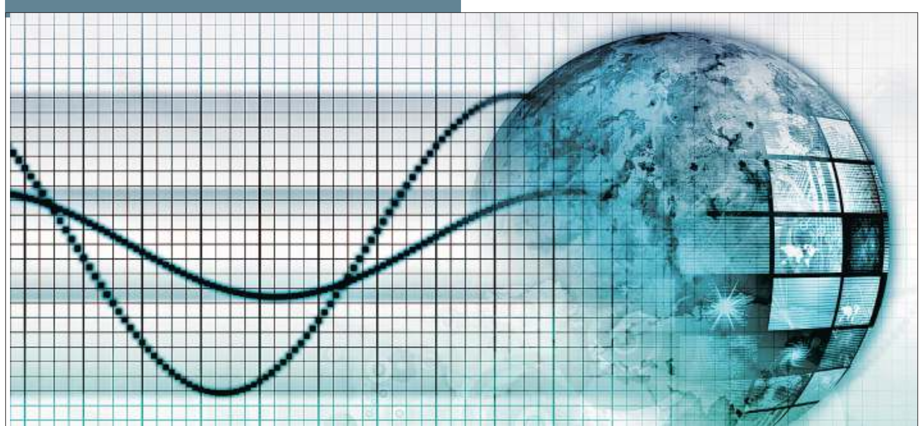
EXPRESS CLINIC



NAME: **RAHUL DEV (43) & NISHA DEV (41)**
RESIDE IN: NEW DELHI
CURRENTLY UNEMPLOYED

NET ANNUAL INCOME (THROUGH INTEREST)
(₹ 5,00,000)

STATUS & GOALS

RAHUL WAS WORKING WITH A TELECOM COMPANY, BUT RECENTLY HE LOST HIS JOB. HE IS A MANAGEMENT GRADUATE WITH 17 YEARS OF EXPERIENCE. HIS SPOUSE, NISHA, IS A HOMEMAKER. THEY HAVE A DAUGHTER ALISHA (15). THEY STAY IN THEIR OWN HOUSE IN DELHI. RAHUL IS SURE THAT HE WILL FIND A SUITABLE JOB IN THE NEXT SIX MONTHS. NISHA IS ALSO LOOKING FOR A JOB IN EDUCATION SECTOR. ALISHA'S GRADUATION IS DUE IN NEXT FEW YEARS

NEEDED

The first priority for the couple is getting a job. Alisha's education and marriage are the other important priorities along with retirement planning

MONTHLY INCOME **₹ 42,000**
MONTHLY EXPENSES **₹ 21,000**
NET MONTHLY SURPLUS **₹ 21,000**

GOALS

IN ORDER OF PRIORITY

ALISHA'S EDUCATION
(2015) (inflation 10%)

CURRENT VALUE	FUTURE VALUE
₹ 10 lakh	₹ 13 lakh

ALISHA'S MARRIAGE
(2023) (inflation 6%)

CURRENT VALUE	FUTURE VALUE
₹ 10 lakh	₹ 19 lakh

PERSONAL LOAN REPAYMENT
(2012)

CURRENT VALUE	FUTURE VALUE
₹ 7 lakh	₹ 7 lakh

RETIREMENT PLANNING (2027)
(Inflation 6%, Life Expectancy 80 years)

CURRENT ANNUAL EXPENSES	FUTURE EXPENSES (2023, PER ANNUM)	CORPUS REQUIRED
₹ 2.5 lakh	₹ 6 lakh	₹ 99.75 lakh

CURRENT INVESTMENTS

BANK FIXED DEPOSITS: ₹ 50 lakh
LAND: ₹ 30 lakh
PPF: ₹ 10 Lakh

FINDINGS

EMERGENCY FUND: With the good inflow of income, he never bothered to maintain an emergency fund.

LIFE INSURANCE: He doesn't have any life insurance cover.

HEALTH INSURANCE: He doesn't have any health insurance cover. He was totally dependent on his employer provided cover.

INVESTMENTS: His investments are more tilted towards safe instruments and he also prefers real estate.

LIABILITIES: He's having a costly personal loan in the portfolio.

PROVIDENT FUND: He has withdrawn almost all his provident fund to purchase the land.

RECOMMENDATIONS

EMERGENCY FUND: He needs to break his FD and park ₹ 2.50 lakh in savings account and maintain it.

Express tip: Emergency fund helps cope up with the uncertainties of job loss or health related issues.

LIFE INSURANCE: Rahul does not have any life insurance coverage. He should get one with the first salary of his new job.

HEALTH INSURANCE: Rahul should immediately buy a family floater health insurance policy with sum assured of ₹ 5 lakh (premium outgo ₹ 11,500).

Express tip: Individual health insurance policy must be separate from employer provided cover.

ALISHA'S EDUCATION (2015): He should allocate ₹ 10 lakh from his bank fixed deposit for this goal. Park ₹ 8 lakh in a separate FD and ₹ 2 lakh in a balanced mutual fund.

Rate of return assumed 8% post tax

Express tip: When there's uncertainty on regular income flow, one should invest in a relatively safer option.

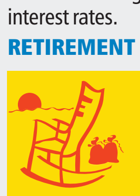
ALISHA'S MARRIAGE (2023): Allocate ₹ 5.45 lakh from the bank fixed deposit to diversified equity mutual funds.

Rate of return assumed is 12% post tax.

Express tip: When the goal is more than 5 years away, the asset allocation should be tilted more towards equity and diversified mutual funds are the best route.

LOAN REPAYMENT (2012): With no second thoughts he should close the loan from the money available in the bank fixed deposit. There's no point keeping such a high interest loan in such a financial state. Allocate ₹ 7 lakh towards this goal.

Express tip: A personal loan comes under the worst loan category due to extremely high interest rates.



RETIREMENT PLANNING (2042): For this goal nothing much is left in liquid investments for allocation. The balance in fixed deposits should be reinvested in a fresh fixed deposit with monthly interest pay-out for routine house expenditure. For retirement planning, the land investment should be allocated. But this investment should be closely watched as land investments have their own inherent risks. One should be out of this risky investment at least 3 years before the targeted goal year.

Rate of return assumed 12%

Express tip: One should first allocate the savings into liquid investments and then if there is some surplus left, that should go into the real estate.

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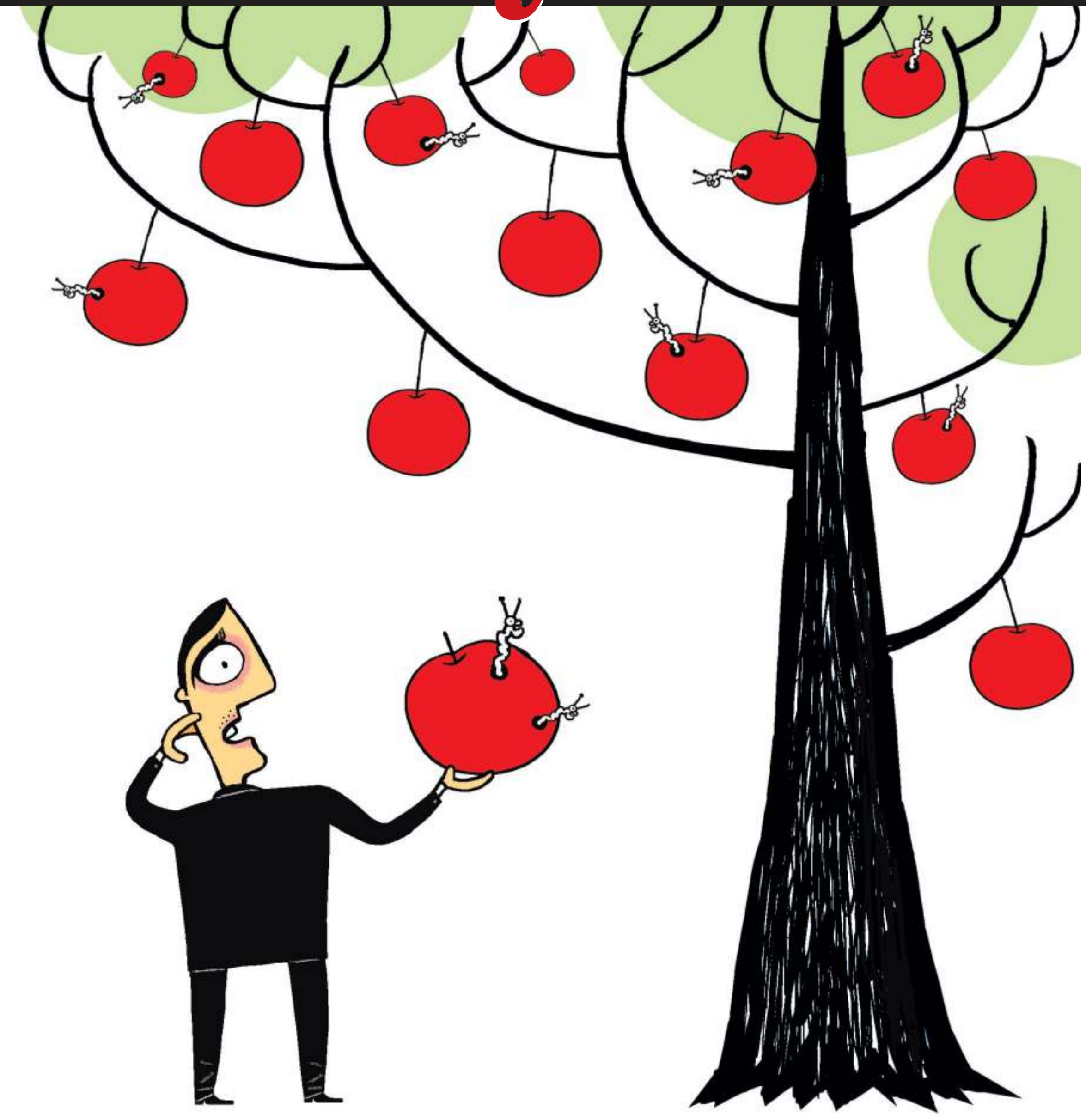
CONCLUSION

Financial planning should start from the first day of your financial life. Proper insurance coverage, allocation of resources to respective goals and arrangement of finances will only make your life easy and thus help you in managing such emergencies



C R SASIKUMAR

MUTUAL FUNDS

Wake up call for MF industry

The mantra to bring investors back to mutual funds — consolidation and clear positioning of products, says Ritu Kant Ojha

THE mutual fund (MF) industry which has been going through a rough patch in the last three years is facing the stick once again. While there were a slew of fund offerings recently, the multiplicity of similar schemes, non-performance, complacency and lack of pro-investor steps have come under the regulatory scanner.

Last week, during the annual Mutual Fund Summit organised by the Confederation of Indian Industry, Securities and Exchange Board of India (Sebi) Chairman UK Sinha raised concerns over nine fund houses with half or more of their schemes having underperformed their respective benchmarks and nine others with less than half of the schemes underperforming consistently over the last three years.

While Sinha did not name the fund houses, his wake-up call was loud and clear: "while an investor is free to move out from that scheme, if the performance is not good and this is happening on a continuous and long-term basis, then it becomes a matter for Sebi to take on and whereever we are finding such things we are going to ask questions to the fund managers, CEOs and if needed the AMC board and their trustees." The presence of a large number of similar schemes has ended up diluting the basic fundamentals of simplicity and ease of investing, because of which investors choose MFs instead of investing directly in bonds or buying stocks from stock exchanges. Too many schemes have ended up confusing the minds of investors.

44 FUND HOUSES, 4,400 SCHEMES

The MF industry has seen the number of fund houses grow from 32 to 44 over the last six years. The number of schemes has grown from 779 to 4,473 (counting various options of a single scheme as separate schemes) in the same period. Further, there have been 18 new entrants through the joint-venture (JV) or acquisition route. The growth in the industry and several new entrants, both Indian and foreign, demonstrate the potential of the mutual fund business in India.

However, in a rush to launch new funds to attract more investors during the bull run from 2005 to 2007, fund houses probably forgot that there are a limited number of key differentiators among various schemes. While exotic names were given to many schemes and an attempt was made to make them look unique, fund houses faltered on the most important factor for investors — delivery of returns. A recent PwC report on MF industry in India said, "with many seemingly similar offerings from multiple MFs unable to clearly communicate their superiority, a less informed investor may find it difficult to make a choice. This uncertainty leads to a weakened 'pull' for the product." During the financial year 2011-12, the MF industry, shrank by 1.6 per cent in terms of assets under management due to the redemptions by investors and stiff global and local market conditions.

UNDERPERFORMANCE ANALYSIS OVER 3 YEARS

Category	Benchmark Index	% of funds underperforming	Funds underperforming/ Total funds
ELSS (Tax-Savings)	BSE 200	29	9/31
Small/ Mid-Cap	CNX Midcap	25	16/63
Large-Cap	BSE 100	43	68/158

Source: Morningstar India

CONSOLIDATION

The NFO boom that happened a few years ago has left behind a proliferation of schemes, many with overlapping objectives and investments. There are about 160 equity schemes with less than ₹ 100 crore AuM, more than 100 schemes with less than ₹ 50 crore as AuM and about 42 schemes with less than ₹ 10 crore as AuM. "Overlapping schemes may be analysed and the possibility of merging overlapping schemes, or discontinuing such schemes could be evaluated," says Gautam Mehra, Leader-Asset Management, PwC.

Experts believe that while the Sebi had issued a circular in 2010 stating that consolidation or merger should not be seen as a change in the fundamental attributes of the surviving schemes if some conditions are met, the absence of an income-tax neutrality and the STT levy are dampeners which should be removed to facilitate merger of schemes.

Companies like IDFC MF, Franklin Templeton MF, UTI MF, Kotak AMC, ICICI Pru AMC, BNP Paribas and L&T MF have merged some of the schemes in the past. "There are schemes with just a few crore of assets under management. It is difficult for a fund manager to create a diversified portfolio through such a small asset size," said Dhirendra Kumar, CEO, Value Research.

SILVER LINING

The volatile market conditions in the last two-three years have led to withdrawals by investors to the tune of ₹ 49,000 crore in FY 2010-11 and ₹ 22,023 crore FY 2011-12, leading to a further drop in AuM, in addition to the drop caused by adverse market movements. Despite so much volatility in the equity markets, many MFs were able to deliver much better returns than their benchmark indices. For example, if we look at annualised returns over last three years of some of the top performing schemes, ICICI Pru Discovery gave 23 per cent returns, IDFC Premier Equity gave 19.6 per cent returns and Tata Div Yield gave 19.32 per cent returns.

Sinha's comments should come as a wake up call for the MF industry which has been deliberating on merger of schemes since last five years, but without much action. It would be good for the investors if the MF houses reduce their total number of funds and have a consolidated offering in each category. "We merged six equity schemes last year. That is the way forward for all asset management companies. The industry should move towards providing solutions to investors and not launch plethora of products," said Sanjay Sachdev, President and CEO, Tata MF.

What's the way forward? Consolidation and clear positioning of products might help rekindle the interest of investors — who turned their back towards equity markets in general and mutual funds in particular due to poor returns — in investing through mutual funds. ◆

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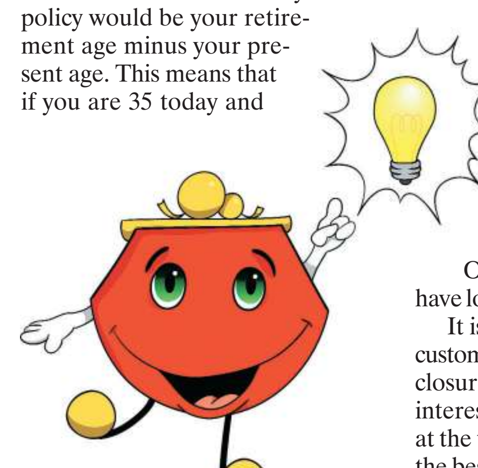
INSURANCE

Before buying, check your ideal term cover

JAYANT DUA

AS the head of your family, you need to fulfil your responsibilities towards your loved ones and to provide the comfort which they need. However, life is full of uncertainties and it is a need of every individual to sustain the same lifestyle for their family even when s/he is not around. While there may be many ways to protect family against life's uncertainties, none has the charm of term insurance products.

While the thumb rule states that one should look at life cover of 12 times annual income minus investment assets plus any liabilities there are also some other aspects that one should consider. The amount of cover required also depends on individual needs, along with current or expected circumstances. This would include whether one is single or married, has children, financial obligations such as personal loans, mortgage, school fees, current income, assets, life expenses, and not to mention, lifestyle. While most of these may pertain to our family, one needs to account for expenses that will immediately precede or follow one's death. These include medical bills, credit card bills or taxes. Add these increase as per your family's needs. The ideal tenure of your policy would be your retirement age minus your present age. This means that if you are 35 today and you wish to retire at 60, then the term of the policy should be 60 – 35 which is 25 years.



THINKSTOCK

Claims ratio is an important yardstick to measure the performance of an insurance company. There is sufficient regulatory governance around the claims handling process and there are defined guidelines for companies to follow. This makes it easy for the customers to access this information and make informed choices. While excellent claims performance record is an important criterion, claims repudiation ratio of an insurance company should also be looked at. One must select companies that have lower repudiation ratios.

It is important on the part of the customers to make all the rightful disclosures. This is in their own interest to avoid any inconvenience at the time of making a claim. It is in the best interest of the consumers to go for medical tests as this will reduce any chances of the claims being denied, especially, since you have disclosed all facts. It is better to pay additional premium for a small health condition.

The premium you pay per month for life insurance today will in rupees terms be the same, but will be less money ten years from now due to inflation. An increasing term assurance policy may provide the flexibility to increase the 'sum assured' (the cash amount that you receive upon your death) by 5-10 per cent each year to reflect the rate of inflation. Thus it will hedge against the rising cost of living with an option of increasing sum assured.

While aforementioned points are important criterions to be considered before buying a term plan, there are no straight answers to this. Hence certain guidelines mixed with some serious math and help from a professional financial planner will come handy to avail an ideal term plan. ◆

Author is MD & CEO, Birla Sun Life Insurance