

SPEECH BY MR LIM HNG KIANG MINISTER PRIME MINISTER'S OFFICE AND SECOND MINISTER FOR FINANCE AT THE BERITA HARIAN FINANCIAL PLANNING CONFERENCE ON 18 JULY 2004 AT 9.15 AM AT RAFFLES CITY CONVENTION CENTRE

Distinguished guests, ladies and gentlemen,

Introduction

1. It is my pleasure to be here today at the second financial planning conference organized by Berita Harian. I commend Berita Harian for their effort to educate Singaporeans on the need and skills for financial planning.

2. Some of you may wonder why there is such a strong push by the Government to encourage Singaporeans to plan for their own financial future and security. Let me share with you five reasons why I think financial planning is important. Mr Guntor Sadali has briefly touched on some of the points I am about to share with you.

Importance of financial planning

3. First, Singapore has one of the fastest ageing populations in the world. By 2030, one in five Singaporeans will be 65 years old and above, compared to one in thirteen now. Unless Singaporeans have

enough savings to support themselves in retirement, an ageing population means that those working will, directly and indirectly, have to financially support a greater number of retirees in our population. Early planning for financial security, therefore, provides us the foundation to lead independent and fulfilling lives as we grow older.

4. Second, a declining fertility rate. Today an elderly person probably counts on his or her five or more children for financial support. Family support is to be encouraged. But with declining fertility rate and shrinking family sizes, we can no longer just rely on our children for financial support in our old age. We need to be more self-reliant and save for our own retirement.

5. Third, with advances in medical technology, Singaporeans are now living longer. However, as we grow older, medical and other healthcare expenses are likely to be higher. If we do not plan early for such expenses, they will eat into our retirement savings and we will not have enough for a comfortable retirement.

6. Fourth, the current economic landscape is one in which job security is no longer guaranteed. We cannot assume that there is

lifelong employment and that our salaries will rise year after year. We need to be more flexible as the economy becomes more volatile.

7. Last, over-reliance on CPF savings. While Singapore enjoys one of the highest savings rate in the world due to the CPF system, many are overly dependent on their CPF savings to meet their housing, medical and retirement needs. Few may realize that the CPF minimum sum of \$84,500, if set aside fully in cash, translates to just \$668 per month upon retirement. This may be sufficient for basic needs but if we want a higher standard of living, we have to supplement our CPF funds with our own savings.

Current attitudes of Singaporeans towards financial planning

8. Over the past few years, more Singaporeans have become aware of the need to undertake long-term financial planning. However, this increased awareness has not translated into active and concrete steps to better manage their finances..

9. Many people think that financial planning is a difficult task. Others cite inertia or lack of time. Some think that financial planning is solely about buying insurance policies and investment products. What we are trying to do is to change all these misconceptions. We have a few simple objectives. First, financial planning means setting

out what our financial life goals are and then managing our personal finances to meet these goals. We must first determine the goals – is it saving for our children’s education; saving to go on the haj; or saving for our retirement. Then we must exercise discipline in our present spending, setting aside savings to meet unanticipated needs and planning for these longer-term goals. Developing a plan means we have to prioritize our needs, be prudent in how we manage our money, and plan ahead for the future.

10. Second, how to borrow sensibly. Sometimes, we have to take a loan to buy our house, or to buy a car or household appliances. Good financial planning also means having a good working understanding of how to manage the repayment of loans.

11. At my Meet-the-People sessions, I often have constituents asking for help to solve their financial problems. Many of them have a “live-for-today” mentality. They chalk up huge credit card bills buying furniture and electrical appliances and later realize that they cannot service the instalment payments. Others borrow for day-to-day needs because they have misplaced priorities. I know of some who choose to pay their handphone bills rather than service more important needs such as their utility bills and children’s education.

Often, their families have had to suffer financial hardship as a result of their poor spending habits. So we have to educate our people that loans are meant for long-term assets and they must calculate how they can service these loans without getting into financial difficulties.

12. Third, how to invest wisely. Some Singaporeans are investing in unit trusts and other investment products without fully understanding how the products work. Some people put their entire life savings in a particular type of investment, only to lose a substantial amount of money when their investment falls in value. They do not understand the pitfalls of putting all their eggs in one basket and investing in high-risk products.

13. Financial planning is a continual process that needs to be reviewed on an on-going basis as we move through different life stages. The financial goals may change as we grow older and so the financial plan must also change.

14. The earlier we start saving, the more funds we will accumulate for our retirement. We also need to put in the time and effort to manage our finances, and be disciplined in adhering to our plan. To

do so effectively, Singaporeans must be equipped with the necessary skills and knowledge for effective financial planning.

Financial education

15. This is where financial education comes in. In October last year, the Government launched a national financial education programme called MoneySENSE to improve the basic financial literacy of consumers.

16. Many countries are realizing the importance of consumer financial education and are stepping up efforts in this area. Singapore is one of the first countries to adopt a national approach to financial education. We realize that for Singaporeans to have easy access to financial education, we need to bring together public and private sector efforts and take a more structured and coordinated approach to financial education. Recently, Australia, UK and US announced plans for a similar approach.

17. MoneySENSE aims to reach out to all segments of the population and covers three tiers of financial literacy.

18. Tier I teaches Singaporeans basic money management skills such as budgeting and saving, using credit wisely, and how to live within their means. MoneySENSE has supported several programmes under this tier including a ‘Talking Dollars and Sense’ workshop organized by Northeast CDC for families receiving financial assistance.

19. Tier II equips Singaporeans with the skills and knowledge to plan for their long-term financial needs. MoneySENSE has organized several Tier II activities such as a series of free talks on life insurance and financial planning. In March this year, CPF Board, one of the agencies actively involved in MoneySENSE, launched a new initiative called ‘*my cpf*’, which guides CPF members on what to consider on the use of their CPF savings at different life stages so as to ensure a secure retirement. Just last month, CPF Board launched a new Retirement Calculator which helps determine a CPF member’s ability to achieve his retirement goal.

20. Tier III teaches consumers what to look out for when investing and how to invest wisely. When investing in financial products, we should guard against a “get-rich-quick” mentality. Instead we should think about what our financial goals, investment time horizon and risk

tolerance are. Once these are clear, we would be in a better position to choose a financial product that meets our needs. We should always do our homework before committing to any financial product, and not be swayed by promises of high returns as these are almost always accompanied by higher risks.

21. Going forward, MoneySENSE will take a more targeted approach to meet the needs of different segments of the population with varying levels of financial literacy. We will also bring the programme to a wider audience by partnering agencies such as Berita Harian. MoneySENSE will launch two new initiatives for the Malay community in the near future. The first initiative is a fortnightly MoneySENSE column in Berita Minggu, which will provide readers with tips on various personal financial topics such as insurance, investments and credit. I am pleased that Berita Harian is partnering MoneySENSE in this important initiative to raise the financial literacy of the Malay community.

22. The second initiative is a series of free financial planning talks to be conducted in Malay at the community level. These talks are organized by three financial planning associations – the Association of Financial Advisers, the Financial Planning Association of

Singapore and the Insurance and Financial Practitioners Association of Singapore. I encourage all of you to attend the talks and tell your friends and relatives about them so that more people can benefit from the talks.

Regulatory initiatives

23. Having financial education programmes alone is not sufficient. In order for consumers to make well-informed financial decisions, other conditions must be in place to help them better manage their finances. As there is a wide array of financial products available in the market, some of you may find it helpful to seek advice from a professional. We have tried to make the conditions right for consumers when they deal with financial advisers and their representatives.

24. In its efforts to enhance the business conduct standards of financial advisers and their representatives, MAS has been conducting inspections on participants in the financial advisory industry to ensure compliance with business and market conduct standards in the Financial Advisers Act (FAA). MAS expects financial institutions to adopt high standards of disclosure when dealing with consumers.

25. To ensure that the regulatory framework remains relevant and business-friendly, MAS has modified its existing regulations where appropriate. For example, due to the growing interest in Islamic financial products, MAS is currently reviewing the regulatory environment in Singapore to remove any impediments to the development and offering of Islamic products and services in Singapore.

26. MAS also ensures that consumers can seek redress before an affordable and independent industry-based mechanism when they encounter problems with their financial institutions. Dispute resolution mechanisms are currently in place for the banking and insurance sectors. MAS is now facilitating the setting up of an integrated dispute resolution mechanism that would provide consumers with the convenience of a one-stop shop and ensure that consistent dispute resolution processes are applied across the banking, insurance and securities sectors.

Conclusion

27. It is important for all of us to realize the importance of getting started early and not leave financial planning until we are close to retirement.

28. Financial education is a collective responsibility. While we can step up efforts in financial education and raise market conduct standards in the financial industry, consumers must realize that their financial well-being lies in their own hands. All of us have to learn to be more self-reliant and take greater responsibility for our own financial decisions. If we are clear about our financial goals, if we are disciplined in managing our money, and review our financial plan as our personal circumstances change, then I am confident we will have a brighter and more secure future ahead of us.

29. I wish all of you a fruitful and enlightening conference.