

Tharman Shanmugaratnam: Taking charge of your financial wellbeing

Opening address by Mr Tharman Shanmugaratnam, Chairman of the Monetary Authority of Singapore, at the MoneySENSE 10th Anniversary Roadshow, Singapore, 19 October 2013.

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Good afternoon Members of the Financial Education Steering Committee, and everyone who has come to Toa Payoh hub for one reason or another.

Please enjoy the shows and exhibitions which we have planned, that are all aimed at helping Singaporeans to manage their money better.

2. We all know that managing money is important, regardless of your income level. You may be low, middle or high income, but managing your money is very important for your quality of life. Research supports this, but we all know from our own family members, friends, and colleagues at work – that it is not just **how much** money we make but **how** we manage, spend or share our money that determines how satisfied we are.

Financial Literacy Survey

3. MoneySENSE commissioned a Financial Literacy Survey earlier this year, which shows that Singaporeans are generally quite careful with their finances.¹ 80% of Singaporeans save some money each month and 86% of people do not like taking on debt. Many people take on loans because of housing, but they don't like to borrow more than they can comfortably service with their income.

4. But there are some people who over-spend and over-borrow, which we find in every society, and Singapore as well. Data from Credit Counselling Singapore (CCS) also shows that the people who over-spend and over-borrow are not just low-income people. In fact, most of them are not low-income. The average income of those who come to CCS with serious debt problems is around \$2,800 per month, not far below the median income level; and quite a few are higher income. Hence everyone can over-borrow because of over-spending. According to the CCS, the most common problem is actually over-spending.

5. MAS has also found from the survey that more than half of those surveyed had insufficient insurance to protect their dependents if something were to happen to them. One in three of those surveyed did not know that they were covered by Medishield. Hence the level of awareness is not very high.

6. Quite a few people are passive towards managing their money. That means not planning ahead or finding out information that would help them to manage their money well. This is again something we find all over the world. In most countries, they find that many people do not plan ahead, and they take life one step at a time, taking things as they come. But eventually, they may end up with problems if they have not saved enough or not anticipated some future expenses for their children or themselves. So we can do more to help Singaporeans to plan ahead, by expanding financial education for all age and income groups, all over Singapore. This is not something we will do for one or two years. We will have to continue this work as our children become young adults and eventually retire, giving rise to a whole new cycle. Hence the work on financial education has to be done continuously, as it is a very important area to help Singaporeans.

¹ *Financial Literacy Survey of over 1,800 Singaporeans and PRs conducted by The Nielsen Company on behalf of MAS between August and October 2013. Respondents answered questions and participated in focus groups on their knowledge of, attitudes and behaviour towards financial products and management.*

Towards better financial wellbeing

Financial protection

7. What will MAS do? We have a two-pronged approach to help Singaporeans to enhance their financial well-being. The first is to regulate the conduct of our banks and financial institutions. For banking, the key issue is to discourage the imprudent use of unsecured credit facilities. Consumer research has shown the immediate pleasure of purchasing a designer accessory or purchasing the latest gadget using a credit card. If you have a credit card, the immediate pleasure of using it to purchase the latest good that you're interested in can lead people to spending more than they otherwise would. There was an experiment with a group of students in the US who were asked to bid for a pair of tickets to a basketball match. The experiment showed that those who bid for the tickets using their credit cards were willing to pay up to 100% more than those who were using cash.² And this was a group of students that was not a typical population, but a group of MBA students from MIT! Even they, with their credit cards, bid much more when using credit cards than when using cash. This is normal human behaviour.

8. Hence MAS' credit card rules are important. We have to discourage people from excessive spending using credit cards. Many countries do not impose rules, or some have imposed rules only recently. We moved very early to discourage excessive credit card spending. I think it is a very sensible move, having a minimum income requirement and also making sure that once you have a credit card, you can't spend too much compared to your monthly income. This is something we have strengthened recently. As some of you may know, we have a total limit on what individuals can borrow on all their credit cards and unsecured facilities combined, with all the banks. The total limit will be capped at 12 months' of income, which is still a very high borrowing on an unsecured basis. But MAS started with this limit because we are aware that some Singaporeans' borrowings currently exceed 12 months of income, and we have to give them time to bring their borrowings down. MAS will monitor the situation, and tighten the credit limits further, if necessary.

9. For insurance, our main challenge is to ensure that all Singaporeans have access to the right products, at an affordable rate. That is our main priority for insurance. We must help consumers to meet their insurance needs for themselves and their families without paying for something they do not need.

10. That's why we have the Financial Advisory Industry Review or FAIR over the last year. Two of the initiatives of FAIR will help consumers by making insurance products more affordable and their pricing more transparent. First, consumers will be able to buy basic life insurance products directly from the insurer, without paying commission. Second, consumers will be able to use the internet to use a web aggregator to compare prices and coverage of similar insurance products offered by different insurance companies. So they can choose what is suitable to their needs, and at the most affordable rate. The competition that comes about because of this transparency will also help keep costs low for consumers.

Financial education

11. The second approach is reaching out to Singaporeans through MoneySENSE. This is the work of our partners, not just the MAS – including the community, the media, financial industry associations, advocacy groups like CASE and SIAS, our educational institutions which will play a larger role in the future, and a whole set of government agencies, all working with MAS to propagate financial education to as many Singaporeans as possible. Over the last 10 years, MoneySENSE has reached out to Singaporeans through many

² *Prelec and Simester, "Always Leave Home Without It: A Further Investigation of the Credit Card Effect on Willingness to Pay", Marketing Letters 12, no. 1, February 2001.*

channels – schools, community events, workplace talks, newspapers, TV, radio, and now increasingly the internet – to reach out in every way we can to as many Singaporeans as possible.

12. We set up a new institute last year called the Institute for Financial Literacy (IFL) which was set up jointly by MoneySENSE and the Singapore Polytechnic. This institute has helped to bring financial education to working adults, who don't have much time, but they can attend lunchtime talks and workshops free of charge at their workplace. To date, IFL had reached out to 12,000 people.

Translating knowledge into action

13. What will be our focus for the next 10 years? First, we have to recognise that financial education is not just about knowledge, but also about inculcating the right values from young, and encouraging everyone to be pro-active rather than passive about their finances. At every income level and for every family, it really pays to prepare for the future.

14. Many think that they don't have enough time, or just say they are not interested, or that there's too much to plan for because it's too uncertain. But it's precisely because life has uncertainties that we need to make plans for the future. We need contingency plans.

15. So we will focus, for the next ten years, on three areas. **First**, we must start earlier, with teenagers. Forming the right attitudes towards spending and saving early in life goes a long way.

16. Starting from next year, the **Ministry of Education will introduce Food and Consumer Education (FCE) for all secondary one and two students**. This is a way of teaching them life skills that they'll find very helpful. A key objective is to inculcate basic financial literacy in our students, at a time when they are starting to think of ways of using money. MoneySENSE is working closely with the MOE and NIE to equip teachers with the relevant skills and knowledge, so they can help the children with money management skills. This is the first objective, start early when they are teenagers.

17. **Second**, we must deliver targeted financial education messages at key points in a person's life, for instance, when couples intend to get married, to plan for wedding expenses, which can be very large if we are not careful; and later, when they are buying a flat, how to make sure they can buy an affordable flat for the future; advising parents on how they can plan and save for their child at public hospitals and clinics; and advising older Singaporeans when they withdraw monies from their CPF. So at each key point in life, we will provide targeted advice for people at the immediate stage of life they are coming upon. Deliver the right message at the right time.

18. **Third**, we will provide more avenues for people who are in difficulty or financial distress, to seek help. We must do everything we can to prevent people from getting into a worse situation, or getting into a debt spiral. CCS, with the help of ABS, runs a very useful debt management programme for those who cannot re-pay their borrowings from banks. We can do more, using our social workers and counsellors.

19. MoneySENSE, through the new institute that I talked about, the Institute of Financial Literacy, is now conducting a pilot training programme to help social workers and counsellors, to equip them with financial literacy knowledge so they can provide advice to low income households, or those who come and see them for help. It may have to do with cutting down on utility bills, or it may be about spending wisely in weekly marketing, without compromising on health and wellbeing.

20. MoneySENSE will continue working with the social service sector with the objective of training social workers and counsellors, so they can expand our outreach to Singaporeans.

Conclusion

21. This is what we plan to do for the future. I think we have done good work for the first ten years, but there is a lot more work ahead to help Singaporeans. Helping students, couples, retirees, to go about their financial decisions carefully and not just taking life as it comes, can really help improve your quality of life, not just for ourselves, but for our families and loved ones.

22. I encourage everyone who is here, to spend a little bit of time going through the exhibitions, which has been very well put together. So once again, thank you to everyone who has been a partner of MoneySENSE in helping Singaporeans, and let's do more in future to help everyone have the basic lifeskills of financial management. Thank you very much.