penalties, in some cases automatic penalties, for the deterrence of particular offences. The Commission also has the power to suspend a license or the business of a firm if it concludes that it is in public interest to do so. Measures like these assists the Commission in its ability to protect investors and, in so doing, maintain order

and trust in the markets.

## WHAT'S MY PART

As the Commission has a key role to play in investor protection, so do investors. After taking efforts to plan, budget and save, there are some basic steps investors should take to help protect the savings they are considering investing.

The investor must understand the security he or she is considering. There are different financial products such as stocks, bonds and mutual funds and investors should understand the more involved aspects of these products, such as how the potential for the investment to lose value compares to the potential for it to increase in value--in investment terms, the "risk" the security carries. The investor must also determine if that level of risk is appropriate for his or her circumstances. Investors who are inexperienced with investing or are in doubt about the right investments for them should seek professional advice. This can be obtained from companies that have been duly registered by the Commission to provide such services.

Equally, watchout for red flags, for example, unsolicited calls/emails, the promise of high returns with little risk, and the encouragement to recruit family and friends. Before making any investment, check to see if the individual selling the security and the company he/she represents is registered with the Com-

mission. Also check to see if the security/investment product that is being sold is registered. The Commission is a valuable source of information in this process as it publishes the firms and the firm's personnel who are registered with the Commission on its website ([www.scb.gov.bs](http://www.scb.gov.bs)) or you may give the Commission a call at 397-4100.

Surely the investor's role does not end here, however. Investors and the general public may also act as the Commission's eyes and ears in determining if someone in the industry may be involved in unfair practices. Persons may lodge a complaint in writing to the Office of the Executive Director, Securities Commission of The Bahamas, P.O. Box N-8347, Nassau, Bahamas, or use the Commission's e-complaints facility on its website. More information about the Commission may also be found on the website.

This article is the first in a series of articles. Future articles will delve deeper into the work the Commission does to protect investors, enhancing investor education and awareness of rights and responsibilities.

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 • EDITOR'S NOTE – The Consumer Voice is pleased to partner with the Securities Commission of The Bahamas, and future articles will appear in the commission's very own Consumer Voice column.

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