EXPRESS CLINIC

THINKSTOCK

NAME: **SRIMALA (37)**
RESIDES IN KOCHI
PROFESSION: FASHION DESIGNER

ANNUAL INCOME (COMBINED)
(₹16.50 lakh)

STATUS & GOALS

Srimala is a single mother and resides in her parents' house in Kochi. She has one daughter Bhawani (12) who studies in sixth standard. Srimala is a fashion designer and earns by selling her designed clothes in different exhibitions all over India. She wants her daughter to get the best of education so she can face the world with confidence. She's very much against splurging on marriages and thus doesn't want to save a single penny for her daughter's marriage. She wants to retire as soon as her daughter completes her graduation.

NEEDED

The basic goals are education for her daughter and planning for her retirement.

MONTHLY INCOME **₹1,37,500**
MONTHLY EXPENSES* **₹45,000**
NET MONTHLY SURPLUS **₹92,500**

GOALS

IN ORDER OF PRIORITY

BHAWANI'S EDUCATION
(2019) (inflation 10%)

CURRENT VALUE	FUTURE VALUE
₹20 lakh	₹35.43 lakh

RETIREMENT PLANNING (2025)
(Inflation 7%) (Life expectancy – 80 years)

CURRENT ANNUAL EXPENSES	FUTURE VALUE
₹5.40 lakh	₹12.16 lakh

RETIREMENT CORPUS REQUIRED
(Post-retirement Inflation 7%)

CORPUS REQUIRED **₹2.83 crore** *(Assuming 80% of total monthly expenses for self)*

CURRENT INVESTMENTS:
Savings Account – Rs 3 lakh
Bank Fixed Deposits – Rs 12 lakh
ULIPs – Rs 2 lakh
Inheritance expected – House and Rs 30 lakh

FINDINGS

EMERGENCY FUND: Srimala has enough liquidity in her savings bank account. In fact, more than required.

LIFE INSURANCE: She only has some ULIPs in her portfolio in the name of insurance.

HEALTH INSURANCE: She doesn't have any health insurance policy.

INVESTMENTS: Her investments are more into bank fixed deposit. As she doesn't want to engage any financial adviser, she could not think of anything better than bank FDs.

RECOMMENDATIONS

EMERGENCY FUND: She needs to break her big fixed deposits and keep Rs 1.35 lakh aside in a saving bank account as emergency fund.

Express TIP: Creating emergency fund should always be the first step in any financial planning. It will provide necessary liquidity in the portfolio to tackle any kind of emergency.

LIFE INSURANCE: Life insurance is a must for Srimala as she has Bhawani, her daughter, as dependent and her savings are not enough to take care of her. She should buy life coverage of at least Rs 50 lakh. The premium would be around Rs 11,000 p.a.

Express TIP: When you have financial dependents get an adequate life insurance coverage so that your dependents can be taken care of in your absence.

HEALTH INSURANCE: Health insurance is very important for self-employed as they are not even covered under any employer provided scheme. Srimala should buy a floater policy of at least Rs 5 lakh sum assured covering her and bhawani. The premium would be around Rs 12,000 p.a.

Express TIP: Health problems can drain all your savings. So better be protected always and covered with adequate health insurance.

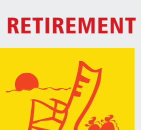
ACCIDENT INSURANCE: Accidental coverage is like income insurance, as it protects the income loss in case of any disability. Srimala should get her an accident insurance policy of Rs 50 lakh with maximum possible temporary total disablement benefit rider. The premium should be around Rs 7,000.

Express TIP: Disability coverage is very much important in today's kind of fast lifestyle. But still if you have sufficient assets and savings with you than sometimes you can avoid this too.

BHAWANI'S EDUCATION (2019): She should start investing Rs 35000/- per month in equity and debt mutual funds through SIP route. She should opt for asset allocation of 60:40 (equity: debt).

Rate of return assumed: equity 12% and debt 8% post tax.

Express TIP: Asset allocation should be selected as per your risk profile, past experience and time frame left to reach your goals.



RETIREMENT PLANNING (2025): With the current financials it is looking difficult to achieve the goal of retirement in next 12 years. Srimala should start investing her balance monthly surplus with the allocation of 60% equity and 40 % debt. She should also allocate the current FD, ULIP and balance in savings bank account after emergency fund, towards this target. Goal and investments should be reviewed every year.

Express TIP: Retirement is one of the very important goals, and if started early in life can be achieved very comfortably otherwise you may have to compromise on other important goals.

CONCLUSION

Life may be difficult to plan but finances are comparatively easy. When your finances are properly planned, uncertainties in life can be well taken care of.

PLAN BY MANIKARAN SINGAL,
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TREND SPOTTER

Investors renew faith with bank deposits

Returns on gold have tanked and gullible investors have learnt the perils of Ponzi schemes. The old faithful, bank deposits are looking attractive to more investors

THINKSTOCK

SURABHI
NEW DELHI, JUNE 16

VOLATILE stock markets and a hefty import duty as well as other restrictions on gold seem to have once again made investors wary. Add to this mix, a depreciating currency, softening inflation and concerns over get-rich-quick chit funds that have rocked a number of states. But with the financial shake-up, investors seem to be running to the good old bank deposits for security.

On Thursday, the country's largest lender — State Bank of India reported a near 60 per cent rise in bank deposits so far this fiscal. In absolute terms, the bank's deposit growth till now has been Rs 41,000 crore as against Rs 26,000 crore it had notched up in the same period last fiscal.

The data, which came after the bank registered negative growth in bank deposits in the last two quarters, surprised even the bank's chairman Pratip Chaudhuri who called it a "flight to safety".

"In many parts of the country, many (ponzi and bogus) schemes are not able to redeem their deposits. So then SBI becomes a beneficiary," Chaudhuri said in a recent interview.

In an indication that this trend is not restricted only to one particular bank, the Reserve Bank of India too has reported a 13.4 per cent rise in deposit growth at Rs 62,000 crore year on year on 31, which is largely in line with its 14 per cent growth target in the segment for the whole fiscal.

This pick up in deposit growth is despite the fact that most banks have begun to lower deposit rates, at least in the bulk segment.

For instance, the State Bank of India had recently cut deposit rates by 25 basis points on two tenors.

Analysts too have expressed surprise at the recent development, as typically bank deposits like most other small savings schemes and insurance products tend to register a growth only towards the second half of the fiscal.

"Given the extreme volatility in markets and lower inflation rates, bank deposits may re-emerge as an attractive option that give guaranteed returns over a period of time. Gold too is losing its sheen as its recent price fluctuations have worried investors over returns," said Abheek Barua, chief economist at HDFC Bank.

Banks currently offer fixed deposits at rates ranging between 3.5 per cent to a little over 9 per cent, depending upon the tenor and the amount.

Senior citizens can avail an additional 0.25 to 0.5 per cent on the deposit, while some banks also offer special schemes and rates to pensioners.

The tenor of the deposit can be as less as seven days to as long as 10 years. Banks, however, tend to frown upon premature withdrawals which may result in a lower interest rate as a penalty.

But the interest is, however, taxable, unlike small savings schemes like the public provident fund (PPF) tax exempt. But unlike the Rs 1 lakh cap on investments into the public provident fund and other similar instruments, there is no ceiling on the amount that individuals can put into term deposits.

Till the time wholesale price index based inflation was in double digits, the interest rate on bank deposits were not seen as attractive as the real return (based on the inflation rate) was negative. But with headline inflation now softening to near 4 per cent, bank deposits are back to giving positive real returns.

"Chronically, high inflation of recent years has pushed down real interest rates to negative territory despite the rise in policy rate and tight liquidity," a recent Deutsche Bank report said, adding that as a result the (smaller) stock of savings was channeled increasingly to gold and real estate.

Data show that household savings declined to 22.3 per cent of GDP in 2011-12 from a peak of 25.2 per cent of GDP in 2009-10. There was also a discernible decline in financial savings, reducing the pace of deposit growth in the banking system, the report further noted.

However, for 2013-14, Deutsche Bank has predicted a rise in real interest rates through out the year.

"As real rates rise, the incentive to deposit money in banks will rise. There may well be another reason for deposits to rise this year," the bank has said.

Analysts are, however, quick to warn that while real interest rates may well continue to rise, banks may be forced to lower deposit rates during the course of the year.

"As deposits pick up and there is also need to shore up credit growth, banks would lower lending rates. This can not be done in isolation and would also result in a reduction in deposit rates," Barua said.

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THE MONEY TRAIL

STATE BANK of India has reported a near 60% rise in bank deposits so far this fiscal. In absolute terms, the bank's deposit growth till now has been Rs 41,000 crore as against Rs 26,000 crore it had notched up in the same period last fiscal

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BANKING FOR ALL

Swimming towards financial inclusion

VIDYA MAHAMBARE

LEARNING to swim is more difficult for an adult than for a child. I am one of those who did not learn to swim as a child. There are several reasons why I am not so keen on it now despite knowing that it is one of the best forms of exercise.

First, there is the issue of accessibility, then the problem of finding a good instructor, and third (and more important) is overcoming the fear of drowning. Due to this fear, many adults never learn to swim, preferring other forms of exercises instead.

This dilemma aptly describes the struggle that we face at present to widen financial inclusion, especially in rural areas. Most households know that access and usage of financial services via formal financial institutions help improve income and consumption levels. Then why are we not able to convince enough poor households to come into and stick with the formal financial markets?

The first reason is accessibility. Going back to the swimming analogy, the first issue I tried to figure out was the access to the facility — what will be the travel time?

Life is so hectic that learning a new activity is ruled out if the commute is going to take me more than 15 minutes, even if it will make me healthier.

Similarly, for financial inclusion to succeed, accessibility to formal financial institutions is the first hurdle.

We need to bring banks and other institutions closer to the customer, either via micro branches or banking correspondents, and increase the use of technology. Access to financial institutions is certainly rising. According to the Reserve Bank of India, all unbanked villages with a population of over 2,000 persons, numbering around 74,000, were connected with banking facilities between March 2010 and June 2012. During the same period, more than 70 million basic banking accounts were opened to take the total number of such accounts to 147 million.

Even when accessibility improves, the quality of the swimming instructor is a concern. Teaching adults tends to take longer and requires different techniques than those used with children. Can I trust the instructor to spend enough time with me as I struggle to learn swimming?

Similarly, do people whom we are trying to move into formal financial institutions have confidence in a banking correspondent, an insurance agent, or even technology? Will they help improve the level of financial literacy?

Raising financial awareness and literacy will be the key to improving financial inclusion. Hence, we need to ensure that the teachers are good enough to wean people away from their lifelong habits. Else, people will easily slip back into their old ways.

Although the RBI, commercial banks, and micro finance institutions are taking numerous steps to improve financial literacy, this is still work in progress and there is still a long way to go. The corporate sector, especially companies in the financial sector, too can play a part on this front. For example, in 2012, in the first year of its national financial awareness initiative, Pragati (Progress through Financial Awareness), Crisil conducted 25 sessions in rural Assam in partnership with Rashtriya Gramin Vikas Nidhi, a non-profit organisation. The programme is now set to expand to two more states, Tripura and Sikkim, in 2013.

By now, I have figured out a swimming facility closer to my home and I am satisfied with the instructor. But, there is still the biggest hurdle to cross – the fear of drowning. What if the float slips, comes apart or breaks suddenly? Will the instructor really help me?

In rural India, financial products such as insurance policies have been wrongly sold before – people have swum with faulty floats and drowned because the claims were not honoured while premiums were collected.

Although products have improved and become simpler now, it still takes a long time to overcome the fear once it takes hold. As we move towards greater financial inclusion, products and services need to be simple and easy to understand so that they can garner the confidence of people who will enter this market for the first time.

The lesson - if financial inclusion is to succeed, and not merely end up as a vehicle for remittances or cash transfers, the focus will have to be on meeting the needs of the customers in terms of simpler products and services. Improvement in accessibility alone will not take us very far.

The author is Principal Economist, Crisil