Webinar – Financial Literacy

By, Zahid M Jamal.

The panellists for the webinar were:

1. Mr. Yash Mohan Prasad, Executive Chairman of Bluebells Insurance Broking
2. Ashish Modani, Director SLA Financial Services
3. Usha Nair, SVP DSP Mutual Fund
4. Rishad Manekia, Founder Kairos Capital

Key themes for this webinar were:

- **Importance of Financial Planning:** Financial instruments need to be picked on the basis of one's short and long-term needs. Moreover, diversification is the key to financial growth.
- **Understanding cash flow streams and importance of saving and investing:** It is important to keep a constant tab on one's expenses. Save and invest sufficiently and have emergency savings for at-least 12 months.
- **Retirement Planning:** Planning for retirement is a long-term process. It is never too early to start planning for retirement.
- **Financial instruments:** There are various financial instruments such as deposits, public provident fund, national pension scheme, liquid funds, debt funds, equity mutual funds and equity.

Below are few key points covered by each speaker:

Ashish: It is important to understand and analyse one's income and expense streams. Based on needs, financial planning can be divided into 3 buckets—short term, mid-term and long term. Short term need is an emergency corpus to deal with sudden shocks in the economy (ex: COVID19—a black swan event). Emergency corpus must be built to help one withstand a blowout for 12 months. Mid and long-term needs include children's education, retirement, etc. It is absolutely essential to allocate assets based on needs. Below is a broad framework which can help one decide which financial instrument to choose based on needs:

Need	**Financial Instrument**
Short Term needs	Liquid mutual funds
Long term needs	Public provident fund*, National Pension scheme*, Mutual funds and Equity

**tax saving options (80C and 80CCD)*

Retirement planning has 2 phase—accumulation and distribution zone. In today's age, we tend to concentrate more on spending than saving. It is important to spend what is left after saving and not vice-a-versa. If one does not keep a tab on their expenses, they may end up in a vicious debt trap, which subsequently will hinder wealth creation. Wealth creation does not necessarily mean investing lump sum. One must follow the Systematic Investment Plan (SIP) approach.

Usha Nair: Financial Planning is not a one-size-fits-all approach. Every person's financial needs are different and thus planning must be tailored based on personal needs. Investment must be made by taking a long-term approach. Diversification is key to Financial Planning.

Yash: Insurance means, 'indemnify one's loss'. There are different types of insurance:

- General insurance: Protects against car, cattle, and agricultural land.
- Health insurance: Insurance to financially protect oneself against a health crisis. Most popular health insurance is Mediclaim.
- Life insurance: Protecting family dependents against one's own death. At times, there is a fear of a person living too long. To be financially stable in retirement, insurance policies also have an endowment feature which provides a lump sum to policy holders after certain period of time.

Q &A with the panellists:

- **How does one counter inflation risk?**
  While making an investment, there are broadly two types of risk—capital protection risk and purchasing power risk. To counter these risks, an individual must have certain investments in equity-related instruments for the long term. Please note that equity investment has certain risk but over long term (10-15 years) it can help you be well-protected against inflation and also strengthen you financially.
- **What are the health insurance options for the senior members of the Jamat?**
  Mediclaim insurance is usually expensive for elder members with health conditions. That is why it is extremely important to get an insurance early on in one's life, preferably as soon as one starts earning money.
- **Should one continue their SIP investments in such uncertain times (COVID-19)?**
  Yes, continuing SIP investments in falling markets gives the benefit of rupee cost averaging to the investor, that is, an investor would be allocated more units of his investment scheme since Net asset value (NAV) of investment will be lower in such times.
- **Is there a general rule for thumb for asset allocation?**
  There is no rule of thumb for asset allocation because each person's allocation is tailor-made based on his/ her needs. Each person has their own commitments, but as a base value, one should save at least 30% of their overall income.
- **Is there an insurance available to cover business losses due to this pandemic?**
  Currently, India does not have any such insurance products to cover losses against the pandemic. But there are products to cover business losses due to accidental reasons.
- **Which should be given more importance—loan repayment or asset creation?**
  Both are equally important and should be done simultaneously. Loan repayment is a financial liability whereas asset creating is a social liability for one's retirement. If one decides to pay their EMI's first in the initial years of their career and focus on asset creation later, they would loose on the effect of compounding on their investment.
- **Which is a better health insurance—family or individual insurance?**
  Family insurance is better because management cost for such insurance is lower. Therefore, it is more cost effective.

Lastly, be mindful of every little expense. As Benjamin Franklin once said, *'Beware of little expenses, a small leak will sink a great ship'*.

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