



Deposits and Investments: How are they Different?

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What are Deposits?



- A sum of money placed or kept in a bank account with the intention of using it in the future and the hope of earning interest
- Examples of deposits:
 - Savings Accounts
 - Certificates of Deposit



Features of Deposits



- Deposits are usually backed by the full strength of an institution(s) balance sheet
- Allow easy and ready access to funds
- Percentage is usually secured/covered by Deposit Insurance
- Carry lower rates of interest as trade-off for safety and ready availability



Where Can You Make Deposits?



- Institutions that offer deposit products include:
 - Commercial banks
 - Building societies
 - Merchant banks
 - Credit Unions



What are Investments?



- An asset that is purchased with the expectation of obtaining an additional profit or income. Primarily used for wealth creation
- Examples of investments:
 - Stocks
 - Bonds
 - Investment funds
 - Real estate



Features of Investments



- Carry higher risk/reward relationship
- The risk is determined by asset purchased
- Investments present greater opportunity to earn more than savings; usually carry higher risk



Where Can You Make Investments?



- Institutions that offer investment products include:
 - Securities dealers
 - Asset management firms
 - Stock brokerage firms



How do Deposits and Investments Differ?



- Deposits and investments carry different levels of **return & risk**.
 - Deposits usually carry lower risk and return
 - Investments involve committing money into an asset with the hopes of making more gain/risk
- The primary difference between the two is that investing takes on a greater level of return and risk



How do Deposits and Investments Differ?



- Aside from certificates of deposits, deposits are usually **readily accessible** on the demand of the depositor
- Different investment types carry varying expiration dates ranging from 30 days up to or even greater than 20 years
- Because deposits are readily accessible and there is no guarantee as to when depositors will demand their funds, deposit-taking institutions typically pay less interest for deposits



How do Deposits and Investments Differ?



- In Jamaica, **insurance** is provided for deposits up to \$600K
- Different types of investments carry differing security features. **Example:**
- For short-term repo investments, the FSC requires institutions to provide **security margin** of 105% for investors' JMD funds and there is a practice of 120% for USD funds
- Other investments such as bonds provide price appreciation and income but sometimes no guarantee that your funds will be returned



How do Deposits and Investments Differ?



- *The more risk undertaken, usually the greater the potential rewards*
- For this reason, the safety of deposits presents a trade-off for earnings
- The greater risk of investments presents **greater opportunities for higher rewards**
- Investments allow your money to work for you, while deposits are a 'holding place' for money you are not yet ready to use



How do Deposits and Investments Differ?



| DEPOSITS | INVESTMENTS |
|--------------------------------|----------------------------------------------------------------------------|
| Low risk/reward relationship | High risk/reward relationship |
| Readily accessible | Usually lock away funds for a longer period of time |
| Insured up to \$600K (Jamaica) | Can be secured and unsecured |
| Low interest earnings | Greater possibility for higher earnings and appreciation in value of asset |



QUESTIONS AND ANSWERS...

