

## **Daniel Boamah: The importance of being financially fit**

Remarks by Dr Daniel Boamah, Deputy Governor of the Central Bank of Barbados, on the occasion of the Prize-Giving Ceremony of "Financially Fit Schools' Essay Competition", Bridgetown, 7 June 2010.

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Madam Chairperson, representative from Caribbean Technical Assistance Centre, members of the media, awardees, distinguished ladies and gentlemen, good afternoon. On behalf of the Board of Directors, the Governor, Management and staff of the Central Bank, it is my distinct pleasure to welcome you to the Bank and to this prize-giving ceremony. Let me, on behalf of the Bank congratulate the recipients of prizes in this essay competition and encourage those who were not successful this time to continue trying.

I must commend the Management of the Caribbean Technical Assistance Centre (CARTAC) for the initiative to sponsor this essay competition. First of all, it encourages students to put their thoughts on paper in a more structured format and to help them think logically. Secondly it provides them with an introduction to financial education which should equip them with the information and skills necessary to enable them to take control of their personal finances. Any project that would teach young people important life skills of how to make, save and spend money wisely, especially in these times of challenging economic realities, is worth supporting.

A few years ago, at a meeting of the Central Bank Governors of the Commonwealth of Nations, it was recommended that central banks should take steps to enhance financial literacy in their jurisdictions. This is because it was recognised throughout the world that many people are failing to plan ahead and are making bad financial decisions without realising it.

Some central banks in the region have already gotten involved. The Central Bank of Trinidad and Tobago and the Eastern Caribbean Central Bank (ECCB) have active financial literacy programmes. The Central Bank of Barbados also launched a financial education programme in August last year, beginning with a series on budgeting. The staff of the Bank made presentations to several workplaces on the topic and the feedback reinforces the point of view that greater attention ought to be paid to financial literacy in Barbados.

Even before launching its financial education programme, the Central Bank of Barbados, through its Schools' Outreach Programme, was engaged in educating students about financial issues as the Bank recognises that teenagers who learn to handle their finances will become adults who know how to manage their money in order to build better lives for themselves and their families and to strengthen the economy.

I have been asked to speak to you about the importance of being financially fit. But what is finance?

The text books have a more elaborate way of defining finance but in common usage, the term finance simply means the management of large sums of money over time. For our purposes, we would define "finance" as simply the management of funds, not necessarily large. Funds need to be managed because of two main factors: financial resources are scarce in relation to our aspirations and secondly because our receipt of funds and our need to incur expenditure do not normally coincide.

By convention, most employees are paid monthly but their expenditure needs are spread across different times of the month. A parent may receive employment income today, but tuition fees for his or her ward may not have to be paid until next year.

Because considerable time can elapse between expenditure being incurred and the receipt of income, various institutions, including commercial banks, have emerged to assist in the

financing of business during this interval. Therefore time plays an important role in financial calculations.

Being financially fit simply means positioning oneself to deal with financial uncertainty. It means developing a series of financial habits that will make us better able to deal with unexpected expenses, rising cost of living and a decline or loss of income. We may draw an analogy with the human body, in the sense that one desires to be physically fit so that the body is better able to fight unexpected diseases.

In short, sound financial management is simply a sensible way of spending and investing your money over a given period. To be financially fit, your money payments should be less than or at least equal to your income over that period. To achieve this you need to devise a personal plan that involves regular monitoring and evaluation. The planning process has a number of steps, usually five. You first need to assess your financial situation, then set financial goals, create an action plan to guide you towards those goals, take an identified course of action and monitor your progress over time.

Assessing your financial situation usually involves a listing of all your assets and liabilities. Examples of your assets would include things like a car, a house, a bank account, and so on. Your liabilities would include items like credit card debt, a bank loan, and so on. Subtracting your total liabilities from your total assets will indicate your personal financial situation or your personal net worth at that point in time. Finding out that your financial net worth is negative is like getting on a scale and finding out that you are terribly out of shape. You are simply overweight. The question that may begin to exercise your mind is, how did I become so out of shape? You may get an answer by looking at your eating habits; how often you visit the fast food outlet, how often you over eat. This would induce you to do something about it. You may, for instance, decide to cut your weight down by 20 lbs over a six month period.

Similarly, you may get an idea of how your finances got terribly out of shape by compiling a personal cash flow statement, keeping track of how you spend your money over a given period and on what you spend it. This will involve listing your income (over say one month), and all your expenses over the same period. By subtracting your expenses from your income, you obtain your personal net cash flow position. If your net cash flow turns out to be negative, that should give you an idea of why your finances are in shambles.

Then just as you set a goal of cutting your weight by 20 lbs over six months, you may wish to start your journey to financial fitness by setting up goals to give directions to your financial life. Your first goal might be a decision to bring your cash flow statement into balance over a three-month period. Another goal could be to save \$500 out of your income over a period of one year. It is not uncommon to have several goals, some short-term, and some long-term.

Having determined your financial goals, the next step is to craft a plan which will detail how you will accomplish the goal. It means basically spending less than you make, which suggests reducing unnecessary expenses or finding an evening job to increase your income. In all this, it is always helpful to be able to identify what you need from what you want. As anybody who sets out to lose excess body weight would tell you, it is a painful exercise that requires a great deal of discipline but you need to stick to your plan. It may be necessary to revisit and re-examine your plan and monitor your progress from time to time. If it looks like you will not achieve your goal, you can either alter your plan or adjust your goal.

As your savings grow, your sense of well-being and peace of mind grows. You may then start looking at alternative ways of investing your savings. You are on your way to achieving financial fitness.

Finally, I wish to commend CARTAC for initiating this programme on financial fitness for you young students. Like CARTAC, I am of the view that instilling the basics of managing your money wisely from an early age will serve you well in your adult life. And as I intimated throughout my presentation, looking after your financial health is equally as critical as taking care of your physical health.

The power to do both resides with you, even as young people.  
I thank you for your attention.