EXPRESS CLINIC

NAME: **SURJEET SANDHU & GURJEET SANDHU**

RESIDE IN: AMRITSAR

PROFESSION: EMPLOYED WITH STATE GOVERNMENT

NET ANNUAL INCOME

(₹ 19.20 LAKH)

STATUS & GOALS

SURJEET WORKS AS A GENERAL MANAGER IN A STATE GOVERNMENT DEPARTMENT. HIS SPOUSE GURJEET IS A HOMEMAKER. THEY HAVE 2 KIDS, HARMAN (25) AND SIMRAN (21). LAST YEAR SURJEET HAD A BYPASS HEART SURGERY AND SINCE THEN HE'S WORRIED ABOUT HIS HEALTH AND FAMILY'S FUTURE. SIMRAN IS STILL STUDYING AND HARMAN IS NOT YET SETTLED. SURJEET WANTS TO HELP HARMAN IN OPENING A BOOK SHOP AND PLAN FOR BOTH OF HIS KIDS' MARRIAGE AND HIS OWN RETIREMENT.

NEEDED

A roadmap that will allow Surjeet to create a corpus that will take care of his family, should something happens to him due to poor health

MONTHLY INCOME (Post Tax) **₹ 1,60,000**

MONTHLY EXPENSES **₹ 82,000**

NET MONTHLY SURPLUS **₹ 78,000**

GOALS

IN ORDER OF PRIORITY

HARMAN'S MARRIAGE (2015, inflation 7%)

CURRENT VALUE	FUTURE VALUE
₹ 10 lakh	₹ 11.5 lakh

HARMAN'S BUSINESS (2015, inflation 7%)

CURRENT VALUE	FUTURE VALUE
₹ 15lakh	₹ 17 lakh

SIMRAN'S MARRIAGE (2016, inflation 7%)

CURRENT VALUE	FUTURE VALUE
₹ 10 lakh	₹ 12.5 lakh

RETIREMENT PLANNING (Assuming 60% of total monthly expenses of self/ spouse)

CURRENT ANNUAL EXPENSES	FUTURE ANNUAL VALUE	CORPUS REQUIRED
₹5.9 lakh	₹6.3 lakh	₹1.62 crore

CURRENT INVESTMENTS:

SAVINGS ACCOUNT	:	₹1 LAKH
BANK FIXED DEPOSITS	:	₹12 LAKH
COMMERCIAL PROPERTY	:	₹80 LAKH
ULIPS	:	₹10 LAKH
MUTUAL FUNDS	:	₹7 LAKH
EXPECTED RETIREMENT BENEFITS	:	₹60 LAKH
PENSION ON VRS EXPECTED	:	₹80,000 PM

FINDINGS

EMERGENCY FUND: He does not like to keep excess money in savings account as it does not generate enough interest.

LIFE INSURANCE: He only has some ULIPs in his portfolio in the name of insurance.

HEALTH INSURANCE: He's adequately covered under government scheme, but is not aware of the fact that children will be out of this coverage once they reach 25 years of age

INVESTMENTS: His investments are diversified across asset classes, but a large chunk of the same is in a commercial property which he's bought with the objective of settling his son.

RECOMMENDATIONS

EMERGENCY FUND:
He needs to break his FD and take out ₹ 2 lakh from it and park it in a savings account in addition to present balance and maintain as an emergency fund.

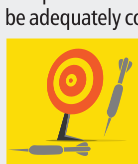
Express tip: There are many emergencies which require immediate cash, so even though your savings account does not generate high interest it is worth keeping money in that. Alternatively one can opt for liquid mutual funds or FD linked savings account.

LIFE INSURANCE:
Surjeet does not require any life insurance coverage. His current assets and expected retirement benefits will take care of his responsibilities.

Express tip: Your financial situation provides an indication on what amount of life coverage would be adequate for you. This requirement keeps on decreasing with the accumulation of investments and assets.

HEALTH INSURANCE:
He need not buy any health insurance coverage as he's adequately covered under government sponsored scheme but as Harman will soon be out of this and he's still dependent on Surjeet, he should buy a health insurance for him. The premium at his age for ₹ 5 lakh sum assured would be around ₹ 6,000 pa.

Express tip: Even if one is a government employee, he should keep an eye on when his immediate dependents would be out of his insurance coverage. To keep financials in order it is important that all of the family members should be adequately covered.



ACCIDENT INSURANCE:
Surjeet does not need any accidental insurance coverage as his savings and retirement benefits will take care of financials in case of any mishap.

Express tip: Disability coverage is very important in today's kind of fast lifestyle. But if you have sufficient assets and savings then you can avoid it.

GOALS

CHILDREN'S MARRIAGE (2015/ 16):
He should allocate his bank fixed deposit and ULIPs for these goals. He should withdraw his entire bank FDs and ULIPs and invest the proceeds again in bank FDs in the name of Harman and Simran respectively. This will help in reducing the tax burden too.

RATE OF RETURN ASSUMED 8% POST TAX.

Express tip: Along with investments one should also be clear on tax aspect since only post-tax returns matter in any kind of investments.

HARMAN'S BUSINESS (2015):
Surjeet can use his retirement benefits to achieve this goal. He may gift the required amount to Harman or loan him this amount to start off his business.

Express tip: On one side loan creates liability but it also helps in inculcating discipline in financial life as it makes borrower understand the value of money. And if taken from a family member, any delay in repayment will not affect the credit score.

RETIREMENT PLANNING (2013):
Surjeet has adequate arrangements for his retirement. He can comfortably take voluntary retirement. His inflation linked pension will take care of his regular inflow needs. The interest or dividends he will receive after investing the other lump sum retirement benefits, will supplement his annual inflow.

Express tip: EPF/ GPF, gratuity and other retirement benefits which come out of your regular job, helps a lot in supplementing your other savings for retirement. Thus one should continue EPF/ GPF till retirement without any withdrawal or break.

CONCLUSION

One should not wait for any eventuality in order to be reminded of our responsibilities towards our dependents. If you are not disciplined in handling your finances, creating rewarding assets will be difficult, inspite of high income and regular surpluses.

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■ MUTUAL FUNDS

Small can become big

Better commissions might bring back MF advisors back into the business. MFs will now be forced to look beyond top cities to tap the extra incentive, says **Ritu Kant Ojha**

PRADEEP YADAV

MUKESH Chothani spent last 25 years as an independent financial advisor (IFA). Life was easy for him till August 1, 2009 – the day when Securities and Exchange Board of India (Sebi), the capital markets regulator, banned entry load on mutual funds. Chothani, who is also the President of Nashik Association of IFAs, says it is painful for him to see the number of mutual fund agents in Nashik reduce from 450 three years back to 40 now. The entry load was the amount deducted upfront from an investment done in mutual funds and passed on to the agent as a commission. After the new regulation, the upfront commission to agents was banned but they were allowed to charge a fee from the investors for their advisory services.

"Investors do not want to pay separately for the advisory services and firmly believe that we will get good commissions out of their investments. The trail commissions that agents get, does not even cover the travelling cost to a client's place," says troubled Chothani. According to him, on a monthly SIP of ₹ 1,000 the trail commission is only ₹ 4 per month.

"Asset management companies (AMCs) have shut a large number of offices in small towns. The young people do not want to sell mutual funds because of absurdly low commissions. From 2007-08 till now, the cost of living has more than doubled while the income from selling mutual funds has reduced to one-third, he says.

According to experts, same story is echoed by a large number of mutual fund agents who have quit the field and have moved to selling insurance and real estate. According to an estimate, out of the total one lakh ARN holders (Amfi registered number) the number of active agents has come down drastically to only 20,000-25,000. The compensation of a distributor is directly linked with the cash flows of an AMC. After three years of falling financial health of the AMCs, there is a ray of hope – an increase in cash flows through additional incentive; but not without its set of terms and conditions. As per the new Sebi decision, AMCs will be able to charge additional total expense ratio (TER) of up to 0.3 per cent depending on the extent of new inflows from locations beyond top 15 cities. For lesser amounts, the incentive will come down proportionately. The regulator is still to come out with its final guidelines mentioning the finer details.

"The biggest motivation for the regulator to take this decision was the rate at which number of mutual fund agents was coming down. While on one hand, AMCs did not have enough money to compensate their advisors adequately, the advisors, on the other hand, were not ready to sell products without better commissions," says Debasish Mallick, MD and CEO of IDBI MF.

PROBLEM OF EXPANSION

Expanding beyond top 15 cities remains a challenging phenomenon for the AMCs. Currently only about 18 per cent out of the ₹ 2 lakh crore of the total equity assets under management (AUM) comes from beyond top 15 cities. "Unless the AUM is minimum ₹ 20 to 25 crore per branch, the break-even will not come even in 4-5 years and it is difficult to get that kind of an AUM in a small city," said Akshay Gupta, MD and CEO of Peerless Mutual Fund. According to an estimate, the minimum annual expense per branch for a basic set-up is at least ₹ 12-15 lakh in a small town. The average AUM per city beyond top 15 cities up to the next 35 is less than ₹ 150 crore while the AUM beyond top 50 and upto 110 cities is around Rs 10 to ₹ 15 crore.

> **MAKING BUSINESS SENSE**
> - Due to low commissions, large number of agents have stopped selling MF schemes
> - Sebi's has proposed additional incentive of 0.3 per cent on inflows beyond top 15 cities
> - The issue of commercial viability prevented MFs to expand to smaller towns
> - More than 90 per cent of the total AUM of the industry comes from top 15 cities

Most chief executives of AMCs feel that expanding beyond 15 cities has its own unique set of problems which are not easy to overcome. Majority of the fund houses have not built the capability in smaller towns because while the cost of set-up is high, the volumes are relatively much lower, says Jaideep Bhattacharya, MD and CEO of Baroda Pioneer AMC.

"Due to the smaller ticket sizes in towns, the mutual fund business there is not commercially viable. Also the financial literacy levels are low and people focus more on fixed deposits and real estate, making it difficult for an advisor to convince an investor," said Rajiv Bajaj, vice chairman and MD of Bajaj Capital, one of the largest distributors of financial products in India.

"Imagine 10 AMCs fighting for a pie of ₹ 150 crore in a town. There is just not enough for everyone to get motivated," said a chief executive of an AMC, requesting not to be named.

RAY OF HOPE

According to Dhirendra Kumar, MD, Value Research, the addtional incentive for the AMCs will allow them to leave their comfort zone of focussing on top 15 cities and go beyond to at least 25-30 other cities. "Say for example an scheme has an AUM of ₹ 1,000 crore and there is an incremental inflow of ₹ 20 crore in a year and out of that 30 per cent comes from beyond top 15 cities, then the AMC will be able to get an additional incentive of ₹ 3 crore (0.3 per cent of ₹ 1,000 crore). When this is added for a number of schemes that an AMC has, the amount becomes significant, and a chunk of that can be passed on to the agents as commission," explains Kumar.

"The additional incentive may not revolutionise the mutual fund industry, but it will surely put in some additional money in an agent's pocket and help reviving it in the medium term," Bajaj added.

According to the experts, the poor performance of the equity schemes in the last five years, even below the fixed deposit returns, has significantly reduced the trust of the investors on mutual funds as an effective investment vehicle. "Other asset classes like gold and real estate have performed much better as compared to mutual funds in the last 4-5 years, making it all the more difficult to convince investors," says Chothani.

Better commissions would enable AMCs to improve their distribution which was severely hit in the recent years. While every AMC will have a distinct sales strategy, based on its strengths and target areas, it will be interesting to see whether the industry succeeds in wooing back its distributors which is the only way to push its products in the smaller towns. ◆

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■ INSURANCE

Cover against loss due to weather

KANCHANA TK

WHEN it comes to a weather forecast, a business can generally take the information and use it to mitigate losses or determine whether or not to spend the money for a particular event. A weather forecast can help one make better decisions. In addition, many businesses are also affected by what happens during a season. A warmer than normal winter or a cooler than normal summer can impact all sorts of companies like utilities, food and agricultural groups and even retailers - these are simply a start to a long list of sectors whose revenues, costs and financial performance are sensitive to weather.

An interesting insurance product in this regard is index-based insurance. Weather indexed risk products represent a newly developed alternative to the traditional crop insurance programmes for farmers in the emerging markets. These products are based on local weather indices and ideally highly correlated to local yields. Indemnifications are not triggered by actual yields but instead by pre-specified patterns of the index. This reduces the typical risks and difficulties linked to traditional insurance products such as moral hazards, adverse selection, or the need for field visits.

One of the biggest benefits is that the insurance is based on a reliable and independently verifiable index and thus can be re-insured, allowing insurance companies to transfer part of their risk efficiently to international markets. Once thought of as solely for agriculture, weather insurance is gradually used by almost every type of business – outdoor events, power generating units, manufacturers, construction and most other industries to minimize the financial impact of weather on their operations.

Unlike regular insurance, which would only cover physical damage, weather insurance protects against additional expenses or loss of profit stemming from a specific weather event. The entertainment industry is emerging as one of the most frequent purchaser of weather insurance. Fair, festival and concert organizers/ promoters have a limited opportunity for their events and need protection against the most uncontrollable aspect, the weather. It is interesting to note that the broadcaster of the Indian Premier League, multi screen media has reported to have taken an insurance cover against the possibility of bad weather disrupting matches during the fourth season of the T20 cricket league. The total cover value was estimated at around ₹ 900 crore.

Due to India's climate vulnerability, risk transfer mechanisms like weather insurance clearly offer opportunities for weather sensitive businesses. So, if one is in the business, where the revenues are affected by the vagaries of weather, having an index-based insurance can be quite a respite. ◆

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