

NON-BANK FINANCIAL INTERMEDIARIES
AND ECONOMIC GROWTH
IN THE BAHAMAS

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INTRODUCTION

Apart from its distinction as a developed tourism and offshore banking centre, The Bahamas boasts an established non-bank financial sector. However, most of the literature on The Bahamas tends to focus on its role as a major tourist and/or offshore banking centre. In his pioneer study of "The Monetary and Financial System of The Bahamas: Growth, Structure and Operation", Ramesh F. Ramsaran examined the operations of non-bank financial intermediaries. However, since then there has been little attempt to explore this area any further. The intent of this paper, therefore, is to provide some recent insights into the subject as it relates to The Bahamian economy and in particular economic growth. Special attention will be devoted to the savings and loans institutions and The National Insurance Board, all of which have been pivotal in facilitating economic development.

The paper will be structured as follows: Section I looks at the features of non-bank financial intermediaries; Section II presents a general overview of the savings and loans companies and the National Insurance Board; Section III will seek to analyse the sources and uses of funds pertaining to these particular intermediaries, with a brief conclusion following each analysis. The final section concludes with a synopsis of the linkages between the savings and loans institutions, The National Insurance Board and economic growth in The Bahamas.

SECTION I - CHARACTERISTICS OF NON-BANK FINANCIAL INTERMEDIARIES

Generally speaking, the fundamental role played by a non-bank financial intermediary (NBFI) is to channel savings and other liquid assets from savers to investors. Presently, savings and loans institutions, insurance companies, public finance corporations, credit unions, pension funds, and others, participate in the business of channelling funds from savers to investors. Commercial banks also provide an intermediation function in this regard, however, the basic difference between NBFIs and commercial banks is that, NBFIs do not offer checking/current account facilities, whereas commercial banks do. Note, however, that various savings and loans companies in The Bahamas are currently seeking authorization to offer checking account facilities. This distinction will be dealt with in more detail later.

The salient characteristics of NBFIs are illuminated when a comparison is made between NBFIs and commercial banks. Although commercial banks are attempting to relieve themselves of the ultra conservative perception often attached to them, which is largely reflected in the minimal variety of financial services that they offer, this perception, nevertheless persists. In contrast, NBFIs are regarded as innovative, offering a wide array of financial services, which satisfy the diverse needs of savers and investors.

Non-bank financial intermediaries compete directly with banks for the funds of existing and potential depositors. For example, by offering higher interest rates the tendency is to attract those customers who are more income rather than liquidity oriented. This interest rate advantage results primarily from the fact that

non-banks, unlike commercial banks are not inhibited by a stringent bank rate/lending rate ratio, or by restrictions placed on advances and Regulation Q, as was the case in the United States. Moreover, banks in general seem to have fallen victims to their traditional collusive practices, which have retarded any impetus to become more competitive in the rates which they offer. With regards to loan facilities, some NBFIs charge lower rates than commercial banks; for instance, insurance companies normally grant loans at rates below the prevailing prime rate of interest.

Non-bank financial intermediaries are vigorous non-price competitors. For example, policy holders of insurance companies enjoy the benefit of securing a mortgage loan with relatively minimal administrative paper-work. Furthermore, due to the liability structure of some of the NBFIs, for example, the savings and loans and insurance companies, they are better equipped to extend long term finance in contrast to commercial banks, which, due to their short term liability structure, are better suited to provide short-term loans.

A common feature of non-bank financial institutions is their functional interchangeability with commercial banks. Besides providing savings depository facilities, the NBFIs are also involved in lending and investing activities. Such activities, which are also synonymous with those of the commercial banks comprise fundamental ingredients to the overall mix of financial operations applicable to the non-banks. In short, NBFIs are types of "strange financial creatures so called because they act like banks", but because they are usually not allowed to offer checking accounts or commercial loans, they cannot, technically speaking, be defined as banks.

It is of some interest to note that in developed economies, for example, recent changes in The United States banking laws permit savings and loans companies to offer checking accounts.

SECTION II - OVERVIEW OF SAVINGS AND LOANS COMPANIES AND THE NATIONAL INSURANCE BOARD.

a) Savings and Loans Companies

Four firms comprise the Bahamian savings and loans (S + L) market, with the first of these institutions established in 1953. Three of the S and L companies are owned by large foreign parent companies, having access to significant financial resources. In addition, the S + L's are generally characterised by a medium to long term investment portfolio, which features extensive involvement in mortgage lending and government securities.

All of the S + L's have as their principal activities the acceptance of deposits, and the granting of mortgage and personal loans. Collectively, these firms held assets at the end of 1987, of B\$421.7 million. What is significant about this asset base is that, over \$297.6 million represents mortgage lending; thus more than 70.5% of total assets were in the form of mortgage loans. An additional B\$17.4 million has been invested in government registered stocks. For further detail, Table I & II provide a summary of the main sources and uses of funds for the local S + L's between 1979 - 1987.

The vast majority of the financial resources that are utilised by the S + L's come from the savings and fixed deposits accounts,

which have shown remarkable growth. As at the end of 1987, deposits held by the S + L companies totalled \$360.4 million, accounting for 96.1% of total liabilities. Share capital proceeds and the recent regularity of some of the S + L's to raise funds via the issue of shares indicate a movement towards bolstering solvency, enhancing financial capabilities and financial confidence, as well as involving the general Bahamian public in the ownership of a viable financial enterprise.

Funds are generally attracted by the S + L through competitive interest rates offered on various deposit facilities. The interest rates offered are generally higher than those of the commercial banks, hence appealing to the more income oriented saver. For instance, at year-end 1987, local commercial banks paid a rate of 7.00% on fixed deposits up to 3 months whereas savings and loan companies were offering a rate of 7.34% on deposits of similar maturity.

Apart from the traditional savings and fixed deposits accounts, the S + L's also provide innovative accounts designed to attract funds. Some of these schemes are of a seasonal nature, for example, the Xmas Club Savings Account. As at the end of 1987, this scheme had been responsible for attracting more than 3,800 depositors, with deposits of approximately \$1.4 million.

Another novel type of savings account is the ASUE-Savings Plan Account, first introduced in 1982. The word "Asue" is all too familiar to the Bahamian household sector, however, the Asue Account is unprecedented to the financial sector. Essentially, the Asue Account provides the customer with security and flexibility. Briefly, under the Asue Plan, deposits maybe made on a weekly,

bi-weekly or monthly basis over a fixed time period. The rate of interest offered is $\frac{1}{2}\%$ above the normal passbook savings account, with interest paid quarterly. Both the Asue Plan and the Xmas Club Savings Accounts are indicative of the diverse range of financial services offered by the savings and loans institutions in order to broaden their base of customers and in particular to encourage traditional non-savers from lower income groups to hold deposits with them.

Financial services tailored to attract deposits do not entirely fall under the umbrella of higher interest rates or innovative savings schemes. Rather, there are other techniques geared towards the service conscious investor, as opposed to the income-conscious client. For instance, various S + L's explicitly highlight the computerized facilities, automation, and state of the art data processing systems which they offer, thereby promoting the idea of convenient, more efficient service. Also, a highly successful "Bill Pay" service was introduced in 1983, facilitating the swift payment of recurring bills for customers.

There are other non-price techniques aimed at encouraging new deposits and fostering soundness in the company's financial base. One such technique is, the savings deposits insurance coverage offered by an institution whose parent company is a large insurance company. In this case, a savings deposit insurance coverage is offered to depositors of up to a maximum of \$30,000 per individual savings account, and up to \$300,000 where a depositor is the beneficial owner of more than one insured account. This insurance coverage gives savers and potential savers security in their deposits and enhances customer confidence in the company's overall financial

strength.

Despite the fact that New Providence is the hub of economic activity, impressive economic growth has reached some of the Family Islands. Therefore, in order to keep pace with this economic growth and consequently satisfy the escalating needs of Family Island customers, the S + L's have expanded their operations by opening Family Island branch offices. Currently, there are two (2) S + L branches outside of New Providence with the latest branch opening in December of 1987.

b) The National Insurance Board as a Non-Bank Financial Intermediary

In 1972, The National Insurance Board was formed under The National Insurance Act, of the same year in order to 'establish a system of National Insurance, providing pecuniary payments in respect of sickness, invalidity, maternity, retirement and death of insured persons, and of social assistance for insured and other persons not qualifying for such payments as of right.' Since its inception, The National Insurance Board (NIB), a public corporation, has played a pivotal role in the economic development of The Bahamas through direct benefits and payments to Bahamians (i.e. insured persons), as well as through its direct investments of the funds accumulated by the corporation as a result of employee and employer contributions. Since 1974 when the programme was implemented, the national insurance scheme which is intended to partially replace the income/^{of} insured persons when they are unable to work for a variety of reasons covered in The Act, has experienced accretions to The Fund averaging \$4.0 million monthly, and as at September 1988, total

assets stood at \$366 million. Given the demographics of The Bahamas, payments of benefits by NIB do not nearly approximate the contributions being made by those insured persons on a regular basis. As a result, large surpluses are accumulated and NIB has evolved as a major non-bank financial intermediary. The following reasons may be cited for this characterisation:

- i) the size of the funds available for investment on the part of The NIB
- ii) the types of investment engaged in by The NIB
- iii) the policy of The NIB to maximise the yield on invested funds and
- iv) the ability of The Central Bank of The Bahamas to utilize NIB funds (i.e. surplus, uninvested monies) to facilitate monetary policy as an unorthodox instrument

Unlike the other types of non-bank financial intermediaries discussed in this presentation, NIB has features that are unique to this institution and as a consequence, The NIB may be regarded as the most significant non-bank financial intermediary, both in terms of economic impact and policy implications. These will be examined in detail in the sections which follow.

SECTION III - SOURCES AND USES OF FUNDS

a) Savings and Loans Companies - Sources

As at the end of financial year 1987, the finance companies had attracted over B\$360.4 million to their respective savings and term depositories. Table I indicates that approximately 96% of the financial resources are derived from the savings and fixed deposit accounts. Moreover, these accounts have displayed consistent, healthy expansion. In fact, over the nine-year period being examined, savings and fixed deposits have increased from B\$82.5 million to \$360.4 million, or at an average annual percentage growth of 20.2%.

Another source of funding are the proceeds resulting from the issue of shares. The capital raised through the issue of shares which has shown some recent popularity among the finance companies, has been utilised not only to strengthen the capital base, but also to promote customer confidence and ownership in a sound financial institution. To illustrate the recent regularity of share issues as a means of raising funds, since 1984 more than B\$11.8 million has been generated through the issue of shares. Of this total, some B\$4.0 million was raised from stock made available exclusively to the Bahamian public.

Deposits from parent companies, shareholders and other banks and financial institutions, represent a relatively insignificant source of funding. This point is reflected in the sluggish rate of growth, increasing from B\$3.9 million in 1979 to B\$6.9 million in 1987; or an average annual rate of growth of 7.4%. Nevertheless, it should be emphasized that the respective parent firms and their access to formidable financial resources offer an alternative reservoir

TABLE I SOURCES OF FUNDS AND PERCENTAGE SHARE DISTRIBUTION 1979 - 1987

(B\$ Millions)

| SOURCES | 1979 | | 1980 | | 1981 | | 1982 | | 1983 | |
|--|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | B\$ | % | B\$ | % | B\$ | % | B\$ | % | B\$ | % |
| Savings and Fixed Deposits | 82.5 | 87.5 | 95.9 | 87.6 | 116.8 | 89.1 | 131.8 | 91.3 | 162.4 | 93.0 |
| Loans (Subordinated) | 6.3 | 6.7 | 5.4 | 4.9 | 4.4 | 3.5 | 3.0 | 2.1 | 2.0 | 1.1 |
| Deposit from Parent Bank | 1.2 | 1.3 | 1.2 | 1.1 | 1.25 | 1.0 | 0.75 | 0.6 | .075 | .04 |
| Shareholder Deposits | 1.1 | 1.2 | 1.4 | 1.3 | 2.5 | 2.0 | 2.2 | 1.5 | 2.1 | 1.2 |
| Deposits by Banks and Other Financial Inst. | 1.6 | 1.7 | 1.9 | 1.7 | 1.2 | 0.9 | 2.5 | 1.7 | 2.6 | 1.5 |
| Residual | 1.5 | 1.6 | 3.7 | 3.4 | 4.5 | 3.5 | 4.1 | 2.8 | 5.5 | 3.2 |
| Total | 94.2 | 100.0 | 109.5 | 100.0 | 130.7 | 100.0 | 144.4 | 100.0 | 174.7 | 100.0 |

SOURCE: Financial Statements of The Finance Companies and
Central Bank of The Bahamas

TABLE I SOURCES OF FUNDS AND PERCENTAGE SHARE DISTRIBUTION 1979 - 1987 (Cont'd.)

(B\$ Millions)

| | <u>1984</u> | | <u>1985</u> | | <u>1986</u> | | <u>1987</u> | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | <u>B\$</u> | <u>%</u> | <u>B\$</u> | <u>%</u> | <u>B\$</u> | <u>%</u> | <u>B\$</u> | <u>%</u> |
| <u>SOURCES</u> | | | | | | | | |
| Savings & Fixed Deposits | 192.9 | 94.1 | 238.3 | 95.7 | 299.5 | 96.6 | 360.4 | 96.1 |
| Loans (Subordinated) | 1.0 | 0.5 | - | - | - | - | - | - |
| Deposit from Parent Bank | 2.3 | 1.1 | 1.1 | 0.4 | 0.4 | - | - | - |
| Shareholders Deposits | - | - | - | - | - | - | - | - |
| Deposits by Banks and Other Financial Inst. | 1.4 | 0.7 | 1.1 | 0.4 | 7.0 | 2.3 | 6.9 | 1.8 |
| Residual | 7.3 | 3.6 | 8.5 | 3.5 | 3.5 | 1.1 | 7.7 | 2.1 |
| Total | 204.9 | 100.0 | 249.0 | 100.0 | 310.0 | 100.0 | 375.0 | 100.0 |

SOURCE: Financial Statements of The Finance Companies and
Central Bank of The Bahamas

funds. This is of particular significance during tight liquidity situations.

Table I also features a residual source of funds. This residual category includes mortgage - backed bonds, bank borrowings, accrued interest and life assurance funds. In total, residual sources have grown from B\$1.5 million in 1979 to B\$7.7 million in 1987. This component has experienced moderate growth, but in relative terms constitutes merely a fraction of the total S + L sources of funding.

Uses

The total asset position of the finance companies reveal that the principal use of funds is for the purpose of long-term lending, primarily for the purpose of residential mortgages. There are, however, other uses of funds of a medium and short-term nature including - investment in registered stocks, personal loans, deposit at banks, etc. Table II presents a more detailed look at the use of funds by the savings and loans companies between 1979 - 1987.

Over the period 1979 - 1987 total assets held by the S + L companies have experienced significant growth, rising from B\$101.9 million to B\$421.7 million or 19.4% annually. What is also significant is the composition of the assets. That is, at the end of 1987, mortgage and construction loans comprised over B\$297.6 million or 70.5% of the total assets. Of the total assets, personal loans and registered stock holdings represented B\$73.5 million and B\$17.4 million or 17.4% and 4.1% respectively;

TABLE II USES OF FUNDS AND PERCENTAGE SHARE DISTRIBUTION, 1979-1987

(\$ Millions)

| USES | 1979 | | 1980 | | 1981 | | 1982 | | 1983 | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | B\$ | % | B\$ | % | B\$ | % | B\$ | % | B\$ | % |
| Mortgage and Construction Loans | 84.9 | 83.3 | 105.6 | 97.4 | 120.6 | 88.8 | 135.7 | 87.1 | 160.8 | 85.9 |
| Government Registered Stock | 7.1 | 7.0 | 7.4 | 6.1 | 6.7 | 4.9 | 5.9 | 3.8 | 8.4 | 4.5 |
| Personal Loans | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Cash at Banks (Interest Bearing Deposits) | 5.4 | 5.3 | 2.5 | 2.1 | 1.9 | 1.4 | 6.2 | 4.0 | 8.3 | 4.4 |
| Residual | 4.5 | 4.4 | 5.3 | 4.4 | 6.6 | 4.9 | 7.9 | 5.1 | 9.8 | 5.2 |
| Total | 101.9 | 100.0 | 120.8 | 100.0 | 135.8 | 100.0 | 155.7 | 100.0 | 187.3 | 100.0 |

SOURCE: Financial Statements of The Finance Companies and Central Bank of The Bahamas

TABLE II USES OF FUNDS AND PERCENTAGE SHARE DISTRIBUTION, 1979-1987 (Cont'd)

(\$ Millions)

| <u>USES</u> | <u>1984</u> | | <u>1985</u> | | <u>1986</u> | | <u>1987</u> | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | <u>B\$</u> | <u>%</u> | <u>B\$</u> | <u>%</u> | <u>B\$</u> | <u>%</u> | <u>B\$</u> | <u>%</u> |
| Mortgage and Construction Loans | 176.7 | 77.7 | 214.7 | 77.8 | 258.7 | 75.8 | 297.6 | 70.5 |
| Government Registered Stock | 10.6 | 4.7 | 13.3 | 4.8 | 12.3 | 3.6 | 17.4 | 4.1 |
| Personal Loans | 17.9 | 7.9 | 27.9 | 10.1 | 39.1 | 11.4 | 73.5 | 17.4 |
| Cash at Banks (Interest Bearing Deposits) | 6.2 | 2.7 | 5.1 | 1.9 | 11.8 | 3.5 | 6.1 | 1.5 |
| Residual | 15.9 | 7.0 | 14.8 | 5.4 | 19.6 | 5.7 | 27.5 | 6.5 |
| Total | 227.3 | 100.0 | 275.8 | 100.0 | 341.5 | 100.0 | 422.1 | 100.0 |

SOURCE: Financial Statements of the Finance Companies and
Central Bank of The Bahamas

while cash at banks totalled B\$6.1 million or 1.5%.

The large amounts of funds placed in mortgage and construction lending largely reflect both the nature of the S + L business and asset management. Briefly, the nature of the S + L business is long-term lending. As indicated in Table II, mortgage and construction lending has experienced vibrant growth, increasing from B\$84.9 million in 1979 to B\$297.6 million in 1987, or an average yearly increase of 17.0%. With regards to the asset management technique adopted by the S + L companies, these companies treat long-term loans as a potential source of liquidity. That is, mortgage and construction lending can be regarded as a source of liquidity because such loans are usually paid off by the borrower in a series of payments, thereby generating a constant flow of funds, which adds to the overall level of liquidity of the institution.

To reiterate, traditionally, the main interest of the savings and loan companies focuses on extending long-term financing. To a great extent, as indicated in Table II, this interest has not changed. However, recently, there has been a dramatic expansion in outstanding short-term consumer installment loans indicating a diversification in asset management. The participation of the S + L companies in consumer lending activities between 1983 - 1987 has grown from B\$10.1 million to B\$73.5 million. In fact, between 1986 and 1987 alone installment loans jumped from B\$39.1 million to B\$73.5 million, an 88% increase. This phenomenal rise in short term lending activity by the S + L mainly reflects a growing consumer demand which the commercial banks, the major lenders in the consumer credit market, have been unable to satiate. Another strong

motivation behind this active involvement in personal lending is of profit maximisation. Undoubtedly, consumer installment loans represent the most profitable item in a bank's portfolio and clearly the finance companies have been shifting an increasingly larger proportion of their funds to accommodate this demand which often is directly tied to the growth of income and population.

Government registered stocks, with interest rates as high as 11%, provide a safe and attractive outlet for funds. Table II highlights that the usage of this facility has shown steady growth, rising from B\$7.1 million in 1979 to B\$17.4 million in 1987. Moreover, of the total B\$296.8 million in registered stocks outstanding at the end of 1987, the percentage share held by the S + L companies was 5.9%, this is up from 4.8% in 1979, when the total registered stock outstanding stood at B\$149.2 million. These securities offer the savings and loans companies a secure investment, and assuming that inflation remains relatively low, a profitable real return will be realized. The S + L's, through their purchase of government registered securities operate as a supplier of capital funds to the government, which are in turn utilised to finance medium and long-term capital projects.

S + L companies also place funds on a "cash at banks" account. To illustrate, between 1979 - 1987, this facility has increased from B\$5.4 million to B\$6.1 million. The main implication arising from this account is that, the S + L's can benefit from a relatively substantial interest earning, liquid source of funds, which also provides a degree of financial protection.

All other uses of funds have been lumped into a "Residual" category, as indicated in Table II. The largest component in the

residual is, the Statutory Reserve Account held with The Central Bank of The Bahamas. It should not be surprising to note, given the robust financial growth experienced by the finance companies, that this Account has recorded a marked increase. In fact, the Statutory Reserve Account has climbed from B\$3.9 million in 1979 to B\$16.0 million. The Reserve Account which applies to both the commercial banks and the S + L institutions, totals an amount of not less than the percentage (which is fixed by The Central Bank) of the total of their respective deposit liabilities in Bahamian dollars. The Central Bank is permitted to alter the Statutory Reserve Ratio between 5% and 20% of the deposit liabilities if and when necessary to regulate the money supply and domestic credit.

The other main item in the residual category is 'fixed assets' (lands, buildings, furniture, equipment, etc).

To summarize, the sources and uses of funds of the savings and loans companies have remained consistent with the nature of their business. That is, S + L companies derive most of their funds from the acceptance of savings and fixed deposits. In turn, these funds are used to enter into medium and long term loan commitments, namely mortgage loans. It should be noted that the recent sharp rise in lending activity by the S + L companies is concomitant to the substantial increase in deposits attracted by institutions from the public.

b) Sources and Uses of Funds of The National Insurance Board

i) Sources of Funds

The source of funds for the national insurance programme includes the collection of contributions from all insured persons,

investment income and a grant from The Consolidated Fund of The Government. There are three (3) classes of insured persons - employed, self-employed and voluntarily insured persons. In essence, national insurance can be described as forced national savings; as all persons working in The Bahamas, whether Bahamian or non-Bahamian; whether working temporarily part-time or probationary; whether a legal or an illegal immigrant - must be registered and are statutorily obligated to pay contributions. There are only three exceptions to this, namely - persons who are:

- i) working, who are younger than the compulsory school leaving age (14 years)
- ii) working under diplomatic or other status or
- iii) who are in receipt of retirement benefit and are working and earning less than \$120 per week, \$520 per month.

Contribution Rates

The rate of contributions for the three classes of insured persons are as follows:

- i) 8.8% of insurable wages for employed persons (in this category, the employer makes a contribution that is either 5.4% or 7.1% depending on the wage category of the insured).
- ii) 6.8% of insurable wages for self-employed persons in Class A. (this group is not entitled to Indus-

trial benefits); 8.8% of insurable wages for self-employed persons in Class B (e.g. taxi-drivers, straw-vendors, fishermen, who are entitled to industrial benefits) and

- iii) 5% of insurable wages for voluntarily insured persons

Given the size of the Bahamian labour force, which is approximately 110,000 persons, and based on the legal obligation of employees/employers to contribute to The Fund on a weekly or monthly basis (depending on the terms of salary payment), The NIB has over the fourteen years of existence, accumulated a large source of funds. In addition, The NIB realises investment income and receives a grant annually from The Government's Consolidated Fund - the purpose of which is to cover public assistance services with respect to non-contributory pensioners under the Old Age Pension Act and other persons granted public assistance administratively. The amount of the grant has averaged approximately \$2.5 million annually since the scheme was implemented.

ii) Uses of Funds

Table III which follows, gives a breakdown of the uses NIB funds for the period 1980 - 1988. The uses of NIB funds are of significant interest in the context of the Bahamian economy. This results from the fact that only 40% of the total income of The Fund

TABLE III

TABLE TO SHOW NATIONAL INSURANCE BOARD INVESTMENTS 1980 - 1988

(B\$ Millions)

| Period (Dec.) | Central Bank Deposits | (%) | Commercial Bank Deposits | (%) | Treasury Bills | (%) | Registered Stock | (%) | * Public Corpora- tions | (%) | TOTAL | (%) |
|------------------|-----------------------------|--------|--------------------------------|--------|-------------------|--------|---------------------|--------|-------------------------------|--------|-------|---------|
| 1980 | 8.3 | (7.6) | 14.4 | (13.3) | 9.5 | (8.8) | 76.2 | (70.3) | - | - | 108.4 | (100.0) |
| 1981 | 21.5 | (16.2) | 25.1 | (19.0) | 9.8 | (7.4) | 75.9 | (57.4) | - | - | 132.3 | (100.0) |
| 1982 | 9.6 | (6.1) | 41.8 | (26.8) | 28.9 | (18.5) | 75.9 | (48.6) | - | - | 156.2 | (100.0) |
| 1983 | 1.8 | (0.9) | 43.5 | (23.5) | 24.9 | (13.5) | 108.9 | (58.9) | 5.7 | (3.1) | 184.8 | (100.0) |
| 1984 | 31.9 | (14.8) | 26.6 | (12.4) | 15.2 | (7.1) | 120.5 | (56.1) | 20.5 | (9.6) | 214.7 | (100.0) |
| 1985 | 16.8 | (6.5) | 26.9 | (10.4) | 33.1 | (12.8) | 143.1 | (55.5) | 37.9 | (14.8) | 257.8 | (100.0) |
| 1986 | 25.1 | (8.4) | 26.0 | (8.7) | 30.3 | (10.1) | 160.1 | (53.5) | 57.9 | (19.4) | 299.4 | (100.0) |
| 1987 | 0.2 | (0.1) | 70.8 | (21.3) | 10.9 | (0.3) | 165.7 | (49.9) | 84.2 | (25.4) | 331.8 | (100.0) |
| 1988 (Sept.) | 4.9 | (1.3) | 58.1 | (15.8) | 19.3 | (5.3) | 185.4 | (50.6) | 98.9 | (27.0) | 366.6 | (100.0) |

SOURCE: National Insurance Board
The Central Bank of The Bahamas

* Loans/bonds

via contribution payments, investment income and the grant from The Consolidated Fund, is required to meet the benefits and assistance to eligible claimants during any given year (approximately 30%) as well as administrative expenses (salaries etc. - approximately 10%). The balance, approximately 60% of NIB funds are available for investment.

In recent history, the investment policy of The Board has come under close examination and even what some might term scrutiny. Historically, The Board has been guided in its pursuit of income opportunities by the criteria of safety, yield and liquidity while simultaneously seeking to impact on the socio-economic development of The Bahamas. However, the results have not always been advantageous.

The terms of The Board's powers to invest are outlined in The Third Schedule of The Act, relating to Section 38 (5). The salient financial regulations are summarized under paragraph 2:

"The Board may invest any moneys forming part of The National Insurance Fund, whether in a state of investment or not, either temporarily or permanently...."

"provided that The Board shall not invest in property or securities outside The Bahamas....."

In addition, The Board has power to

"invest, on terms not less favourable than are available to other investors generally, in any securities which are (authorised) investments...."

Based on the legislation, The Board's terms of reference with regards to its investments are sufficiently broad, to allow NIB's funds to be placed in almost any type of investment deemed viable by the trustees of the Board. In fact, if one were to look closely at the pattern of investments of The Board over the 1980 - 88 period - there is a noticeable shift in favour of the yield maximization motive from 1987 onwards. This is evidenced in the movement of short-term funds from The Central Bank of The Bahamas to higher interest bearing deposits placed with commercial banks.

An examination of Table III shows the allocation of NIB investments in the various categories.

It can be seen that in accordance with its demands for payments of benefits - the bulk of NIB's funds are in long term investment - namely Government Registered Stock. In fact, the share of registered stock versus other types of investments has almost always exceeded 50% of total investments. Recently NIB, has attempted to diversify its investment portfolio by shifting a larger share of its deposits with holdings of short term deposits with commercial banks (up to 22% in 1987 from 9% in 1986), and is engaged in lending directly to other public corporations and private banks. At present 27% of all NIB's invested funds have been allocated in the area of public corporation loans or bonds (as in the case of The Bahamas Mortgage Corporation). This indicates a departure from previous years when NIB's funds were almost exclusively held in government registered stock/treasury bills, with deposits at banks and on deposit with The Central Bank.

This shift in policy almost always reflected NIB's attempt to create a stimulus to infrastructural development projects on

behalf of The Government. For example, in 1983, a loan of \$10 million was granted to The Bahamas Electricity Corporation and \$3.5 million to The Bahamas Development Bank. Since 1984, a total of \$58.9 million has been loaned to The Bahamas Mortgage Corporation for the construction of low-cost housing. Also, a total of \$4.5 was loaned to The Bahamas Water and Sewerage Corporation. In 1987, a loan of \$20 million was made to The Bahamas Telecommunications Corporation, the bulk of which was earmarked for Family Island development projects.

In the private sector, NIB has made long term loans to private banking institutions (mostly non-bank financial institutions) to facilitate the financing of low-cost housing.

Recent amendments to The National Insurance Board Act and Regulations (1974) now make it possible for NIB to invest directly in real estate. As a result a number of projects have been developed, namely - an office complex in Grand Bahama at a cost of \$5.0 million, and the construction of The Board's new headquarters in New Providence at approximately \$9.0 million. Additionally, a further \$18.0 million has been allocated to the health infra-structural development project which includes the construction and equipping of modern community health clinics.

SECTION IV - NON-BANK FINANCIAL INSTITUTIONS AND ECONOMIC GROWTH IN THE BAHAMAS

Within the past decade, the Bahamian economy has experienced exceptional performance. In fact, over the period 1979 - 1986 gross national product has been estimated to have risen from

B\$1,158.3 million to B\$2,213.4 million, this represents an average yearly growth of 9.7%. This growth in income has, to a large extent, been facilitated by the important intermediary roles played by the finance companies and The National Insurance Board. In particular, these institutions have taken an active involvement in the long-term development of the economy.

a) Savings and Loans Companies

In the context of developing countries, The Bahamas included, financial intermediation is integral to economic growth. This is due to the fact that financial intermediation facilitates the linking between those institutions and individuals with surplus funds to those with deficit positions. In short, necessary resources are been colated and in turn allocated.

In light of the impressive accumulation of savings, which have swelled from B\$82.5 million in 1979 to B\$360.4 million in 1987, finance companies in The Bahamas/^{have} recorded the ability to attract and build a robust savings base. They have been able, with an array of assets distinguishable in terms of liquidity, safety and return, to tap the savings potential of the public and eventually distribute required resources to entrepreneurs and investors whom have a crucial role to play in stimulating development in the economy. It would appear that the efficient mobilization and allocation of funds by the finance companies, have served to accelerate the rate of economic growth in The Bahamas.

As income levels in The Bahamas have increased, the financial demands, and in particular, housing finance, have simultaneously

expanded. For example, Bahamian households are requiring a larger pool of funds to be disseminated for the purpose of satisfying their growing housing needs. Given that the flow of funds into the housing sector represents long-term investments, a significant portion of the public's savings must be steadily channelled through finance companies and made available to those seeking mortgage loans. As at the end of 1987, the finance companies' holdings of mortgage and construction lending exceeded B\$297.6 million. This represents growth of 17.0% annually since 1979 for these two categories of loans. This indicates that the housing sector and spinoffs construction generate a long-term flow of income and employment opportunities, which is necessary for sustained growth. Therefore, the onus is on finance companies to continue to attract savings thereby assisting in the allocation of resources for mortgage lending.

The finance companies have also been successful in channelling funds into The Government's low-cost housing projects. In fact, mortgage loans allocated for the purpose of funding government low cost housing schemes amounted to approximately B\$19.6 million as at the end of 1987. This particular lending activity is a catalyst in providing funds for the government for homes for lower income earners in the community, who otherwise would not have access to these funds. In addition, the interest rate charged on these type of loans are lower than the normal mortgage rates charged by finance companies. The interest rates vary between 7.75%* and 8.00%*, and are repayable over 15 years in equal annual instalments in contrast

*:represents the rate levied by one finance company.

to typical mortgage rates which range between 11.00% and 12.00%.

The participation of the S + L companies into The Government registered stock market has been encouraging, as holdings as at the end of 1987 amounted to B\$17.4 million. Investment in such medium and long-term securities provides The Government with necessary resources to finance capital development projects. Unless certain capital projects are effected - particularly relating to infrastructure, future growth throughout the economy will not be accommodated. As a result of the investment in the government securities market, finance companies have been contributing to the long-term capital needs of the country.

It should be emphasized that, the ability to induce savings, and to undertake substantial investments in mortgage lending and government registered securities, is indicative of the finance companies' success in playing a major role with respect to resource mobilization and concentrating lending activities in those areas that are crucial to the long term growth of the economy.

In addition, via recent and somewhat frequent issue of shares, finance companies are playing an integral part in accelerating the development of a genuine capital market in The Bahamas. The formation of a viable capital market would, through the intermediary process, mobilise essential financial resources which could be efficiently allocated to the productive sectors of the economy. Capital market development in The Bahamas would also contribute to the attraction of a larger volume of medium and long-term savings, by offering investors a wider array of financial instruments and investment opportunities. Consequently, in order to develop a more integrated,

balanced financial system, and achieve high rates of investment and growth, focus must be directed upon intermediaries, such as finance companies, towards cultivating a local capital market.

The contribution to economic growth has not been limited to New Providence. Recognizing the growth potential of other islands in The Bahamas, and the need to integrate The Bahamas financially, finance companies have expanded into the outlying Family Islands. These islands have developed rapidly in recent years, accordingly, the demand for financial intermediary services has grown, though at a somewhat slower pace. Such short-fall has hampered the pace of economic progress in many of the islands; it is hoped that by branching out, the finance companies will serve to bridge the financial gap between Nassau and The Family Islands, thereby facilitating economic development.

b) The National Insurance Board

Obviously, NIB is not a non-bank financial intermediary in the same sense as the finance companies and insurance firms. However, based on the characteristics outlined in Section II, it would be improper not to regard NIB as a financial intermediary. In particular, based on the investment strategy of The Board, it is clear that NIB performs a financial intermediation function that rivals the capacity of the finance companies combined.

The economic impact, therefore, of The National Insurance Board can be measured in terms of:

- i) economic benefits derived to insured persons as a result of claims for illnesses etc;
- ii) investment in Government Securities - thereby providing long-term and short-term financing for The Government and in particular, capital development projects;
- iii) financing of public corporations' capital projects in key infrastructural areas;
- iv) the multiplier financial impact of NIB's placements of deposits in commercial banks in terms of money creation and credit expansion in the private sector;
- v) the impact on monetary policy - NIB's funds on deposit at The Central Bank can be utilized as an instrument to effect the entire system depending on The Bank's monetary objectives, and;
- vi) employment opportunities created as a result of the multiplier/income effects of some of the projects mentioned above.

Briefly, The Bahamas has already experienced the impact of NIB and its investment on the economic growth of the country. The shift in policy during 1987 to earning a higher yield by placements

with various commercial banks had an expansionary impact on money/ credit as well as resulting in overheating of the economy. This situation eventually led to external pressures. The level of foreign reserves dropped almost in tandem with the expansion in domestic credit. This indicates that NIB's funds must be managed with the view of the overall economy - and not merely from the perspective of the corporation's objectives. As NIB will continue to accumulate large resources, no doubt the impact on the economy will strengthen. However, careful consideration must be given to the types of policies pursued by NIB as regards its investments to ensure that they coincide with overall monetary and fiscal policies.

CONCLUSION

This paper has attempted to examine some of the unexplored issues relating to the non-bank financial sector in The Bahamas. As these institutions are in a process of early development, and with respect to the National Insurance Board - in its teen years - the impact of their performance has been somewhat overlooked. The evidence presented here suggests that the non-bank financial sector has an increasingly crucial role to play in the overall development of The Bahamian economy - and as a result should be closely monitored.

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