FEATURE ADDRESS DELIVERED BY

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MNISTER OF LABOUR AND SOCIAL SECURITY

AT THE BYDC/ICBL YOUTH FINANCIAL EMPOWERMENT SEMINAR

AT THE HEAD OFFICE OF THE INSURANCE CORPORATION OF BARBADOS

ROEBUCK STREET, ST. MICHAEL.

SATURDAY, JULY 9TH, 2011 AT 11:00 A.M.

Thank you Master of Ceremonies
Mr. Peter Lamb - Senior Manager/Life Consultant ICBL
Mr. Joseph Marshall -Manager Personal Lines ICBL
Mr. Jason Francis- President of the Barbados Youth Development Council
Marketing Officer ICBL Ms. Vicki Olton
Members of the Media

It is a great pleasure for me to be invited here today, to deliver the feature address at this Youth Financial Empowerment seminar. I am of the opinion that this seminar is very timely, given the myriad of challenges confronting the youth in an ever-changing and at times hostile environment. Let me assure you that I have a keen interest in the development of our young people and I believe that this event will be beneficial in helping young persons to take control of their financial destiny. Consequently, I would wish to laud the Barbados Youth Development Council and the Insurance Corporation of Barbados for entering into this smart-partnership to deliver sound financial advice to you today.

I would further urge other financial institutions to follow your example and hold similar initiatives that could assist our young people in embracing sound financial practices that could put them in good stead throughout their working lives.

We are all aware of the myriad of financial challenges confronting the world, particularly in light of the global financial crisis which has wreaked havoc amongst many of the world's countries. I am sure that we have seen the recent news stories about the bailouts to several European countries that have been compelled to implement severe austerity programmes. These harsh programmes encompass massive cuts in government spending, the cessation of vital capital works projects, the privatization of government entities and crippling layoffs of their public sector workers. Though the depressed conditions throughout the globe was the primary reason cited for their state of affairs, there is little doubt that poor fiscal discipline and excessive spending were identified as key contributors to their current difficulties.

Just like with the Governments of fiscally challenged countries, ***the adoption of proper money management principles can transcend right down to the level of the individual.*** Indeed, whether from a country level, the enterprise level or the individual level, there is a bitter and often unpalatable lesson that is to be learned from reviewing the root causes of the problems of such fiscally challenged countries and that lesson can be interpreted as follows: ***"If you do not embrace the principles of discipline and prudence with respect to spending, financial disaster and insolvency will inevitably follow"***

I envisage that this seminar will attempt to provide practical responses to some of the most pressing financial questions that we all face in today's changing world.

For instance, you may wish to use this opportunity to pose some of the following questions to your presenters:

1. What financial products should I invest in that can put me on the pathway towards financial success;
2. What are the key characteristics associated with financially successful people;
3. What portion of my earnings should I invest in the attempt to achieve financial security;
4. As I get older, what changes should I make to the portions of investment instruments that make up my financial portfolio; and
5. If I acquire my own property, what maximum percentage of my earnings should go towards the payment of mortgage premiums.

Most persons will have to grapple with many or all of these questions at some point in their life and it is against the backdrop of the need for informed responses to these types of questions that today's seminar is underscored. What makes today's proceedings even more critical is that the advice and insights that you will receive here today from experienced financial experts will guide you through many financial challenges that will undoubtedly come your way. As you go through different stages in life, you may find it beneficial to invest in specific instruments. As an example, it is considered to be advantageous to invest in long term instruments like registered retirement savings plans and mutual funds when you are relatively young and now embarking on your career. These products do have some element of risk attached to them. Nevertheless, they help to build wealth and usually reward the investor with a higher rate of return when compared to traditional products like ordinary savings accounts and fixed deposits that could be found at banks. In contrast however, a mature person that is rapidly approaching retirement age may be ideally served by investing in products with lower rates of return, but that have lower risk levels, like Treasury Bills. Other instruments such as annuities, would also be suitable for seniors, where they would be entitled to receive periodic sums of money that can serve to supplement their pensions upon retirement.

As you plan for your future, it is vital that you arm yourselves with a detailed understanding as to the financial products that are available, along with the advantages and disadvantages associated with each. You must further endeavour to seek advice from well-placed persons that can make recommendations as to the instruments that are ideally suited to your individual needs and your individual appetite for risk taking. You must do your research, whether through the internet, reading financial reports, or organizing meetings with Customer Service Representatives of institutions in which you have an interest.

I now wish to turn my attention to the important matter of saving and investing versus spending, particularly on what can be termed as non-essential items. It would not be feasible for me to come before you today and try to convince you that material possessions are unimportant and that you should only spend your earnings on the most basic of necessities such as food, shelter, clothing and the payment of utilities such as water, gas and electricity. It is my view that it is completely natural for all human beings to aspire to a higher standard of living and by extension, have access to the finer things in life that are in sync with that desired standard of living. However, I would say that in life, you must strive to find the ***"happy medium"*** between having nice things on the one hand, and building a sound financial foundation for yourself and your loved ones. Sooner or later, you will be inevitably faced with testing choices such as:

- buying the latest cell phone, or using that same money to register for a training course at a tertiary institution;
- purchasing a sound system for your vehicle, or setting aside an extra amount of money to make a deposit on a plot of land; or
- allocating funds to finance an overseas vacation, or using that same money to open an account for a registered retirement savings plan.

Whilst it is not for me to dictate to you the choices you should make, I would say that you need to be pragmatic and critically consider the long term benefits and costs associated with each course of action. What I can also stress to you with a high level of confidence is that with changing technology, tastes, trends and fashions, worldly possessions are often short term in nature and what may appear to be trendy today, will at some point become completely irrelevant and obsolete, sometimes in as little as two to three years time. One has to look no further than the demise of C.D and D.V.D players, one-time popular products that are now struggling to survive in a world where movies and music can now be downloaded free of cost by any internet user.

At this point, please permit me the opportunity to use this forum, to supply a few thoughts of my own on the critical issue of financial planning for young people. Arguably the first step in charting the way towards good financial practices revolves around each of you conducting a frank assessment of all of your current revenue sources and your expenses, whether by week or by month.

You can make educated "guestimates" of those recurring expenses that you will incur at certain time periods and try to budget for them. You can then use a simple excel worksheet to "match" your revenues against your routine expenses, whether by week or by month. You must also adopt the habit of putting aside emergency savings for things such as car repairs, funeral expenses, medical costs, broken appliances in the home or emergency travel because, though we all prefer structure and order, life is not routine.

On another point, I am informed that persons should try to save at least ten per cent of their weekly or monthly earnings. I would wish to be bold by going a step further and stating that as young persons with limited responsibilities in most cases, ***you should endeavour to save at least 15% of your earnings!*** Naturally, as you get older, your financial responsibilities will change, primarily due to social developments such as marriage, children, purchasing a home and meeting payments of utilities, taxes and insurance coverage. Therefore, the more money that you can save at an early stage of your life, the more you can enhance your probability of building a stable financial foundation that can redound to your long-term interests as you mature as an individual.

Ladies and gentlemen, it is my belief that it is virtually impossible to engage in an informed discussion on financial planning without speaking to the matter of controlling expenses. Let me attempt to consolidate my point by asking you to consider these three practical every-day examples of how some of us are spending our money:

- Assuming a five-day work week, buying a latté for eight dollars at work every day translates to forty dollars in a work week and ultimately just under two thousand dollars per year;
- Buying lunch at fifteen dollars every day at work translates to over three thousand dollars per year; and
- Buying a top-up for your cell phone for twenty dollars every week translates to over one thousand dollars per year.

I raise these points in my dialogue with you, to show that by making simple changes to our lifestyle, we may be able to realize some significant savings. We may be able to start by:

1. Reducing time spent on cell phones: less talking equals less spending;
2. Reducing the intake of fast food by making your own lunch. Apart from a lump sum saved, your health will improve a lot;
3. Renting a DVD to watch with friends, instead of going to the movies;
4. Making a list of things you plan to buy, and sticking to it, particularly when going to supermarkets and stores; and
5. Reducing the use of your car by using the public transport system or car pooling to get to work .

Closely related to the above-mentioned point is that of unsustainable debt levels which, if not managed, can become one of the most serious impediments to the attainment of financial success. Let me preface this point by categorically stating that some incidences of debt, if properly planned for, can redound to the long-term benefit of the individual. Concrete examples that readily come to mind include:

- borrowing to further one’s education;
- borrowing to purchase property; and
- borrowing for the purchase of plant and equipment in establishing a new business .

Too often however, uncontrolled debt can skewer even the most well-intentioned of plans. From car accessories and clothing, to fast food and entertainment, many examples abound of people incurring debt to satisfy finite, short-term pleasures. A particular trend these days concerns the usage of credit cards which, though convenient, have high levels of interest associated with them, in many cases in excess of twenty per cent. Just recently in the media, we heard of a leading financial institution quoting an interest rate of twenty-six per cent for the use of one of its cards. To compound matters, even minimum payments on credit card balances are insufficient to clear the debt. Therefore, it makes good financial sense to clear credit card debt either within the allotted interest-free grace period or as soon as possible thereafter.

The final issue that I will address pertains to the often contentious and controversial issue of insurance, whether it be vehicle, health, life or property insurance. Indeed, many of us might recall one personal experience where we may have been faithfully and continuously paying our premiums to an insurance company, only to experience lots of beaurocratic red tape, significant delays or in some cases, outright refusals when an incident occurs that causes us to make a claim on our policy. To complicate the issue, there are many amongst us who posit the view that regular contributions towards an insurance policy does not produce any tangible benefit, particularly if no claim is made on the said policy for a given year.

Here is my own opinion on the insurance issue. Regardless of the experiences that some of us may have had with one or more insurance companies, ***the importance of insurance in protecting us against the unforeseen perils of life is a factor that cannot be discounted!*** Whether we are prepared or not, disasters often occur when we least expect them and can destroy in minutes, treasured possessions that have literally taken us years to accumulate. As a matter of fact, how often do we see persons in the media who have lost everything in a house fire and they have no recourse due to the fact that they have no property insurance? Or how often do we hear of persons who have become involved in debilitating accidents either on the road or on the job, and are faced with various medical expenses amounting to tens of thousands of dollars?

I am sure that you would agree that such eventualities can wreak havoc on a person's finances, especially if the person does not have sufficient savings or investments that they could use to cover such incidents. In real terms, uninsured persons that have been a victim in one the above scenarios, often lament that it takes them years of hardship and suffering to get themselves back on their feet. In some extreme circumstances, some never recover from their ordeal.

Bearing these and other crippling eventualities in mind, I urge you to recognize the critical importance of not only being insured, ***but being adequately insured.*** Do your research by talking to the insurance executives of various entities to see what they have to offer and at what terms and conditions. Talk to friends and colleagues about their experiences in dealing with specific companies before you make a final decision and most importantly, ***ensure that you keep your coverage up-to-date.*** We may be unable to stop a crisis from occurring, but in the event that it does happen, we can greatly reduce the pain, suffering, misery and financial disaster that may arise from these perils.

In conclusion, I wish to stress that money management must become second nature to you, not only in your youth, but throughout your life in general. It doesn't matter if you are a public or private sector worker, skilled or unskilled, rich or poor, young or old. It is of importance to the highly skilled white collar executive earning a six-figure salary and it is equally important to the semi-skilled blue-collar employee working in a shop or factory. It is a discipline that reaps significant rewards to persons who are dedicated, forward thinking and that appreciate the importance of setting ambitious but attainable financial goals for themselves. It calls for perseverance and some sacrifice, just like exercising at the gym four times a week, avoiding alcohol consumption or adopting healthier eating habits. Pay **<u>equal attention</u>** to controlling your daily expenses as you would to finding the most appropriate financial product to invest in and most importantly, ***never be afraid to ask for advice!***

On the other side of the coin, it is my view that insurance companies and other financial institutions have a vital role to play in promoting good financial practices to young people. Our institutions need to identify new means of promoting their product offerings to the public and young people in particular, means that go beyond advertising on the radio, television and print media. I would wish for companies to be more assertive in promoting their products, by going into communities, schools and workplaces and the recently established constituency councils to sensitise persons as to the instruments that they can invest in to meet their respective needs.

Ladies and gentlemen I wish you every success in your deliberations and I have every confidence that the information that you accumulate from this seminar will provide you with the critical tools that you need to embark on the road to financial prosperity.

I thank you.