

Ewart S Williams: Financial literacy

Address by Mr Ewart S Williams, Governor of the Central Bank of Trinidad and Tobago, at the breakfast meeting of The Institute of Chartered Accountants of Trinidad and Tobago, Port-of-Spain, 7 November 2006.

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Good morning Ladies and Gentlemen and thanks for inviting me to share this celebration of Accountant's Week with you.

I am happy that The Institute of Chartered Accountants of Trinidad and Tobago (ICATT) has seen the need to celebrate Accountant's Week, if only to remind the community of how essential and noble your profession is.

There is no doubt that the accounting profession worldwide has gone through tough times in recent years, with Enron, Worldcom and other scandals. These problems have made accounting a far more regulated profession than it once was, as the standard-setters seek to ensure more transparency and restore confidence in the profession. However, business practices will always evolve at a much faster rate than the adaptive capacity of the profession and thus it is impractical to have rules that anticipate every business transaction.

In the final analysis, you, as accountants, would need to depend on your integrity and on the fundamental principles and standards which emphasize that financial statements should clearly and faithfully represent the economic substance of business transactions.

We in Trinidad and Tobago are fortunate to have an accounting profession with a reputation for the highest standards of competence and ethics.

I did not plan to talk about the demands and challenges of your profession. Instead Ms. Lee Loy (Angela) gave me permission to introduce a topic which I hope is of personal interest to you, since from my vantage point, it should have considerable national interest. Even if you hadn't thought about it, I would like to enlist your personal support, and that of a credible and respected organization like ICATT, in getting national recognition for the importance of a financial literacy programme.

Let me first give some background as to why I am convinced that we need such a programme. While we focus disproportionately on the economic challenges we face, we tend to forget the remarkable strides we have made during the last decade, both in terms of economic growth and structural transformation.

For the record, over the last decade, our per capita income has moved from around US\$4,500 to US\$14,000 currently. Even adjusting for inflation, real per capita income has more than doubled. Admittedly, the main driver of our income growth has been the energy sector. But even taking out the energy sector, non-energy per capita GDP has almost doubled from around US\$3,500 to US\$6,000 currently. That is an extraordinary accomplishment.

Behind these macroeconomic statistics are important changes that are real. What are some of these changes? Well, while the labour force has increased by about 100,000, employment has increased by 140,000, driving unemployment to the lowest level in decades.

With the significant increase in personal incomes, more people are now aspiring to what two decades ago were considered to be middleclass trappings - like cars, foreign travel - and home ownership, which has increased sharply over the past decade.

There have also been other important societal changes; more young and middle-aged people are combining work and study; small business or self-employment has become more widespread; and young people are leaving home earlier to live on their own. (Yes, there is a downside, whereby too many of our youth fit into an "at-risk" category).

All these adjustments and improvements have put demands on personal financial management.

To further complicate the picture, deregulation and financial liberalization have spawned a rapid evolution of our financial sector. As a result, credit cards which were once confined to a small segment of the society are now being aggressively marketed to the wider population by the commercial banks. Customers are being bombarded to contract consumer loans once they have a secure job and their

income could be channeled through the financial institution. Rapidly changing lifestyles have forced the bulk of the population to open bank accounts, to use ATMs, to own credit and debit cards and generally to participate actively in the formal financial system. But with the diverse range of product choices, banking has become more complicated. The average consumer is now required to make complex financial decisions between fixed and variable rate mortgages, contract installment loans, choose from a range of checking accounts and select from any number of savings instruments.

The net result of the rapid growth of the last decade is that personal consumption has risen substantially, and this is amply reflected in a significant growth in consumer imports. Personal savings have not kept pace with the growth in incomes and consumer debt has assumed unsustainable levels. One aspect of this general problem, which is becoming very acute, is that with inadequate savings and pensions too many of our citizens are ill-prepared for retirement.

Ladies and gentlemen, as our economy evolves and develops, it is to be expected that our citizens would aspire to a quality of life that provides access to opportunity for themselves and their families. Making the right decisions on economic and financial matters is critical to pursuing these opportunities. And this requires knowledge and training.

Financial literacy plays a key role in helping us recognize and taking advantage of these emerging opportunities.

Financial literacy helps us to improve our financial well-being, and by so doing, improve the overall quality of our lives. Financial literacy includes basic numeracy skills, as well as the information and knowledge required to function as an active and empowered consumer of financial services. Financial literacy provides the foundation for saving and investing wisely and is the basis for the responsible use of credit and money. In short, financial literacy is a fundamental tool for each of us, whether we are making choices as students, consumers, savers, workers preparing for retirement or just simply responsible citizens.

From cursory evidence, too many of our citizens lack a functional level of financial literacy. The problem is all the more acute for lower-income citizens, who are less likely to be receiving advice from private sector financial advisors.

Both developed and developing countries are recognizing that changes in the financial system, including the increasing complexity and diversity of financial products, are creating an urgent need for financial literacy. In the United Kingdom, the Financial Supervisory Authority (the Regulator of the financial system) has launched a nationwide campaign to improve the financial skills of the population. In the U.S., where personal bankruptcies have been increasing sharply, the Federal Government and the Federal Reserve (the nation's Central Bank) have entered the field of financial education in a big way. Previously, it was largely left up to the private sector. In Canada, Australia, New Zealand and throughout Asia, either the Central Banks or specially created government agencies are devoting considerable resources to financial education programs.

In Trinidad and Tobago, the case for improving financial education is compelling. Too many workers are living from paycheck to paycheck, without putting aside anything for a rainy day. As I noted earlier, personal savings, when they exist are uncomfortably low and this is partly due to our adoption of the spend/spend culture of the U.S. and Western Europe. This has implications for the high and increasing level of personal debt.

Our low level of financial literacy also shows up in our understanding of financial transactions or our rights as consumers.

The files of our Financial Services Ombudsman are full of complaints from customers who obviously did not fully understand the nature of the agreements they signed. Clearly, they simply wanted the money and paid no attention to the rate of interest or other terms of the loan, until they found out that they couldn't repay. Of course, on many occasions, the officials of the bank or insurance company may not have had the required knowledge or may have forgotten to clearly explain all the associated costs and attendant risks.

We still have people who respond innocently to advertisements for schemes that promise to pay interest rates of 25 and 36 per cent per month. Not long ago one of these schemes was able to attract close to \$50 million in a period of less than a year. Not unexpectedly, many people lost their life savings.

Currently, in Trinidad and Tobago, financial education is sporadically provided by private financial institutions marketing products and services to consumers. This happens in some work environments,

and by a few counseling and repair organizations helping people to sort out their personal debt situations. But this clearly is insufficient.

Against this background, as announced in this year's budget, the Central Bank is about to launch a comprehensive National Financial Literacy Programme to provide unbiased and relevant financial education to the broad population.

Why the Central Bank?

We think that the Central Bank is in an ideal position to spearhead this initiative because the confusion between information and advertising does not arise; because we have the credibility to provide unbiased and impartial information; and because, with our overview of the monetary system, we are in the best position to see the gaps and problems in the market.

In addition, our interest derives from the fact that financial literacy can also facilitate the efficient operation of the market economy, in general, and of monetary policy, in particular. For example, knowledgeable consumers promote competition among financial and non-financial firms which benefits the economy as a whole. Experience also shows that astute consumers are less vulnerable to fraud and abuse than the financially uneducated. Financial literacy can also help the citizenry to get a better appreciation of interest rate and other market signals which can contribute to increasing the efficiency of monetary policy.

The programme's starting point is that financial education is not only for investors but for everyone. Early financial education could begin to teach children the value of money and an appreciation for managing money. Financial education is also for the average family trying to balance its budget, to save for the children's education and for the parents' retirement. It is particularly critical for young people who need to have a minimum level of financial acumen, confidence and knowledge as they enter into the world of work.

For these reasons the Bank believes that the financial literacy programme should start in the schools and proceed to focus on important life-skills such as family budgeting, savings, investments, personal debt, insurance, pensions and retirement.

The scope of the programme envisaged underscores the need for broad-based participation and for a carefully phased approach.

The Bank has been doing some preparatory work and has come up with the following plan.

We have tentatively identified a number of priority groups who, we believe, have an urgent need for more financial education to help them make optimal choices. The groups identified so far are:

- **Students and young adults:** covering secondary and tertiary students; participants in training programmes and youth groups.
- **Employees in the workplace:** this would target, for instance, a whole range of public sector employees as well as blue-collar workers in industry and particularly the newly employed and those preparing for retirement.
- **Niche groups:** such as new and prospective homeowners under the recent government housing schemes; and small businesses and self-employed, many of whom are under the NEDCO and similar programs.
- **Community groups:** which could serve as a catchment area for a variety of organizations and individuals needing this type of assistance.

We would want to start with pilot projects with each of these groups and expand as we go along.

As to how the programme will be organized, while the Central Bank will be responsible for the design and implementation of the programme, the idea is to collaborate with a number of institutions who would be invited to participate in the programme's management.

For instance, we would hope to work closely with the Ministries of Education and Community Development (since the programme will involve the schools and community activities); tertiary institutions (such as UWI, UTT and COSTATT); the Tobago House of Assembly; the Bankers and Insurance Associations; as well as with peoples' organizations; and NGOs.

Because we think that an organized financial education programme should be in the interest of the economy as a whole, we intend to establish a broader network of stakeholders from whom we will be seeking financial, technical, strategic and operational assistance. This list which is now being put together would include business groups and large companies (like the Employers' Consultative Association, the energy corporations, Trinidad and Tobago Manufacturers Association, Trinidad and Tobago Mortgage Finance and the Chambers of Commerce); the Trade Union movement, the credit unions, AARP and the Unit Trust Corporation.

We plan to reach our priority groups through several channels; through wider pathways, meaning the media, the web, leaflets, newspaper articles, etc. but principally, through group work - that is by direct interaction with the various target groups.

Ladies and gentlemen, this programme cannot be implemented by the Central Bank alone. The Bank will coordinate and supervise the preparation of the material and arrange for the training of trainers to bring their knowledge to the various target groups. Examples elsewhere confirm that the message of financial literacy is much better received if delivered by peers or associates or from people who could speak from personal experience.

We hope to depend heavily on volunteers, and in this context, we would hope to be able to count on a group such as ICATT to help us deliver this critical national service. I can see ICATT helping us to prepare material on household budgeting, balancing one's checkbook and a variety of activities that have an accounting dimension.

Let me summarize what we expect to achieve with this programme. We hope that it will contribute to making consumers more financially aware and able to:

- make ends meet and avoid unnecessary personal debt;
- keep track of their finances;
- plan ahead, including making provisions for the rainy day and retirement;
- respond appropriately to market signals; and
- attain the confidence and skill needed to handle basic financial transactions.

This is a tall order, but with the support of the various institutions that we plan to enlist, including ICATT, I am confident that we can lay the foundation for a level of financial literacy that would enhance the lives of our citizens and make a major contribution to our economic development efforts.

I thank you.