

Ewart S Williams: National Financial Literacy Programme in Trinidad and Tobago

Address by Mr Ewart S Williams, Governor of the Central Bank of Trinidad and Tobago, at the Launch of the National Financial Literacy Programme, Port-of-Spain, 31 January 2007.

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Ladies and Gentlemen, let me first thank you for accepting our invitation to participate in the launch of the National Financial Literacy Programme. We at the Central Bank are very excited about this programme, and we hope that we could pass on this excitement to all of you whom we have specifically invited to be our partners and stakeholders in this important national initiative.

Minister Enill has made a compelling case for the introduction of a national financial literacy programme in Trinidad and Tobago. Such a programme is certainly needed at this time when our economy is doing very well, with prospects for continued strong economic growth and improvements in nominal incomes. Just as we have recently opted, at a macroeconomic level, to forego some current consumption to provide savings for future generations, through the Stabilization and Heritage Fund, in similar fashion our current situation demands a quantum change in personal economic behaviour, to ensure that current income gains are to have a sustainable impact on personal welfare.

As Minister Enill indicated, national financial literacy programmes have assumed increasing significance in most developed countries and in many emerging market economies. Our programme is a pioneering initiative for the Caribbean region and it is fitting that Trinidad and Tobago, as the economic power of the region, should lead the way in developing the financial capability of its citizens.

Ladies and gentlemen, I would like to outline, in some detail, the design of the National Financial Literacy Programme that has evolved after intense collaboration with a small group of stakeholders that make up what's now called the Programme Management Committee. This group, which was assembled shortly after the Bank was invited by the Finance Minister to initiate the programme, comprises representatives of the Ministries of Education, Legal Affairs (Consumer Affairs Division), and Community Development and Culture, representatives of the Bankers' Association and the insurance industry, of the trade union movement, of the NGO community and of the Tobago House of Assembly.

This committee is being supported by a Central Bank Secretariat, headed by Mrs. Jennifer Greaves, one of our senior managers, with Mr. Clarry Benn, former Executive Director of the Unit Trust Corporation, as Program Consultant. Let me publicly thank the members of the Management Committee for their enthusiastic support and the solid work to get this programme off the ground.

A convenient starting point for my presentation is to first clarify what we mean by "financial literacy". In the conventional definition, "financial literacy" is seen as "the ability to make informed judgments and to take effective decisions regarding the use and management of money". Persons that are financially literate should have the capability to make personal budgets, balance current spending and saving for the future; manage credit and debt; assess the needs for insurance and protection, and evaluate risks and return involved in different savings and investment options.

As such, financial literacy is a fundamental tool for all of us, in our diverse capacities as students, employees, consumers, savers, investors; in short, it is a tool for all responsible citizens.

Why the Central Bank

You may ask, why should the Central Bank be so concerned with financial literacy? Well, the answer is that in addition to monetary policy, regulation of the financial system, and management of the country's external reserves, the Central Bank's mandate includes promoting public understanding of the financial system and ensuring that customers get a fair deal. This is the justification for the Bank's creation of a Financial Services Ombudsman; it is also a most important reason for our involvement in the delivery of financial education. But there are other factors that justify the Bank's involvement in the programme:

- we are in an ideal position to spearhead this initiative because, for the Bank, the confusion between information and advertising does not arise.

- we have the credibility to provide unbiased and impartial information; and
- with our overview of the monetary system, we are in the best position to see the gaps and problems in the market.

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.

What's the programme strategy

First, let me tell you what the programme is not. It is not a programme of Central Bank lectures or of a series of advertisements in the media. While Central Bank staff will deliver lectures in certain circumstances, given our expanded responsibilities, we don't have the capacity to conduct such a programme by ourselves. Also, while the programme will make use of the media, this will be only one aspect and not the most important at that.

The model is for the Central Bank to manage and coordinate a programme whose essential elements are:

- one, providing training to teachers, volunteers, peers and colleagues who would in turn pass on the knowledge in schools, in the workplace and in community-based organizations; and
- two, making use of existing financial service providers to deliver generic financial education to an expanded group of recipients.

The Central Bank will be responsible for the preparation and standardization of the education material, for training of volunteers and for the overall management of the programme, including the mobilization of financial and other resources.

Priority groups

The Bank has identified five priority groups to be targeted for financial education. These groups are:

1. **Primary and secondary school students** – this is an obvious priority category based on the well-accepted notion that financial education should begin in schools where kids should be taught the essentials about managing money and good financial habits from an early age.
2. The second priority group comprises **young adults** who are about to or have just entered the workplace. This group faces particular challenges, as they are targets for concerted advertising, for credit cards, loans, and insurance. In addition, they find themselves facing new financial obligations and most times, they are ill-equipped to make informed decisions. The plan is to locate these young people where they are – in tertiary institutions, in training programmes, in youth organizations or wherever they could be found in groups. Among young people, attitudes towards savings and debt have changed dramatically and too many seem to live in a world whose motto is “live for today and pay for it later”.
3. A third group defined as priority are **employees in the workplace**, particularly those over 40 who do not have ready access to professional advice. For this group, the programme will focus on the need to accumulate adequate savings for retirement, which, on the basis of available information, is a major problem in Trinidad and Tobago.
4. The program will also identify **community groups** which could serve as avenues for reaching large numbers of lower-income and under-privileged households and individuals at risk of financial exclusion. The plan would be to work closely with the NGO community as well as with the Ministry of Community Development and Gender Affairs to identify and focus on specific groups.
5. We have decided to include as a priority category **new and prospective homeowners in government housing programmes**. These beneficiaries of government housing are low-to-middle income households, many of whom are facing, for the first time, the need to include mortgage payments in an already tight budget equation. The proposal would be to

collaborate with institutions such as the Housing Development Corporation, Home Mortgage Bank and Trinidad and Tobago Mortgage Finance to reach these citizens.

Tobago has been identified as a special category. The Tobago House of Assembly (THA) was already in the process of implementing a similar programme entitled the Financial Outreach Programme. This Programme will now be integrated with the National Financial Literacy Programme with additional emphasis on small business development.

This is obviously a tall order and, as a practical matter, the intention is to start off with a number of pilot projects, and to gradually expand over time. In the case of the schools, for instance, many countries have moved to make financial education part of the school curriculum. Pending such a development, the Bank is offering to work with the Ministry of Education to select schools for a pilot project and to provide financial education training for teachers. Similarly, we would want to work with other stakeholders to plan the implementation of the programme over the short- and longer-term. I will return to this issue later.

Scope of the education programme

It is important to stress, ladies and gentlemen, that the financial literacy programme is not designed to make people financial experts. Rather, the aim is to empower individuals with sufficient skills and knowledge to make financial decisions and allow them to be more in control of their circumstances. In the same vein, providers of financial literacy need not be financial experts. Carefully chosen volunteers, with the appropriate training, can foot the bill in most circumstances.

Examples elsewhere have shown that financial literacy programmes tend to be more effective when the information is presented in a straight-forward non-technical style, and by trusted intermediaries. For this reason, the programme will emphasize the use of volunteers and lean heavily on community-based organizations for disseminating information that can assist lower-income families in exploiting financial opportunities.

I should note that we will also seek to provide generic information through wider pathways such as the National Financial Literacy website, which will also be launched today, through the media and through brochures and pamphlets.

Stakeholder support

Ladies and gentlemen, given the model that I have outlined, it goes without saying that the success of the financial literacy programme will depend importantly on the establishment of broad-based partnerships with a wide cross-section of the community – the Government, the financial community, the corporate sector, the NGO community, the trade unions, the credit union movement and other sectors. The obvious rationale for these partnerships is the fact that improving financial literacy is a win-win proposition that will benefit individual citizens as well as the economy and country as a whole.

The main beneficiaries of any financial literacy programme would be the citizens who stand to gain better control of their financial circumstances, and this can mean more financial independence and enhanced well-being. But there are economy-wide spill-offs.

For instance:

- employees who are not pre-occupied with pressing day-to-day financial problems are more likely to operate at higher levels of productivity which certainly benefit their employers;
- better informed consumers of financial services could foster competition among financial firms, contributing to improvements in service quality and cost;
- there is no doubt that improved financial literacy bestows significant benefits to the financial sector as it facilitates more informed choices by customers. When customers understand what they are buying there is less room for complaints about being misled, and this is good for the credibility of the financial sector.

The files of the Financial Services Ombudsman are full of complaints from customers who clearly did not understand the insurance or banking product they had chosen. Financial education is all the more important now when, technology and the quest for efficiency have diminished banker-customer interaction.

Research conducted in several OECD countries provide evidence, for example, that:

- workers increase their participation in retirement savings schemes when employers provide tangible support to financial education programmes;
- mortgage counseling has been found to be very effective in reducing the risk of mortgage delinquency;
- young adults who make personal budgets and plan ahead tend to manage personal debt better.

The Central Bank is hoping to partner with the several institutions represented here today. The partnership could involve financial, organizational and human resource (volunteer) assistance. We would like to suggest a few possible options:

- Some non-financial corporations sponsor educational programmes in certain schools. Such firms could partner with the Bank to include financial literacy in the curriculum and could co-finance with us the extension of the programme to a larger number of schools.
- Corporations that are interested in youth development have the opportunity of sponsoring financial literacy programmes for groups that they would wish to assist.
- We invite tertiary institutions, such as COSTAAT, Cipriani College, UWI and UTT to partner with us in the delivery of financial education to their young and not-so-young students. We extend a similar invitation to the relevant authorities to include financial literacy as part of the various government-sponsored training programmes.
- We would welcome a partnership with those lending institutions that provide mortgage financing for low- and middle-income housing. We think financial education will help the families manage their budgets and meet their mortgage commitments.

Obviously, a programme of the scope envisaged will require considerable funding. The Government and the Central Bank have allocated seed capital and we hope to supplement these resources through stakeholder contributions.

But we are not only looking for financial support. We are hoping that the financial sector – the banks, the insurance companies and the credit unions – could provide volunteers who would be willing to participate in the programme in their communities, in schools, in youth groups, and in any organizations who feel they can benefit from financial education. We think that it could be an excellent form of public service and of helping people to help themselves.

I would like to extend an invitation to the NGOs to work with us to reach the many groups that can benefit from financial education so that they in turn can help themselves. And finally, we would like to search out opportunities to make financial education accessible, in partnership with the media, who, we hope, would also recognize this as an opportunity to contribute to public service.

Ladies and gentlemen, it is not difficult to judge that we in the Central Bank are very excited about this financial literacy project. But we are realistic. We recognize that financial literacy will need to overcome deep-seated poor financial habits, and in some cases, a stubborn resistance to change. Many people find making financial decisions daunting and confusing; for these people, even thinking about their financial security is dispiriting and distressing, particularly if they are struggling to make ends meet. The challenge is to convince them that if they become more financially capable, they would be able to make their incomes go further and manage their commitments better. We also recognize that building financial capability is about long-term change and not about short-term adjustments.

Clearly, for us to assess if progress is being made we need to know where we are. Accordingly, in the next few days we will begin a national survey to determine the current level of financial literacy and to better identify the most urgent needs.

We hope that the launch of the National Financial Literacy Programme will be the start of a journey towards improved financial capability and contribute to enhanced financial well-being for all our citizens. The country needs this and we can achieve it if we all pitch in. The Central Bank hopes it could count on your support.