

**FP&B** INDIA



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December 2023



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# What's Inside...



Welcome Note - Krishan Mishra, CEO, FPSB India	03
About the Journal	04
World Financial Planning Week 2023	05
Call for Articles	08



## OUR WORK WITH CLIENTS

Family Business - Creating a Chinese Wall between Family Wealth & Business Capital • By Naresh Pachisia, CFP	10
How to construct an ideal portfolio in Retirement? • By Suraj Kaeley, CFP	12
How Financial Planners Can Help Clients Overcome Common Behavioural Biases • By Udayan Ray, CFP	15



## OUR CHANGING MARKET PLACE

Changing Landscape of Financial Planning Profession • By Anil Chopra, CFP	19
Navigating the Direct vs. Regular Dilemma • By Taresh Bhatia, CFP	21



## OUR SHARED WISDOM

Financial Planning process - doing it the right way • By Arti Arora, CFP	25
Debt Management in Financial Planning – To Borrow or Not to Borrow? • By Anshul Srivastava, CFP	28
Prudent investing: Valuable tips for your clients' journey of wealth creation • By Inderpal Singh, CFP	31
Value of Financial Planning -Consumer Research Report 2023-Key Findings	35

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## Message from **Krishan Mishra** CEO, FPSB India

Dear CFP® Professionals,

As we come together in the December 2023 edition of the FPSB India Journal, I am honoured to address you here for the first time since my appointment as CEO in August 2023. This marks a significant moment in our journey, and I am excited about the path that lies ahead.

Navigating the dynamic landscape of financial planning, I am genuinely inspired by the dedication and resilience each of you bring to our organization. Your commitment, coupled with creativity and hard work, has been instrumental in propelling us forward. I want to express my deepest gratitude for the incredible efforts you contribute day in and day out.

In the recent weeks of my tenure, we have achieved noteworthy milestones that showcase the collective expertise and innovation of our FPSB India team, supported by our esteemed CFP® professionals and education providers. The success of World Financial Planning Day (WFPD) and World Investors Week (WIW) 2023 is a testament to our collaborative efforts. I am particularly pleased to share that our student base has significantly expanded, with due contribution by the teams of our Authorized Education Providers.

I am thrilled to announce the launch of postgraduate programs in financial planning in collaboration with renowned business schools in the country. This includes partnerships with Loyola Institute of Business Administration (LIBA) in Chennai, KJ Somaiya Institute of Management Studies and Research in Mumbai, and The Army Institute of Management and Technology (AIMT) in Greater Noida. These collaborations underscore our collective strength, and I take immense pride in what we have accomplished together this year.

On World Financial Planning Day, we unveiled a groundbreaking research report on the Value of Financial Planning in India, released by Dr. Manoj Tiwari, Director of IIM Mumbai. My sincere thanks to Dr. Tiwari and the IIM Mumbai team for their invaluable support. The report, which is also included in this edition of the Journal, has garnered appreciation both within India and globally, and I encourage each of you to explore its insights for your and your clients' benefit.

Representing you at FPSB's Global Conference in Singapore in October was an honour for me, and I take pride in stating that the global recognition and appreciation for our CFP professionals and FPSB India team are growing.

Exciting projects and initiatives await us in the coming months of the new year, and with your dedication and hard work, I am confident that we will continue to scale new heights. I assure you of my unwavering support and guidance as we face these challenges together.

As we enter the New Year, let us reaffirm our commitment to excellence and uphold the core values that make the CFP® program a beacon of financial education in India. Looking ahead to the future, we are excited about the prospects that the new year holds for the CFP certification program in India.

Thank you for the positive impact you make on our organization. I extend my best wishes to each of you as we embark on this journey where we are committed to taking the CFP program to even greater heights in the coming year.

**Best Regards,**  
**Krishan Mishra**



# ABOUT THE *Journal*

The purpose of the Journal of Financial Planning in India is to expand the knowledge base of CERTIFIED FINANCIAL PLANNER professionals and those interested in the profession. Future contributions will span a variety of areas including industry interviews, viewpoint columns, insightful articles and peer-reviewed technical papers. We wish to provide content that is interesting, original and, most importantly, beneficial to CFP professionals and their work on behalf of their clients.

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## World Investors' Week and the World Financial Planning Day 2023

In a collaborative effort with IOSCO (International Organization of Securities Commissions), and under the G20 Presidency of India, FPSB India celebrated this year's World Investors' Week (WIW) and the World Financial Planning Day (WFPD) 2023 during the first week of October.

FPSB India conducted many activities during the week collaborating with its Authorized Education Providers, Regional Chapters, CFP professionals, students, firms and institutions, and the public at large.

Notably amongst them was the Bell Ringing Ceremony at the iconic Bombay Stock Exchange. Eleven CFP professionals, who have dedicated two decades to

their roles as CERTIFIED FINANCIAL PLANNER®, were also honoured during the occasion for their exceptional commitment to the profession.

During the week, the 'Global Consumer Research Report on Financial Planning' was also released by the Director of IIM Mumbai in their campus.

FPSB India extends its heartfelt gratitude to everyone who contributed to the success of the World Investors' Week and the World Financial Planning Day 2023.

Given below are some glimpses of the events and activities held during the week.







Launch of FP&B's Global Consumer Research Report by the Director of IM Mumbai in the august presence of the Dean and other senior faculty



Authorized Education Providers conducted financial literacy initiatives as part of the Solidarity Campaign to foster financial awareness and the importance of financial planning





Empowering Communities: The Regional Chapters in Mirzapur and Hyderabad played a pivotal role and orchestrated informative sessions and workshops in collaboration with professionals and institutions.



Webinars: "From Dreams to Reality: Let's Craft Our Financial Blueprint" hosted by FPSB India and "Navigating Financial Landscapes" at the Global Financial Planners Summit 2023 hosted by IFinance in Mumbai.



Elevating Financial Literacy: During the week FPSB India reached out to many esteemed institutions for advancing the financial planning education through its initiatives and panel discussions. Loyola Institute of Business Administration (LIBA, Chennai), KJ Somaiya Institute of Management, Mumbai, Army Institute of Management and Technology (AIMT), Noida and Maharaja Agrasen Business School (MABS), Delhi.



# Call For Articles



## Writing Guidelines for Contributions

**Articles:** We welcome previously written work and ideas that pertain to one of the areas of financial planning: tax planning, debt management, cash flow management, ethics and legal and regulatory environment, education planning, retirement planning, investment planning, insurance planning, and estate planning. The articles should be of about 1500-3000 words in length with the goal of having an article between 6-8 pages long within the Journal, including all photos and graphics. Articles must be written in English and be relevant to Indian CFP professionals and/or the global CFP community.

**Audience:** You are writing for people like you – other CFP professionals! Please provide timely and accurate information that has practical implications.

**Style:** The Journal of Financial Planning in India is focused on providing and promoting easy-to-comprehend, professional written work. A contributor's thoughts, comments, ideas, and graphics should be easy to understand and structured for flow.

### Elements to be included for submission:

- Publication date, April 2024.  
Article due date: 29 Feb 2024.
- Publication date, August 2024.  
Article due date: 30 June 2024.
- Send to: [IndiaCFPCertification@fpsb.org](mailto:IndiaCFPCertification@fpsb.org)
- Format: When submitting an article, please include author name(s), mailing address, email address, phone number, author picture, brief biographies of the author(s), and an executive summary.
- Executive Summary: The executive summary is not a sales pitch for the article, but instead, a summary telling the reader what to expect, the purpose, the topic, the why, and the important practitioner implications. Executive summaries should be no more than 250 words.
- Graphics: No more than 5 photos and graphics per article.
- Endnotes/References: Please be sure to use APA formatting for references and endnotes.

### \*Authors of published articles will get 4 CPD POINTS\*

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# Our *Work* With Clients





## Family Business—Creating a Chinese Wall between Family Wealth & Business Capital



### Naresh Pachisia

CFP®, Founder & Managing Director  
SKP Securities



A friend's family business was flourishing for so long that the 'riskiness' of the business got camouflaged from a feeling of 'nothing could ever go wrong'. No other investment avenue could seemingly provide the kind of sustainable high returns that the business was generating. Naturally, all surplus generated from the business over the years was ploughed back into the business itself.

Confidence was so high that even the family house was mortgaged, and personal guarantees given to avail bank finance for enhancing business growth. The family had no other consequential business. Except for some salary income, which covered regular lifestyle, some investments in small savings instruments and inconsequential insurance policies, primarily done for tax planning purposes, no attention went to financial investments for wealth creation or insurance for risk protection in the family.

Suddenly, disaster struck!

Out of the blue, business was disrupted into sudden closure. Debts needed to be paid off. Sustaining lifestyle itself became a challenge. Future of the next generation suddenly looked bleak as the family had not created any nest egg for their higher education, marriage, etc. Their career plans, to 'naturally' join and grow the family business, were out of the window now. How would the Senior Generation, who had retired from business operations, with not much savings, sustain themselves? How would the New Generation, busy running the business, sustain themselves post-



retirement, was not even in the thought process. The spectre of family house either to be sold or taken over by bankers loomed large.

Moreover, the family leader in the business was diagnosed with a terminal disease. Even an attempt to save his life would require huge medical costs. With neither current earnings nor family's financial savings to fall back upon, there was darkness all around.

Just imagine, if this could happen to a multi-millionaire business family, what can be the plight of smaller mortals.

### What went wrong?

In its blind pursuit of growing a successful business, the family lost sight of a key purpose of earning by way of running a business – family's financial security, prosperity, and the resultant happiness. Perhaps, even if other family members were aware of this mistake – either they did not guide or could not prevail over the key decision maker(s) in the family.



My personal observation over the years is that entrepreneurs/family businesses (also professionals like medical or law practitioners) with irregular cash flows, are more indisciplined savers and investors as compared to other segments of society, like those earning salary, who have a regular income based predictable cash flow.

### **What is Ideally required to be done by business families?**

First, business is cyclical in nature and carry risk beyond reasonable control of the family. However, a family's financial goals and needs, even if they are in reasonable control of the family, do grow over time with family expansion and inflation. Therefore, it's important to insulate family's financial goals from the vagaries of business cycles. For instance, the family business must provide merit-based salaries to family members having operational role in the business, to sustain family lifestyle.

Next, it is desirable to plough back enough business surplus into family wealth by way of dividend, buy backs, etc., which helps fund all reasonable individual and collective financial goals of the family, creating a sense of prosperity and the resultant happiness for the family as a whole. After all, rewarding its shareholders, is a key objective of business.

Secondly, maintain a Chinese Wall between Business Capital and Family Wealth as matter of thought process, culture, discipline, and action:

- Financial goals of business are either anytime/short term (working capital), or at best, medium term (capital expenditure) in nature. These require investments in asset classes which provide capital protection, regular income generation and liquidity. But returns from such asset classes are relatively lower. However, financial goals of a family are generally long term in nature. These require investments in asset classes like equities which create wealth over time. But such asset classes may be quite volatile in the short to medium term. It is important to match the time horizon of investment asset class with the time horizon of financial goals for risk-return optimisation. Otherwise, either business may land up taking an extra risk by investing in long term asset classes like equities, or family may land up compromising on returns by not investing in wealth creating asset class.

- Risk Protection needs of business and family are similar, yet need to be objectively looked at differently and both need to be protected. Business needs to protect its physical assets, its employees' medical expenses and its key human assets against risk of nature – for business continuity or a compensation in lieu thereof. Family also needs to protect its family members, more importantly those who have an earnings role in the family, from the risk of nature – the only financial asset that gets created after the loss of a family member. Medical expenses of family members and family's physical assets also need risk coverage.

- Exposing family assets to business risks, by way of mortgaging of essential family assets like the house in which the family resides, or giving personal guarantees to avail business loans, need to be avoided. Business needs to raise capital without compromising on the family's financial future.

- Decisions of investing Family Wealth into Family Business (existing or new) should be taken as thoughtfully and objectively as Private Equity investors would do. This helps avoiding family emotions like ego or love & affection overriding rationality in investment decision making.

Wish that the family, whose case study has been given above, could have thought of such things. Hopefully, other family businesses are doing so, or will do so.

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## How to construct an ideal portfolio in Retirement?



**Suraj Kaeley**

CFP®



Retirement Finance is a complex subject. There is a lot of literature on how to save for retirement and how to generate adequate retirement corpus. But when it comes to deploying these investments, there is not much out there that can be of help. And if you come across something that is useful, it presumes that you will create an investment portfolio at the start and then you may not have to do anything later!

As Certified Financial Planners, I am sure all of you appreciate that it is unlikely that a plan set up at the start would need little or no changes as you go along. Your plans need to serve as a guide to help your clients navigate the complexities that arise along the way.

Hence, in this article, my focus is to share with you a process that you can follow to help your clients create their ideal portfolio in Retirement. I have not dwelled into the investment avenues as I want you to focus on the process and not jump into portfolio construction. I believe that you need to ask your clients six fundamental questions before constructing their ideal portfolio.

### **Q 1. What is the lifestyle they plan to lead in their retirement years?**

You may think this is easy to answer but that's not the case as they are going to lead a life that is very different from what they did in their working years. For example, they may decide to relocate to a new place after their retirement. This itself is a huge change! Even if they are

not relocating, they will need to figure out how to spend all their free time that they have at their disposal. And this will be very different from what it was in their working years.

### **Encourage them to think ahead of how they plan to lead their retired life!**

### **Q 2. How much will it cost them to sustain their new lifestyle?**

Their lifestyle will determine the expected annual expenses. Ideally, you must go into as much granular detail as possible. But you tend to make some assumptions and move ahead! When you go through a detailed exercise, you will realise that their retirement expenses can range from 50% to 150% of their current expenses (at current costs). It's a very wide range as each individual thinks very differently and has different plans for themselves.

When you take the monthly expense route to estimate the expenses, you realise you have ignored many expenses that are quarterly or semi-annual or annual in nature (example: insurance premiums, vacations...). What about expenses that are incurred once in 2 years or 3 years or 5 years. In today's day and age, it could be replacing their expensive mobile phone or their car or repainting their home, replacement of furniture etc. You should account for every single element of their expenses.



**Plan Annual and Spend Monthly!****Q 3. How do they plan to meet unexpected expenses?**

The biggest element of unexpected expenses are medical emergencies. You cannot predict it with any manner of certainty! All you can do is to try and encourage them to lead a healthy lifestyle and pray for the best! Check if the medical policy that they own be able to take care of all these expenses? What if their insurance provider does not cover the specific medical procedure that they need to undergo? In any case, a lot of expenses like replacing eyeglasses, dental procedures, domiciliary expenses may not be covered by their insurance provider.

**Set aside a sum of money upfront (over and above provided by the insurance provider) that they can use to meet unforeseen expenses.**

**Q 4. What will be the impact of inflation on their expenses?**

Again, this is not an easy question to answer as it is very different for every individual. You will need to make some assumptions here! In reality, their real expenses may drop significantly specially after age 80 and hence there could be a case to plan for a lower inflation rate.

**The least you should budget as a long-term inflation rate is 4% per annum!**

After you have answered the above questions, you can move to thinking about the adequacy of their retirement corpus and constructing their ideal retirement portfolio.

**Q 5. Is their retirement corpus adequate to meet with all their expenses and last their lifetime?**

There are many ways to answer this question. Some of these ways are technical and complex while others are simple and practical. My favourite way to answer this question is to think in terms of a safe withdrawal rate. What proportion of their investment corpus can they withdraw every year to meet their regular expenses? For example, if you estimate annual expense at Rs 12 lakhs per annum (Rs 1 lakh per month) and if you decide the safe withdrawal rate at 6% per annum, then you need a retirement corpus of Rs 2 Crores to generate an annual income of Rs 12,00,000.

Their investments need to generate a higher amount than their safe withdrawal rate to ensure that they are not eating into their retirement corpus.

**In my opinion, a safe withdrawal rate is anywhere between 3% to 5% for the Indian situation.**

**Q 6. What should be the ideal investment portfolio in retirement?**

This question starts with a broad asset allocation decision which is done basis their needs and risk appetite. You are likely to make some assumptions related to the expected investment returns of the three basic asset classes: Cash/Short Term Debt, Long Term Debt and Equities. I believe that from a retirement perspective you must add precious metals/gold and Real Estate (excluding the home you live in) to the asset class list as well. Once you have done a broad allocation, you need to make the appropriate investment choices and while doing so you need to keep in mind the impact of taxation as well.

You also need to also think through the extreme situations and how would they react to these situations? If they live till age 100, their retired life can be more than their working life! And they will certainly come across situations they might have never experienced in their life. To complicate matters, they may not have any other regular source of income. Hence it is better to err on the side of caution!

**A minimum of 10% across short-term debt, long-term debt, equity, and gold is a must.**

The above questions bring alive the real challenges in building an ideal retirement portfolio.

**The next step in the process is to put together this information and visualise the impact of the assumptions on the retirement finances. I will be using a case study for the same.**

Shyam is a senior corporate executive. He is 56 years old. He is married to Anita and they have one daughter. She has completed her education and is doing well in her career. He estimates that he will spend about Rs 50 lacs on the wedding celebrations of his daughter. They do not have any outstanding loans. They have accumulated a corpus of Rs 2.5 Crores, of which Rs 2 Crores is available to meet his retirement needs.

He estimates that a monthly expense of Rs 100,000 at current costs would be adequate in their retirement years. He is in good health and has adequate medical cover. He believes that the likely long term inflation rate will be 4% and he can generate a post-tax investment return of 7% per annum. He is keen to retire right away but is not sure if the retirement corpus would be



sufficient to lead a comfortable retired life. How can the process that I have shared help answer his concern.

The key assumptions for developing the retirement plan for Shyam are:

Estimated Annual expenses: Rs 12,00,000 (Rs 1,00,000 per month) Current Age: 56 years, Estimated Retirement Age: 56 years Inflation expectations: 4% per annum Estimated Post tax ROI on investment corpus: 7% per annum.

Basis the above information, we can conclude that the withdrawal rate required to meet the current expenses would be 6% per annum (Retirement corpus: Rs 2 Crores, Annual Expenses: Rs 12 lacs) We will be using some charts to answer the question raised by Shyam.

In the charts below, the green bars reflect the value of the retirement corpus. The age is reflected on the x-axis. The grey line reflects the monthly expenses adjusted for inflation.

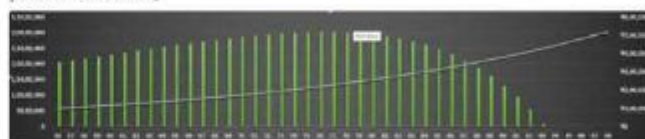
Chart 1: Monthly Expenses: Rs 1,00,000 per month, Starting Retirement corpus: Rs 2 Crores



As you would notice from Chart 1, Shyam would run out of their investment corpus by age 79. This is due to the impact of inflation. The monthly expenses keep increasing @ 4% per annum and by age 67, the monthly expense has grown to over Rs 1.5 lacs per month (Rs 18 lacs per annum). This leads to an increase in withdrawal rate. The withdrawal rate has grown from 6% p.a. to 9% p.a. while the investment returns are 7% p.a. As a result, the investment corpus starts to reduce and eventually gets over by age 79.

Let us make some changes to the assumption and evaluate its impact on the retirement plan. Shyam believes that he has a lot of familiarity with investing in the stock markets and can take higher levels of risk. He wants to know that if he could generate a post-tax return of 9% per annum, can he manage to withdraw Rs 100,000 and will his money last with this new assumption.

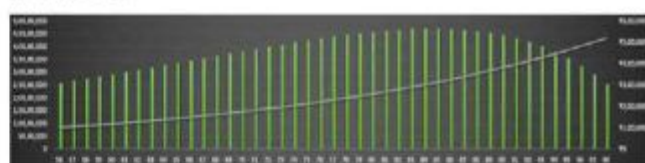
Chart 2: ROI on investments: 9% p.a. (as compared to 7% p.a. in chart 1)



As you would notice, Shyam would be able to meet his expenses till age 92 (as compared to age 79 in chart 1).

What would be the impact on Shyam's retirement finances, had he built a retirement corpus of Rs 2.5 Crores instead of Rs 2 Crores. Also generating higher returns is difficult as he would have to take a higher level of risk which may not be the best option from retirement finances perspective. Hence, in this scenario, we moderate our investment return expectations to 8% per annum. Chart 3 demonstrates the impact of our new assumptions.

Chart 3: ROI: 8% per annum. Initial Retirement Corpus: Rs 2.5 Crores



Wow! Shyam finally has managed to get a plan that will help him meet his inflation adjusted expenses till age 100! Interestingly the corpus amount peaks at about Rs 4.5 Crores at age 87 and then starts to come down as the withdrawal amounts go much higher due to the impact of inflation.

In conclusion, I would like to reiterate a couple of point which I believe are vital but get ignored in developing an ideal investment portfolio in retirement:

- Spend enough time to answer the 6 fundamental questions that I have shared in this article. It will help you in aligning their plan as close to reality as possible.
- Use visualisation tools to assess the impact of your assumptions.

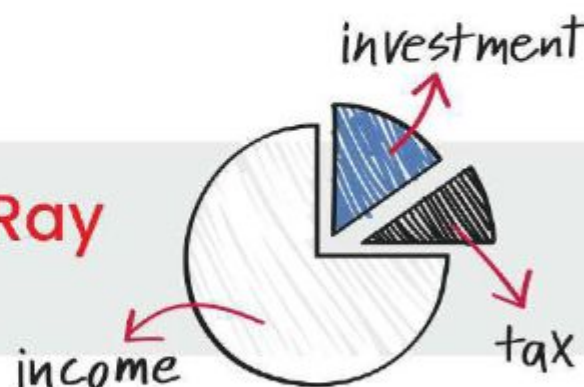
*Suraj Kaeley is the founder of the Retirement Income Course. He can be reached at [sk@surajkaeley.com](mailto:sk@surajkaeley.com)*



## How Financial Planners Can Help Clients Overcome Common Behavioural Biases



**Udayan Ray**  
CFP®



Behavioural experts have long established that behavioural biases typically reside in all of us. These can have an adverse impact on our financial decisions and finances, especially investments during market upheavals like upturns, downturns, and highly volatile periods.

In this background, how can financial planners help clients protect themselves from the ill-effects of these biases? The key lies in recognising the biases and taking effective countermeasures to prevent them from impinging financial plans.

### Common Behavioural Biases Impacting Clients

**Affect Bias** This bias makes clients take investment decisions based on current emotions, not facts. Thus, clients may favour extremely high risk investment, such as an extremely high risk but complex investment, impressed with recent high returns, ignoring the vulnerability during market downturns.

This can also manifest itself in the form of bias against higher risk investments that typically provide high long term rewards due to the volatility of returns. For instance, investments in equities, equity, and equity-oriented mutual funds. This bias can deprive client of tapping their long term growth potential.

**Following the Herd** Also known as "Herd Mentality" and

"Wisdom of the Crowds", this bias leads clients to emulate the decisions of large number of other people without considering key factors such as risks, potential returns and fit with financial goals. Here are two examples.

Clients may join the exodus of investors making premature exits from investments during market downturns and crashes. It prevents them from benefitting from ensuing market rebounds. The damage is particularly severe for investments through mutual fund Systematic Investment Plans (SIP). Here, downturns help clients buy units at a lower cost, pushing down the average cost of acquiring units.

From time to time certain new investments promise high returns and gain popularity. Often, clients invest in them without thoughtful consideration to their fit with financial goals. Unsurprisingly, clients typically make hasty exits during market downturns, often at a loss.

**Mental Accounting** This behavioural bias makes clients treat money, differently depending on the source or origin. Thus, a client treats incomes such as bonus, incentive, pay arrears or refunds differently from regular pay. It is not uncommon to witness clients totally spending such money, losing the opportunity to supplement their investments. Or they may invest a part of the money in investments with risk significantly



higher than their comfort levels.

Mental Accounting can also make clients treat sharp appreciation of investments as a windfall and encash gains. This disrupts the compounding growth of the investments.

**Recency Bias** Due to this bias, clients give unjustified importance to recent developments and data in their financial decisions. This is also known as Availability Bias as clients find it convenient to easily recall recent and easily available information. This bias makes clients assume that current market conditions will continue to prevail in the future, making them focus on short term returns instead of their financial goals.

Recency Bias can impact clients in both booming and sharply declining markets. A key reason for this is the difference between actual risk and client's perceived risk. With this bias, in market upturns, clients invest increasingly in higher risk investments than what they would have normally been comfortable with. Consequently, during volatile periods or downturns, they make panic-driven premature exits, often at a loss. During market downturns or lows, clients assume that such conditions will prevail indefinitely and miss out long term growth opportunities.

**Anchoring** This bias typically makes clients have unrealistic expectations based on or anchored in incomplete data or picture. Often, it can mean a client fixated on a number for expected returns from an investment or portfolio. So, a client's returns expectations may get anchored to those that existed during a market high. Such unrealistic expectation can cause unjustified dissatisfaction and eventual premature exits, preventing the client from reaping the benefits of staying invested for the long term.

**Confirmation Bias** It involves clients seeking information and establishing an opinion based on pre-conceived ideas. Clients fail to consider the whole gamut of information. This can have adverse consequences for the client. For instance, some clients stick to lower risk, lower return investments simply because they perceive losses from high risk, higher

return investments like equities, equity, and equity-oriented funds.

**Loss Aversion** Due to this bias where clients fear losses, they end up focussing on returns instead of their long term financial goals. During volatile markets, it may manifest itself in the form of premature exits from investments with high long term growth potential, often at a loss. At the other extreme, clients may hold on to long underperforming investments, in the hope of making a profit.

**Self-Attribution Bias** Also termed as Overconfidence Bias, this bias makes clients attribute success in investments to their own abilities and failures to conditions not under their control. This makes them operate from a zone of misplaced comfort and ignore important information like risks. Consequently, they end up taking higher risk investments than required. Or they could make premature exits for short term profits.

The list of behavioural biases listed here is not exhaustive, but biases can be put in two broad buckets: emotional bias and cognitive bias. Emotional biases influence financial decisions based on strong emotions of fear, greed, or happiness. Cognitive biases are those which involve the way our brain typically processes information. This involves decision making based on factors like incomplete information and erroneous assumptions.

### **How Financial Planners Can Help Clients Combat Behavioural Bias**

Financial planners can play an important role in protecting clients from the ill-effects behavioural biases. Here are a few suggestions provided by experts.

**Create suitable client communications** This will help clients become aware of the existence of such bias and their ill effects. Client communications can be designed for in-person interactions and digital outreach such as regular emailers and content of digital media.

**Play "devil's advocate"** During client interactions, introduce contrarian questions in the conversation that will bring other and opposing thoughts to clients



proposed course of action. This will then widen the client's information base and perspective.

**Renew focus on financial goals** During client interactions and progress review, steer the conversation towards financial goals and help the client view developments from the lens of his or her financial goals.

**Establish a system of periodic asset allocation review** Most financial planners with long term relationships with clients have this in place. Periodic reviews create an effective argument against hasty changes.

**Create a waiting period for decisions** Establish a system with the client that investment decisions will be taken after a minimum waiting period. This will provide time for analysis, review, and deliberations.

**Involve detailed performance data** Share with client

performance data from different time periods such as 1, 3, 5 and 10 years. This will help clients view current developments and prevailing risks in the right perspective besides establishing more realistic expectations.

**Discourage frequent reviews and tracking** Impress upon clients that investments for long term goals based within a financial plan do not require frequent status checks.

To sum up, behavioural bias are a formidable challenge to any financial planner's efficacy. However, countermeasures can not only negate them but also help build stronger trust with the client, manage expectations better and help financial planners differentiate themselves.

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# Our Changing *Market* **Place**





## Changing Landscape of Financial Planning Profession



**Anil Chopra**

CFP®, Group Director Bajaj Capital

The profession of financial planning was conceived and given birth in USA in the mid-seventies, i.e., almost 50 years ago. Soon it spread its wings and started flying across the globe initially into English-speaking countries like- Canada, UK, and Australia. It was a noble and unique concept and professionals engaged in financial services companies across continents started appreciating its virtues and benefits for individual consumers.

The benefits of this newly found profession were so compelling that different financial organizations of stockbrokers, investment consultants, income tax advisors, and financial advisory professionals started embracing it as a religion. Advanced countries like Germany, South Africa, New Zealand, Singapore, Hong Kong, etc adopted this profession in the 80s and 90s and by the turn of the 21st Century, the profession of financial planning established itself in other emerging countries like India, Malaysia, etc. The rest is history. Today, it is a full-blown, well-recognized profession, comprising over two hundred thousand CERTIFIED FINANCIAL PLANNER professionals in the world.

The landscape of the profession has significantly changed in the last 50 years worldwide and specifically in the last 20 years in India.

Initially, financial planners adopted the approach of establishing various financial goals of their clients and constructing a financial plan around those goals with product/investment recommendations to enable the clients to achieve those goals as and when they arose. Besides investment planning, financial planners were

also helping their clients protect their wealth through proper insurance solutions and reduce their taxes by offering them tax-saving schemes and advice.

The relationship between the client and the financial planner was well-defined like Initial Discovery Meeting along with family members and subsequent quarterly face-to-face meetings with client for reviewing and monitoring the portfolios. Financial planners were earning their compensation either through commissions on products recommended or fixed annual fees etc. and this at times led to conflict of interest as certain products carry higher commissions than others.

In the last few decades, the profession of financial planning has undergone several regulatory changes in various countries and as a result, has matured and has become more 'client-centric' than ever before.

The fiduciary responsibilities of financial planners have now been emphasized by regulators as well as self-regulatory organizations and now the focus is on 'holistic advice' rather than 'transactional advice'.

In the changing scenario, clients expect their financial planners to play the role of a family financial doctor whose services are available to them as and when required, round the year rather than prescheduled once-in-a-quarter fixed one-hour review meetings. Clients expect more hand-holding and constant guidance keeping in mind the complexities of market fluctuations and new investment/insurance options being introduced at regular intervals.



Now, it is not financial planning 'for' the client rather it is financial planning 'with' the client. Deeper consultation is required, and the financial plan is co-created by the planner and client rather than the financial planner alone. The relationship must be established not only with the client but with his/her entire family including spouse and adult kids.

The new roles of financial planners include boosting the financial immunity of their clients and enhancing their financial fitness/wellness. A financial planner is expected to ensure that his/her clients have a good night's sleep and lead a worry-free, care-free, and stress-free long, happy, energetic, and resilient life.

Some experienced and established financial planners are also assuring the attainment of financial moksha or financial nirvana by taking the role of a life coach or mentor.

### **Financial Freedom/Financial Independence**

New-age financial planners are now claiming that they can ensure financial freedom for their clients by suggesting certain strategies/steps/schemes which will help their clients lead a financially disciplined life thereby instilling confidence in the minds of their clients that they will be able to fulfil their financial goals comfortably as and when they arise.

### **Behavioural Finance Expert**

Financial Planners must take on the role of an expert on behavioural finance matters since clients seem to be grappling most of the time under the intense impact of two negative behaviours namely, greed and fear. When markets are rising and clients' portfolio value is galloping, some of them tend to become greedy by liquidating their other essential assets like fixed income, gold, real estate, etc. and this is where the role of financial planner assumes importance by controlling the irrational behaviour of some of the clients. Vice-versa is the case when markets start correcting and some clients become fearful. If financial planners lack the skills to control and influence the behaviour of their clients, their success in the profession would be truncated.

### **Legacy/Generational Planning**

Clients are increasingly becoming cognizant of the need to write a well-thought-out 'Will' to ensure a

smooth transfer of wealth to the next generation in the ratio and order they deem fit. Financial Planners can play a pivotal role here by engaging with their clients in deep conversations on some of these sensitive issues particularly in the presence of the client and his/her spouse. This becomes critical in case the client has more than one child. A financial planner must ensure proper nominations in different investment instruments as well as insurance plans and the difference between different holding patterns like 'jointly', 'either or survivor', 'anyone or survivor', etc., should be explained in unambiguous words.

### **Simplification of Jargons**

Clients love and prefer simplicity over complex jargons or fin-tech terminologies. It will do a lot of good to financial planners if they are proficient in more than two languages. This is more true in the Indian context where clients expect that financial planners should be comfortable communicating in their mother tongue like- Bengali, Tamil, Marathi, or Punjabi, in addition to Hindi and English. There is evidence of greater affinity and trust between financial planner and clients if they both speak a regional/vernacular language comfortably. Complex charts/diagrams and PowerPoint presentations running into several slides may not be as effective as a simple commentary in easy-to-understand language.

### **Proactive Approach**

Clients do not appreciate reactive financial planners who approach them after an event has happened or a major regulatory change is announced. Financial planners are expected to communicate all major opportunities or actionable points ahead of media or newspapers. Speed of communication and simplification of content to bring out the real message is the key.

In conclusion, we can say that financial planners are now expected to play the role of a 'life coach' instead of being just an expert on financial matters. In other words, clients look up to their financial planners as their friend, philosopher, and guide, not only for themselves but also for their next generation.

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## Navigating the Direct, Regular Dilemma



**Taresh Bhatia**  
CFP®



While the world of financial is rapidly changing, the decision-making process has become increasingly intricate, with financial planners facing the delicate task of guiding clients through the labyrinth of mutual fund choices. One particularly compelling aspect of this journey is the perennial debate between the direct and the regular plans and the simultaneous discussion around active versus passive fund strategies.

### The Case for Looking Beyond Charges

A common trait among investors is the emphasis placed on comparing charges when selecting mutual funds. While charges are undoubtedly an important factor, it is crucial to recognise that they are just one piece of the larger puzzle that constitutes a successful investment strategy. And, while it may be tempting to simplify decision-making by focusing solely on charges, a more nuanced approach is necessary to make informed investment choices for the clients.

Expense ratios represent the percentage of a fund's assets used to cover operating expenses. They are often the primary point of comparison for many clients. While it is essential to consider expense ratios, they should not be viewed in isolation. Some funds with higher expense ratios may outperform their lower-cost counterparts, delivering better returns that outweigh the additional fees.

Exit loads, which are the charges incurred when redeeming units before a specified period, are another aspect that often garners excessive attention. While

exit loads are a very minor consideration, they should not overshadow the importance of aligning investment timelines with the fund's objectives. Choosing a fund solely based on lower exit loads may hinder the potential for long-term wealth creation.

### Paradox of Expense Ratios

The conventional wisdom in the world of mutual funds often revolves around minimising expense ratios as a critical strategy for optimising returns. However, a deeper examination reveals a paradox—some funds with higher expense ratios may outperform their lower-cost counterparts, delivering superior returns that more than compensate for the additional fees.

**Active Management and Performance:** Funds with higher expense ratios are often actively managed, meaning fund managers actively make strategic decisions to capitalise on market opportunities. This proactive approach can result in superior performance, particularly in dynamic market conditions. The skill and expertise of the fund managers play a pivotal role in navigating the intricacies of the market and generating returns that outweigh the additional costs.

**Investing in Expertise:** Choosing a fund based on the expertise of its management team can be a more fruitful strategy than solely focusing on cost reduction. A skilled fund manager can identify lucrative investment opportunities, adjust the portfolio based on market trends, and actively manage risks—all of which



contribute to enhanced performance. In such cases, the higher expense ratio becomes a justified investment in expertise and active decision-making.

While charges are undeniably a part of the equation, financial planners should adopt a more strategic and comprehensive approach when recommending mutual funds to their clients.

**Understanding Client Goals and Risk Tolerance:**

Financial planners should prioritise understanding of their client's financial goals, risk tolerance, and investment time horizons. Rather than fixating on minimising charges, planners should focus on selecting mutual funds that align with these client-specific factors. A personalised approach ensures that the recommended funds serve the broader financial objectives of each individual investor.

**Emphasising Performance Metrics:** Rather than being solely cost-driven, financial planners should guide their clients by emphasising performance metrics. Historical performance, risk-adjusted returns, and the fund manager's track record are crucial indicators of a mutual fund's potential success. By incorporating these factors into the decision-making process, planners can enhance the probability of meeting their clients' different goals.

**Diversification as a Priority:** Financial planners should stress the importance of diversification to their clients. Mutual funds provide a convenient avenue for diversifying across various asset classes and sectors. Recommending funds based on their diversification strategies and how well they complement the overall investment portfolio is vital, sometimes outweighing the consideration of charges.

**Long-Term Perspective:** Encouraging clients to adopt a long-term investment perspective is paramount. While charges may seem significant in the short term, their impact diminishes over extended periods. Financial planners should educate clients about the potential benefits of staying invested through market fluctuations and the positive impact on wealth accumulation over time.

**Risk Management Strategies:** Mutual funds differ in their approach to risk management. Financial planners should thoroughly analyse a fund's risk management strategies and assess their compatibility with the risk appetite of their clients. Choosing funds based on

robust risk management practices can contribute significantly to the overall success of an investment portfolio.

**Customising Recommendations:** Recognising that one size does not fit all, financial planners should customise their mutual fund recommendations based on the unique financial profiles of their clients. Tailoring recommendations to individual needs, goals, and risk tolerance ensures a more meaningful and effective investment strategy.

**The Direct vs. Regular Dilemma**

Direct plans emerged due to regulatory changes (just a decade ago), offering investors the option to invest in mutual funds without involving intermediaries. The debate surrounding direct vs. regular mutual fund plans in India is often framed as a choice between cost efficiency and professional guidance.

However, a closer examination reveals that the decision is more complex than it seems. In pursuing cost savings through direct plans, investors may overlook the hidden costs associated with seeking guidance from a financial planner while navigating the complexities of the direct mode.

**Client Knowledge and Expertise:** Direct plans require investors to navigate the investment landscape independently. If clients lack the necessary financial acumen or time to conduct thorough research, the benefits of lower expense ratios may be outweighed by the risks associated with self-directed investing.

**Holistic Financial Planning:** Direct plans may not sometimes align with the comprehensive financial planning approach that considers the entirety of a client's financial landscape. This is relevant when a client starts investing in direct option without investment advisory supervision or guidance.

**Hidden Costs of Independence:** While direct plans boast lower expense ratios, the quest for financial independence comes with challenges. Investors who choose the direct route may still seek the expertise of a financial planner for guidance, especially when faced with market uncertainties or complex investment decisions. In this scenario, the fees paid to the financial planner offset the perceived cost advantage of direct plans.

While direct plans come with lower expense ratios, the



decision to choose between direct and regular plans is multifaceted and extends beyond cost considerations.

**The Role of Guidance and Advice:** Financial planners can bring valuable expertise, offering guidance, advice, and a personalised approach to clients. While direct plans may seem cost-effective, the absence of professional advice could lead to suboptimal investment decisions. Financial planners can add significant value by helping clients navigate market fluctuations, providing timely advice, and ensuring that investments align with long-term financial goals.

**Behavioural Considerations:** Investor behaviour plays a crucial role in the success of any investment strategy. The emotional aspects of investing, such as fear and greed, can impact decision-making. Financial planners can help clients stay disciplined during market volatility by providing a behavioural cushion, potentially offsetting the costs associated with regular plans.

**Transparency and Disclosure:** Financial planners should emphasise transparency and disclose all relevant information to clients. This includes clearly explaining the costs associated with direct and regular plans. Educating clients about the trade-offs and helping them make informed decisions ensures a transparent and trustworthy advisory relationship. Financial planners should maintain transparency in their fee structures. Financial planners can establish trust and ensure clients make well-informed decisions by providing clear information about fees and the value proposition offered.

While the direct vs. regular debate has merits, financial planners should adopt a pragmatic and client-centric approach. The decision should be based on carefully assessing clients' knowledge, their need for guidance, and the overall context of their financial goals. By prioritising comprehensive financial planning and recognising clients' diverse needs, financial planners can steer clear of a one-dimensional focus on costs and provide more meaningful and practical advice.

**Action Plan for Financial Planners:** Educating investors about the dynamics of expense ratios and performance is crucial. Investors must understand that a myopic focus on minimising costs may lead to missed opportunities for better returns. Emphasising the importance of a long-term perspective can help

investors appreciate the potential benefits of higher expense ratios in actively managed funds that aim for sustained outperformance.

- **Client-Centric Approach:** Prioritise understanding clients' financial goals, risk tolerance, and investment timelines before recommending any mutual fund.

- **Holistic Financial Planning:** Emphasise the importance of comprehensive financial planning that aligns investment strategies with individual client needs.

- **Performance Metrics:** Shift the focus from charges to performance metrics, historical returns, and risk-adjusted performance when evaluating mutual funds.

- **Diversification and Risk Management:** Highlight the benefits of diversification and risk management strategies, particularly in the context of market volatility.

- **Long-Term Perspective:** Encourage clients to adopt a long-term perspective, showcasing the potential benefits of staying invested through market fluctuations.

- **Hidden Costs Awareness:** Educate clients about the hidden costs associated with independence in the direct mode, including the value of professional advice and behavioural coaching.

- **Active vs. Passive Nuances:** Provide insights into the nuances of active and passive funds, emphasising the potential advantages of active management, particularly in dynamic market segments like small and mid-cap.

- **Tailored Recommendations:** Customise mutual fund recommendations based on individual client goals, risk appetite, and preferences rather than adopting a one-size-fits-all approach.

By integrating these considerations into their advisory practices, financial planners can offer more nuanced, tailored advice that empowers clients to make informed decisions, ultimately optimising the potential for long-term financial success.

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# Our *Shared* **Wisdom**





# Financial planning process – doing it the right way



**By Arti Arora**  
CFP®



Financial Planning is an art as well as a science. Science because it's a six step logically deduced process and art because despite the specific steps, every planner will have their own unique style / technique to carry it out.

So, it is not about being right or wrong here. The point is about the value being offered as a part of the overall financial planning process.

A financial plan cannot just be an assimilation of client details and suggesting a savings / investment plan for their financial goals along with regular commentary on their insurance requirements and over the top coverage of some other aspects of personal finance.

The financial planning exercise is much deeper in its context as well as delivery. So, what should make for an ideal financial plan?

## Cash Flow Projections

To start with, the analysis of the current financial situation must be done taking a view of the client's financial goals including the cash flow projections.

Cash flow projections are of high essence here. As a planner, when you study the financial goal in isolation, the role does not end with advising a savings / investment plan vis-à-vis different financial goals of the client. It is only when these suggested savings fit in

with the overall cash flow of the client that the plan becomes viable.

There can be a situation when in some years the client has a limited surplus (due to some other goal outflow or any other financial obligation or any other situation where one partner is on sabbatical) while in other years, there is a sufficient surplus. This becomes clear from the cash flow projections and the client can be duly advised to save / invest a larger amount in surplus years and a smaller amount in constrained / deficit years.

## A sample cash flow statement chart is given below:

Amount in Indian Rupee – INR

YEAR	INCOME	EXPENSES	INVESTMENT	ADDITIONAL INCOME	ADDITIONAL EXPENSES	NET SURPLUS	ADDITIONAL INCOME	SURPLUS
2013	10,00,000	8,00,000	0	0	0	2,00,000	0	2,00,000
2014	10,00,000	8,00,000	0	0	0	2,00,000	0	2,00,000
2015	10,00,000	8,00,000	0	0	0	2,00,000	0	2,00,000
2016	10,00,000	8,00,000	0	0	0	2,00,000	0	2,00,000
2017	10,00,000	8,00,000	0	0	0	2,00,000	0	2,00,000
2018	10,00,000	8,00,000	0	0	0	2,00,000	0	2,00,000
2019	10,00,000	8,00,000	0	0	0	2,00,000	0	2,00,000
2020	10,00,000	8,00,000	0	0	0	2,00,000	0	2,00,000
2021	10,00,000	8,00,000	0	0	0	2,00,000	0	2,00,000
2022	10,00,000	8,00,000	0	0	0	2,00,000	0	2,00,000
2023	10,00,000	8,00,000	0	0	0	2,00,000	0	2,00,000
2024	10,00,000	8,00,000	0	0	0	2,00,000	0	2,00,000

The end of the year surplus can be utilized for goal funding where a regular savings pattern looks unviable.

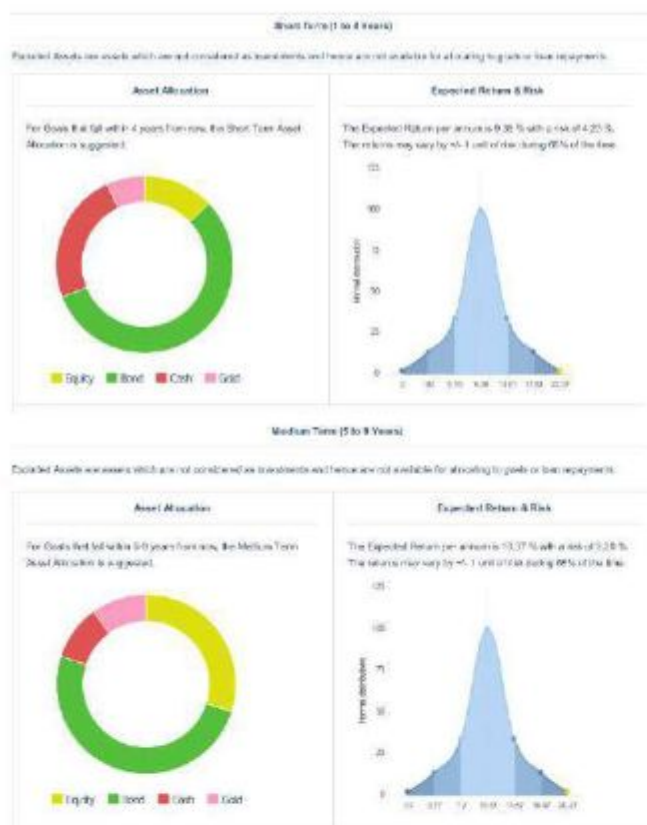
This kind of analysis is a definite value add to any client as it streamlines the course of their financial decisions in a big way enhancing optimization of the finances thereby reducing stress related to financial matters.



## Asset Allocation

Next in line is a well **deduced asset allocation**. The asset allocation goes a long way in optimizing returns at a fair level of risk as permitted by the risk tolerance of the client. The asset allocation is further a function of client's age, risk profile, nearness of goals, existing asset allocation and other such factors. The suggested asset allocation will also change over the course of time either at the time of annual plan review or in line with macro-economic changes warranting a broader change.

Prescribed asset allocation shall be different for short-term, medium-term, and long-term goals. While it is logical to advise different asset allocation for different financial goals, a suggested aggregate asset allocation is a must for any financial plan.



So, we devise the aggregate asset allocation by proportionately summing up the suggested asset allocation for the different financial goals as shown in the illustration below.

Showing the aggregate asset allocation makes it simpler for the client to comprehend and implement a fair action plan.



There are some current investments and then recommended portfolio of investments. The buy, sell & hold recommendations must be spelt out clearly in a financial plan for the client to get a broad understanding of the transactions to be carried out by him / her.

## Risk cover analysis

The next very important aspect of a financial plan is the **risk coverage analysis**. As per the life insurance requirement analysis, there are different ways to calculate the insurance requirement such as the Human Life Value method, Need Analysis approach, Income replacement method, etc. While every method has its pros and cons, the capital need analysis approach is by far the most viable and logical method of computation of the insurance requirement.

In the method, we look at the exact requirement of the risk cover which is computed by taking in account the following:-

- Survivor living expenses to provide for the regular and normal living of the dependents left behind.
- Financial goals of the family unit and this shall include especially the responsibility goals such as children's education, nest egg, marriage and other goals as may deem essential such as the house purchase, etc.
- Liabilities, any form of loan outstanding too must be added to the insurance requirement.

From the sum of the above three, we reduce existing investment assets and existing insurance cover to arrive at the net insurance / risk cover requirement.



## Requirement Analysis

The following table shows the Analysis of your life insurance requirement. This shows that how much insurance will be required for the family to meet the needs in the absence of the person as on this date.

(Amount in Indian Rupee - INR)  
ITEMS

	CLIENT	SPOUSE
Liabilities Repayment Requirement	0	0
Total Goal Requirement	86,38,938	0
Survivor Living Expenses	3,94,58,085	0
Total Resources Requirement	4,80,96,023	0
Less: Existing Investment Assets	2,06,40,289	2,06,40,289
Less: NPV of Continuing Income	0	0
Resources Shortage	2,72,58,734	0
Less: Existing Life Insurance	1,05,17,960	0
Insurance Cover Shortage	1,67,40,774	0

Your Life insurance requirement is as shown in the graph below:

(Amount in Indian Rupee - INR)



When we use this approach to calculate the insurance cover requirement, we are assured of having the needed cover for smooth sailing and compromise-free life for the dependents in case of any eventuality.

Financial planning is a dynamic exercise which is why renewing it at a pre-decided time interval (mostly annual) is a must for it to reap the benefits expected out of it. Missing any review can dismantle the whole planning exercise. If there is any change in a client's personal situation, the review must be preponed to address the requirements if any.

To sum it up, with a strong cash flow projection framework, asset allocation-based investment

planning for the achievement of financial goals, need based approach to insurance calculation and regular plan review make up for the pillars of the financial planning process. Special attention to and detailing of these are sure to be highly yielding in the overall financial planning process.

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"Image Courtesy: PrognosisAdvisor\_ADVANCE"



## Debt Management in Financial Planning – To Borrow or Not to Borrow?



**Anshul Srivastava**

CFP®



The goal of financial planning is to achieve financial freedom by proper management of one's finances leading to such a state where one is not dependent on the current income to survive attaining all the other financial goals in the process. This can be achieved by continuously increasing the net-worth during the working life of an individual. To increase the net-worth one must acquire assets, and this is where debt can play an important role.

As per Investopedia "Debt is something, usually money, borrowed by one party from another." Debt is usually taken by individuals and corporations to make purchases that they will not be able to do in the normal circumstances under their current sources of income. A Debt agreement gives the borrowing party the permission to borrow the money under the condition that it is to be paid back at a later date usually with interest.

Generally, debt can be used to either create assets or to fund deficit in expenses. Let us look at the implication of utilizing debt in these two different scenarios.

### Utilizing debt to create assets

When, as an individual one looks to purchase an asset, which is difficult to purchase because of one-time cash outlay, one may decide to borrow to acquire the asset. This decision could lead to either creation of wealth or

erosion of wealth, depending on the nature of the asset purchased utilizing the borrowed money.

Based on their nature, assets can be classified into **Appreciable Assets** and **Depreciable Assets**.

Appreciating assets gain value over time, while depreciable assets tend to lose value over time. Example of appreciable assets include house, MF investment, FD with Banks. Appreciable assets are also known as Capital assets, and the value gained by these assets is termed as capital gain.

Depreciating assets on the other hand tend to lose value over time with use, they can also be termed as use assets or lifestyle assets. These assets keep on losing their value until they reach the end of their useful life. Some examples of such assets would include Car, Mobile phone, Air-conditioner etc.

If the debt is utilized to acquire a capital (Appreciable) asset, it would lead to an increase in the net-worth of an individual, and if debt is utilized to purchase a depreciable asset, it would ultimately lead to a reduction in net-worth.

Let's look at an example to understand this better:

Ashok purchased a house 3 years ago worth Rs. 50 Lakhs using a loan of Rs. 45 Lakh for 20 years at 9.50% p.a. This led to the addition of both an asset and liability



as per the graph below.

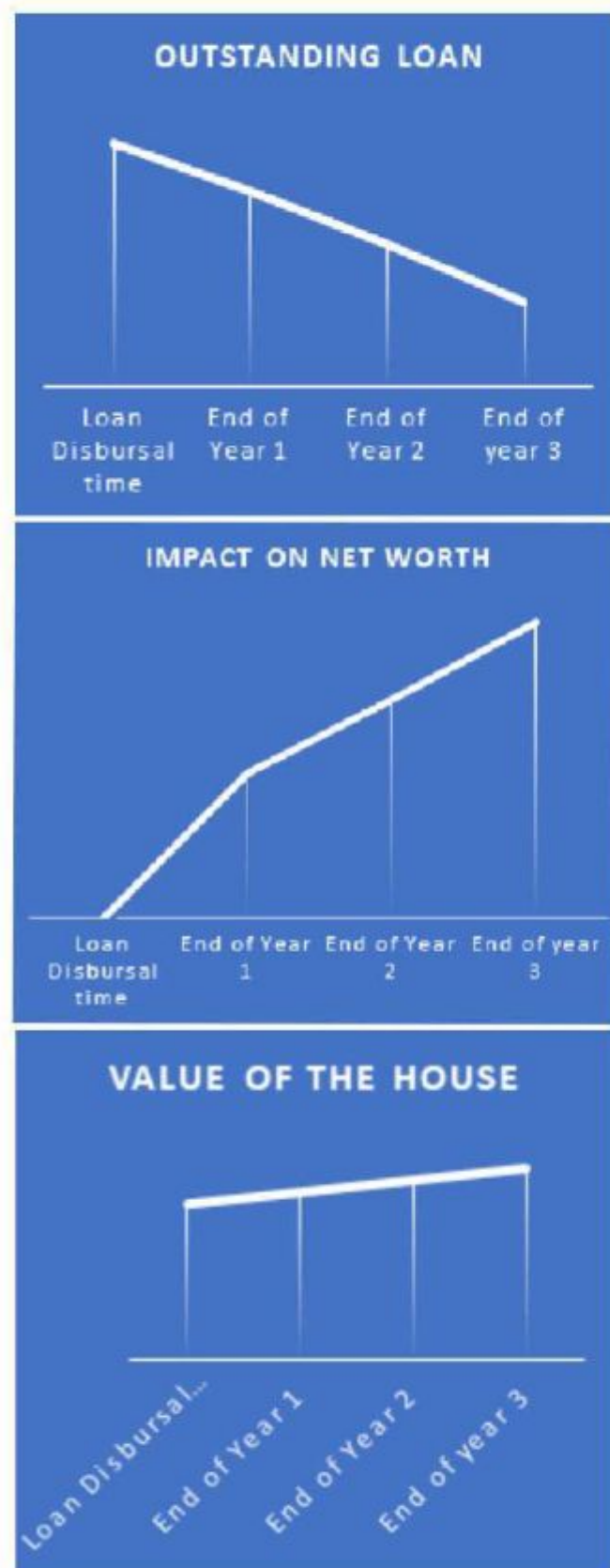


Fig 1.1: Impact of house purchase with loan on net worth

As we can see in the graphs above, the value of the

house is increasing faster than the value at which loan is reducing and hence the net-worth is increasing. A point worth noting here is that the asset is increasing in value while the liability is reducing and that is why there is a positive impact on the net worth.

On the other hand, using debt for acquiring a depreciating asset, let's say a car, leads to the value of the asset reducing at a faster rate than the value of outstanding loan, ultimately leading to a decrease in the net worth.

As such, debt should rather be utilized for purchasing appreciating assets and avoided for depreciating assets. In cases where borrowing becomes unavoidable for lifestyle assets also, the borrower must choose the lowest possible term since longer terms entail higher outflows in terms of interest.

### Utilizing debt to fund the deficit in expenses

Let us look at the second case when debt is used for funding the deficit in expenses i.e. the expenses of an individual are more than his income and the difference is being funded by borrowing.

Expenses can be discretionary like buying an expensive mobile phone or a luxury car or non-discretionary (that cannot be done away with) like grocery, school fees, house rent, etc. If one is funding his non-discretionary expenditure with borrowing, then there is a problem in budgeting and detailed analysis of income - expense needs to be done.

On the other hand, if discretionary expenses are being funded with borrowing, it is based on behavioral issues which a financial planner must discuss with his client. Borrowing needs to be avoided for discretionary expenses and such expenses should be undertaken only if there is enough surplus.

### Revolving Credit

Revolving credit facilities like credit cards make it very easy for one to borrow, which if not repaid in the stipulated period results in a levy of high interest. And, if one keeps on paying the minimum amount required, it may lead to ballooning effect of interest that would



take a very long time to pay off. This should be avoided and the outstanding amount of credit card should be paid within the stipulated time. Remember, credit cards are an instrument of credit and not borrowing.

### Mobile Applications

Unlike earlier times, individuals do not need to go to banks or finance companies for access to borrowing. Amounts can be loaned easily on mobile phones through various applications. This needs to be avoided and one should borrow only from the registered banks or NBFCs to avoid falling into debt traps. Here also, the advice of a financial planner can come in handy.

### Good Debt v/s Bad Debt

As we can see now, borrowing is not always bad. In some cases, it can help you create assets and increase your net-worth while in other cases it may put pressure on your cashflows and worsen an already bad financial position. Thus, the role of a financial planner in debt-counselling assumes importance.

Based on the discussion above, we may categorize debt as a good debt or a bad debt.

Good debt comes at a lower rate of interest, mostly secured by collateral, taken on appreciating asset, creates an asset and hence increases your net worth. On the other hand, bad debt comes at a high interest rate, is unsecured, used for depreciating assets or fund expenses, and in most cases reduces the net worth.

**Debt Trap:** Debt trap is a situation where an individual has taken debt beyond his/her repayment capacity. There are some typical symptoms of a debt trap such as:

- The interest outgoing is more than the repayment capacity.
- A minimum amount is paid, and the outstanding amount keeps ballooning.
- Indiscriminate debt is taken without giving a thought to repayment capacity.
- Entire credit limit is utilised in a onetime expense or emergency and no further credit can be availed.

While it may not be apparent at all times but there are signs which may raise a red flag that one is entering into a debt trap. Some of them are:

- The EMIs exceed 50% of the income.
- The fixed expenses are more than 70% of the income.
- The credit card limit is exhausted.
- There are too many loans.
- No scope for savings.

If an individual does not care about repayment and instead keeps on taking multiple loans, the situation may turn into a debt trap. Ideally, not more than 1/3rd of the income should go towards repayment of debt, whether it is a good debt or a bad debt. Any amount above 1/3rd is bound to make the borrower uncomfortable.

**Floating rate loans:** Analysis of repayment capacity is very important at the time of availing floating rate loans, as at the time of low interest rate, one can avail higher amount of loan which may become unpayable once the interest rate rises. For e.g. if someone has a repayment capacity of Rs. 50,000 per month, he would do well to take a loan with EMI of Rs. 40,000 in a low interest rate environment leaving a scope of EMI raise of Rs. 10,000 when the rates rise again in the cycle.

To conclude, debt in the form of borrowing is a double-edged sword. If used judiciously it may aid in one's journey towards financial freedom; but if used wantonly, it has the potential to derail the journey of achieving financial freedom and attaining financial goals.

*"Anshul Srivastava, CFP®, is currently working as AVP – Standards & Certifications with FPSB India and can be reached at [asrivastava.india@fpsb.org](mailto:asrivastava.india@fpsb.org)"*





## Prudent investing: Valuable tips for your clients' journey of wealth creation



**Inderpal Singh**  
CFP®



Diwali also known as the 'festival of lights' is often associated with prosperity and wealth creation in various cultures. Traditionally, people view this as an auspicious period to invest, start new ventures or make significant purchases fostering economic growth and financial well-being.

Given the context, I would like to underline the significance of investing and highlight some of the basic yet critical components of wise and efficient financial planning.

For the ease of referencing and simplifying the information I am going to use the very festive word 'DIWALI' itself.

- D – Do not Overspend
- I – Initiate a course of action
- W – Work with the Expert
- A – Assess your risk appetite
- L – Little regular savings make a big impact
- I – Imbibe patience

Let me elaborate on the above pointers that may help financial advisers to guide their clients effectively in their client's wealth creation journey:

**I. Do not overspend:** One of the most famous personal finance quotes by Warren Buffett that I use often is "Do not save what is left after spending, but spend what is left after saving". As a CFP professional, I

suggest my clients three basic steps which can be adopted by them:

- a. Have a budget: Having a budget and tracking expenditure will help in mindful spending.
- b. Understand the difference between needs over wants: Prioritizing needs over wants reduces the scope for unnecessary luxury spending.
- c. Avoid credit cards; instead use cash or a debit card: Credit cards lure one to spend on unwanted things and one can easily fall into the debt trap. Moreover, credit cards charge the highest rate of interest for delay in bill payments thereby creating a dent in the savings.

**II. Initiate a Course of Action:** Initiate a course of action through financial planning. Planning is deciding in advance what to do, how to do it, when to do it, and who should do it.

Defining different financial goals, quantifying these goals factoring in inflation and having an investment plan to meet these goals is an essential part of the process. Financial planning also prepares one for unexpected risks such as untimely death, serious illnesses, sudden loss of employment etc. Creating a good financial plan will help to find investments that fit the investing time frame and risk tolerance, to help one reach their financial goals sooner.

This is particularly important when financial planners



are engaging with prospective clients.

Setting savings and investing goals is a highly recommended action which needs to be promoted by all the financial planners as it can help in defining the broader vision of wealth creation for their clients.

**III. Work with the Expert:** The value of professional advice in the realm of financial planning is at times under-rated. As professional financial planners, we need to highlight the value of our expertise as this can be the best way for a holistic approach towards financial well-being. Providing professional insights, tailored financial advice, optimising tax strategies and providing inputs on market trends are some of the key benefits of a financial adviser.

As a community we need to stress the importance of this aspect as it helps in navigating complex financial decisions and planning for major life events of people. An effective financial adviser can help to ensure that the strategies align with financial goals.

Assuring the client or prospective client of the value is critical in this process. Convince them that working with a professional or expert is a co-authored experience. In this scenario a professional qualification such as CFP can certainly provide the added advantage.

**IV. Assess Risk Appetite:** Making a clear decision about how much risk one is prepared to take is crucial to ensure that the investments are suitable. If one takes too much risk, the capital could be eroded quickly, while too little a risk can mean that the money invested is not working hard enough.

Investors are as vulnerable as anyone to making decisions clouded by prejudices or biases. They may not be able to avoid biases but they can reduce their ill effects. This requires an understanding of one's behavioural biases, resisting the tendency for such biases, and developing and following objective investment strategies and trading rules. And this is where we can provide an un-biased assessment of the requisite risk appetite for efficient financial planning.

**V. Little regular savings make a big impact:** One of the best methods to start investing is through a Systematic Investment Plan (SIP) which is a very popular option

with quite a few people these days. SIPs not only offer simplicity of choice and flexibility, but also provide higher returns as compared to traditional fixed deposits. The unique feature of rupee cost averaging makes SIP a very lucrative way to engage with the market. Linking SIP with a medium term or long-term goal can be a good way to convince potential clients to invest and let the magic of compounding do the rest!

**VI. Imbibe patience:** Patience is key to successful investing over the long term. Patience involves taking a longer-term view of investment decisions and resisting the urge to react quickly. Successful investors are those who tend to wait and watch, analyse markets and trends over time before deciding. Investors can achieve greater success and financial stability in the long run by being patient.

Successful investing requires patience, discipline, and a well-thought-out strategy that aligns with your financial goals and risk tolerance.

It's vital to develop a long-term investing strategy. Avoid the short-term noises.

Most importantly, stick to your investing strategy, instead of trying to change it every six months and chase the next big thing. Get in line and stay in line!

To summarize, financial planning is critical to the financial well-being of individuals and financial planners play a crucial role in this. We all have read the story of the hard-working ant and the lazy grasshopper where the ant planned her resources for the future and saved for the bad weather, but the grasshopper did no planning and enjoyed his present without saving for the future and the bad weather. The ant lived a comfortable life because of her act whereas the grasshopper could not survive in the future as he did not plan his resources at all.

We as a community need to promote the ant's philosophy over the instant gratification philosophy displayed by the grasshopper.

*Inderpal Singh, CFP®, is the founder of MaxWealth Investments and can be reached at [inder333@yahoo.com](mailto:inder333@yahoo.com)*



# CPD Quiz for Journal of Financial Planning in India (December 2023 Edition)

Welcome to the CPD Quiz!

This quiz is 8 questions long, and you need to answer 6 out of 8 correctly to earn 4 CPD credits. Your quiz results will be displayed after you complete all the questions.

Current CFP professionals are required to take the CPD Quiz by logging into their MyFPSB Learning portal and CPD points earned shall be directly credited to their account online.



You will be able to take the quiz up to two times.

**Good luck!**

## Changing landscape of financial planning profession

1. Clients now like their financial planners to evolve from financial matter experts to 'life coaches'. In the opinion of the author, this is because clients expect their financial planner \_\_\_\_
  - a. to guide them in their psychological phases of 'greed' and 'fear'
  - b. to help them analyze situations and news in a proactive manner
  - c. to help in smooth transfer of their estate
  - d. All of the above

## How to construct an ideal portfolio in retirement

2. The author suggests that the asset allocation for creating an investment portfolio for retirement should primarily be based on the client's \_\_\_\_
  - a. need and risk appetite.
  - b. assets and liabilities.
  - c. existing corpus and cash flows.
  - d. life expectancy and retirement years

## Financial Planning process – doing it the right way

3. Cash flow projections are extremely important for the planner both from the planning and the financial plan perspective. The author places great emphasis on it because \_\_\_\_
  - a. client's short-term goals such as vacation can be planned based on surpluses.
  - b. clients can be guided to save and invest a higher amount in surplus years and vice versa.
  - c. cash surpluses can be allocated to assets yielding higher risk-adjusted return.
  - d. it will lead to efficient tax planning.



### Family Business – Creating a Chinese Wall between Family Wealth & Business Capital

4. The author's recommendation for every individual to maintain a Chinese Wall between his or her business capital and the family wealth is based on which of the following arguments:
- a. Financial goals of the business are mostly short- or medium-term in nature while the family's financial goals are mostly long-term
  - b. Risk protection needs of business and family are different and to be looked at objectively
  - c. Business requires raising capital while family wealth needs to be prudently invested
  - d. All of the above

### How Financial Planners Can Help Clients Overcome Common Behavioural Biases

5. In a bias often known as "Wisdom of the Crowds" \_\_\_\_\_
- a. clients attribute success in investments to their own abilities
  - b. clients take investment decisions based on current emotions
  - c. clients emulate the decisions of large number of other people
  - d. clients seek information and establish an opinion based on pre-conceived ideas

### Prudent investing: Valuable tips for your clients' journey of wealth creation

6. The author recommends that financial planners must promote the setting of savings and investing goals in their clients as it can help \_\_\_\_\_
- a. in providing higher returns
  - b. in ensuring that the strategies align with financial goals
  - c. in defining the broader vision of wealth creation
  - d. in achieving greater success and financial stability in the long run

### Navigating the Direct vs. Regular Dilemma

7. The author suggests that clients must consider \_\_\_\_\_ as they decide between Direct vs Regular funds.
- a. their lack of financial acumen
  - b. whether fund is aligned with the overall financial plan
  - c. the cost of seeking expertise of a financial planner
  - d. All of the above

### Debt Management in Financial Planning – To Borrow or Not to Borrow?

8. Using debt for acquiring a depreciating asset leads to \_\_\_\_\_
- a. the value of the asset reducing at a faster rate than the value of outstanding loan
  - b. the value of the asset increasing at a faster rate than the value of outstanding loan.
  - c. an increase in the overall net worth.
  - d. None of the above.

**End of the Quiz**





# VALUE OF FINANCIAL PLANNING

## CONSUMER RESEARCH

KEY FINDINGS 2023

*INDIA*



Insights from the global 2023 Value of Financial Planning Research  
commissioned by Financial Planning Standards Board Ltd.



CERTIFIED FINANCIAL PLANNER



# CONTENTS

**Introduction**

**Key findings**

**Busting the myths about financial planning**

**FPSB® Value of Financial Planning Index™**

**The CFP professional difference**

**Financial planning for the next generation**

**Conclusion**

## About the Report

The descriptions and statistics in this report are based on insights from a global research study undertaken for Financial Planning Standards Board Ltd. (FPSB) by independent research firm MYMAVINS. The quantitative study undertaken in February 2023 involved an online survey of 1,011 respondents from India, each of whom was over 25 years earning over INR 45 lakh p.a. or holding over INR 25 lakh in investable assets.

The sample included both advised and unadvised consumers. Advised consumers are those who are currently working with a financial planner, those who seek financial advice as needed and those who have received financial planning advice in the past three years. Unadvised consumers, on the other hand, are those who have never received financial planning advice from a financial planner or have received financial advice in the past over three years ago. The study also analysed those consumers who work with a CFP® professional. Financial planners who attain CFP certification have committed to rigorous standards of competency and ethics in financial planning.

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**CERTIFIED FINANCIAL PLANNER**



# Introduction

## **We are living in an ever-changing, complex world which is calling for people everywhere to become more financially responsible.**

Money can be a source of stress for many people. For some, it can even take a personal toll on them, impacting their quality of sleep and even their mental health.

The current economic climate isn't helping. The global economic outlook is strained, with stubbornly high inflation, rising interest rates and costs of housing squeezing day-to-day budgets for some families.

The good news is professional financial planning can help. Financial planners support people to take control of their financial lives, empowering them to feel more confident and stay on track to achieve their goals.

The FPSB Value of Financial Planning Consumer Research study presents a compelling comparison between the personal experiences of individuals who navigate their financial journey alone, those who work with a financial planner, and importantly, those who seek advice from a CERTIFIED FINANCIAL PLANNER® professional.

This study has found that people who work with a professional financial planner feel better off both financially and more broadly. They report having a better quality of life, enjoying more financial confidence and resilience, and feeling more satisfied with their financial situation.

Clients of CFP® professionals report that they feel particularly satisfied. Across the globe, people who work with a CERTIFIED FINANCIAL PLANNER professional say they experience the highest quality of life, enjoy the most confidence, feel most satisfied with their financial situation and they attribute the most benefit to the recommendations they receive.

The trouble is not everyone uses the services of a financial planning professional. One of the most common reasons is that people say they find it hard to know who they can trust with their finances.

In this study, we found that almost all consumers advised by a CFP professional trust them to act in the client's best interests. That makes sense when you consider that CERTIFIED FINANCIAL PLANNER professionals have committed to rigorous standards of competency and ethics and have achieved the globally recognised symbol of excellence in financial planning.

If you're someone considering how financial planning might benefit your life, finding someone you can trust with your financial situation is easier than you think. Just look for a CFP professional and go from there.



# Key findings



## Clients who work with a financial planner say they are better off

3 in 4 clients of financial planners are highly satisfied with their wealth versus 3 in 5 unadvised consumers.

They enjoy a higher quality of life, more financial confidence and experience less financial stress.

- 4 in 5 report living with a strong sense of purpose
- 4 in 5 say they are confident of solving most challenges
- 9 in 10 feel financially secure



## Financial planning helps people fulfill unmet financial needs

Unadvised consumers report many unmet financial needs including:

- the ability to live their desired lifestyle (2 in 5)
- enough money to live on (1 in 3)
- building a realistic plan for retirement (1 in 3)

According to this study, these are the areas where financial planners can help most. The top three ways financial planners have helped the advised are:

- greater confidence in making big financial decisions
- building a realistic plan for a comfortable retirement
- saving time and hassle managing financial affairs



## Clients of CFP professionals experience the best outcomes

- 9 in 10 feel financially secure
- 9 in 10 feel their finances are tangibly better off



## Digital services critical for engagement

- India are among the top countries leading the way in technology usage to manage their finances.
- Close to 4 in 5 across generations are now using apps or websites to monitor or manage their expenses. This is significantly higher than the global average (7 in 10).



# Busting the myths about financial planning



01

## MYTH #1

**Financial planning is only for the rich**

**FACT:** Over 9 in 10 clients earning INR 65 lakh or less per year who work with CFP professionals feel financially secure and confident which is higher than unadvised consumers on the same level of income.



02

## MYTH #2

**Financial planning is only needed at retirement**

**FACT:** Over 9 in 10 Gen Ys who work with a CFP agree that financial planning has left them better off financially.



03

## MYTH #3

**Financial planning costs more than it's worth**

**FACT:** More than 9 in 10 clients of CFP professionals say the benefits of financial planning outweigh the costs.



04

## MYTH #4

**Financial planners lack objectivity**

**FACT:** Everyone (100%) who works with a CFP professional report they trust their financial planner to act in the client's best interests.



# FPSB® Value of Financial Planning Index™

FPSB has developed the FPSB Value of Financial Planning Index as a mechanism to measure the financial and non-financial impact of financial planning on the lives of clients. Scores range from 0 to 100 around the midpoint of 50; the higher the score the better.

The Index shows the difference between those who do not work with a financial planner and those who do. The CFP Professional Delta shows the positive difference when working with a CFP professional.



\*CFP Professional Delta is calculated from the difference of CFP Professional Advised and Unadvised.

except for experience which is the difference of Other Advised.

Because I've been able to plan my finances in a much better way, I don't have to attend my own time and effort to understand the intricacies of the market, my financial planner does it for me.

Client of a CFP professional | Male, 27, Karnataka



# FPSB Value of Financial Planning Index

There are four components in the FPSB Value of Financial Planning Index:



## Quality of life

Non-financial 'personal assets' that are the key supporting pillars of a 'good life', including personal health, connection, capability, purpose and life satisfaction.

The CFP Professional Delta score of +6 shows that consumers who work with a CFP professional experience a higher quality of life than those who are unadvised.

Clients of CFP professionals report greater life satisfaction (8.6 out of 10) compared to their unadvised counterparts (8.1 out of 10).



## Financial Confidence

Measuring financial confidence including personal expectations of security and ability to achieve goals and manage personal risk.

The CFP Professional Delta score of +9 shows that consumers who work with a CFP professional feel much more confident about their financial future than those who are unadvised.

Over 9 in 10 clients of CFP professionals feel financially secure compared to only 8 in 10 unadvised consumers.



I am very satisfied with my financial planner, he makes my life easy and tension free to live financially.

**Client of a CFP professional | Female, 61, Maharashtra**

# FPSB Value of Financial Planning Index



## Financial Satisfaction

Measures personal satisfaction with a consumer's financial situation including spending capability, personal financial risk management, ability to stick to the strategies in a financial plan and overall wealth.

The CFP Professional Delta score of +11 shows that consumers who work with a CFP professional report much higher levels of satisfaction than those who are unadvised.

In fact, 4 in 5 of those advised by a CFP professional are highly satisfied with their overall wealth compared to 3 in 5 of those who are unadvised.



## Experience

Measures the directly attributable value of the experience of financial planning and working with a financial planner, as well as tangible financial benefits like financial gains and meeting critical financial needs.

The CFP Professional Delta score of +3 shows that clients who work with a CFP professional experience more value than those who are advised by other professionals.

Almost all clients (97%) advised by a CFP professional agree that they have greater spending confidence, while only 9 in 10 of those advised by someone who is not a CFP professional agree.



My financial advisor helped me make good financial plans for my future and current finances which is giving me peace of mind.

**Client of a CFP professional | Male, 31, Andhra Pradesh**



# The CFP professional difference

Clients who work with a CFP professional are more likely to report a higher quality of life, more likely to have greater levels of financial confidence and resilience and are more likely to be satisfied with their financial situation.

**100%** Everyone who is advised by a CFP professional reports they trust their financial planner to act in the client's best interests.

**98%** of clients of CFP professionals say they are likely to continue the relationship with their financial planner.

## Top 5 benefits of working with a financial planner reported by clients

**01**

Feel **more satisfied** with their wealth

**02**

Help to explain and **simplify financial matters**

**03**

Improved **financial freedom** and control

**04**

Better financial decision-making **confidence**

**05**

Improved **financial wellbeing** and peace of mind

Working with a CFP professional to create a financial plan leads to higher wealth satisfaction

**84%** are very or completely satisfied with their wealth, compared to 63% of unadvised consumers.

**89%**

agree financial planning helps fulfill life dreams

**76%**

feel they cope better when faced with health issues

**60%**

say financial planning positively impacted their family life

**60%**

report financial planning positively impacted their mental health



# Financial planning for the next generation

Generation Y, or 'Gen Y' – born between 1981 and 1996 – are proving to be highly engaged with their finances and are open to the value financial planning can bring.

Now established income earners, Gen Ys are on the verge of receiving unprecedented levels of intergenerational wealth via inheritance or gifts. Over 4 in 5 Gen Y already have or are likely to come into an inheritance or major financial support. 7 in 10 expect to do so in the next five years, and for some, the amounts will be significant.

Almost 1 in 5 of those expecting an inheritance or major financial support will be receiving over more than INR 2 crore of additional funds.

Gen Y are open to financial planning. 3 in 5 Gen Y who don't currently work with a financial planner would consider paying for financial advice, on par with Baby Boomers.

And they are looking to engage a financial planner soon. 2 in 3 of those Gen Y considering financial planning would do so in less than three years and over 1 in 5 within 3-10 years.



Gen Y are more likely to identify work satisfaction and their social life as aspects of their life that could benefit from receiving financial planning advice than older generations.

While engaging Gen Y in financial planning represents an opportunity, financial planners will have to evolve and adapt the way they work with clients.





# Similarities and differences between Gen Y and Baby Boomers



## 1. While face-to-face still rules, digital is still important

The majority (3 in 5) of Gen Ys and Baby Boomers want face-to-face interactions with their financial planner, however digital is still important. Across generations, around 4 in 5 are using apps and websites to help manage their finances.



## 2. Direct investing usage is high across generations

1 in 5 Gen Y has taken up direct online trading since 2020, with a further 1 in 5 already trading before the pandemic and continuing to do so. 3 in 10 would consider direct investing, suggesting a relatively high propensity for this across all generations.



## 3. Gen Y prioritise investing in businesses with a purpose beyond profit

Over 9 in 10 Gen Y prefer to invest in companies that have some purpose beyond profits, even higher than Baby Boomers (8 in 10).



## 4. Gen Y has higher expectations, preferring multi-channel service experience where they can interact digitally, over the phone, as well as face-to-face

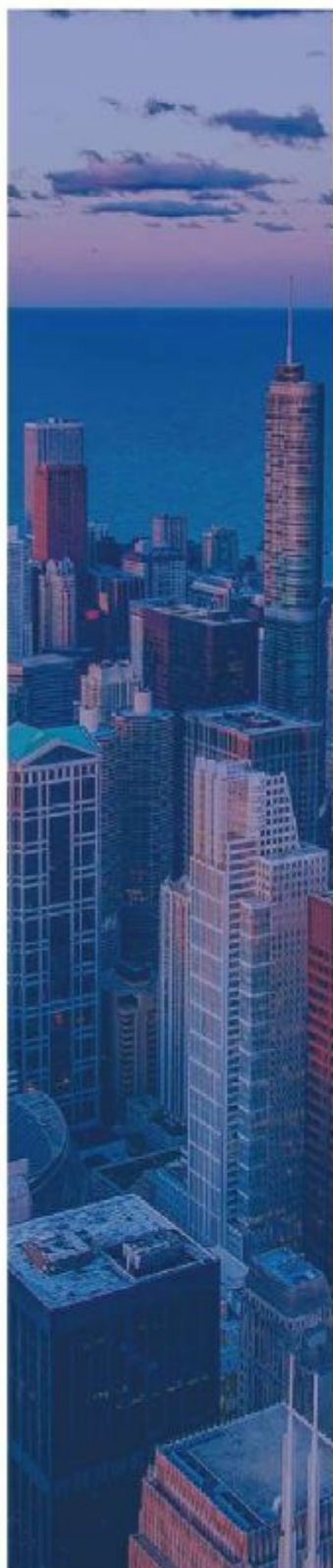
More than 1 in 2 Gen Y clients of a financial planner would expect access to an online portal, compared to 2 in 5 Baby Boomers.



## 5. Gen Y has more interest in investing in novel, non-traditional asset classes

Crypto investing is considerably more popular among younger generations. Almost 1 in 2 Gen Y claim to currently have at least some crypto assets and 3 in 10 would consider it. This compares to only 1 in 3 Baby Boomers who currently invest in crypto and 1 in 4 who would not even consider it.

# Conclusion



In this landmark quantitative study, we have compared the personal experience of people who do not work with a financial planner, with those who have a financial planner and, importantly, those who work with a CFP professional.

This study introduced the FPSB Value of Financial Planning Index, a measure of the perceived financial and non-financial benefits of financial planning. Financial planning clients report having a better quality of life, enjoying more positive emotions, experiencing less financial stress, more financial confidence, a more authentic sense of purpose, and feeling more socially connected, and healthier. And clients of CFP professionals reported the highest levels of satisfaction.

Not everyone has a financial planner. Some of the barriers to working with a financial planner include the perception that it's too expensive, or it's only for rich people. Others believe the challenge is finding someone who they can trust.

In this study, we explored these myths that prevent people from seeking the help of a financial planner and systematically busted them. Clients told us that the benefits of financial planning services outweigh the costs, and that these benefits are present regardless of wealth or age. And when it comes to trust, all clients of CFP professionals (100%) trust their planner to act in the best interests of their client.

With the Baby Boomers reaching old age, the world is on the cusp of an unprecedented wealth transfer between the generations. The next generation has a high demand for financial planning, but their service expectations are different to their parents. Financial planners must adapt their service offerings to better meet the needs of Gen Y in order to ensure this group can fully enjoy the benefits that financial planning can bring.





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The key findings presented in this document are from the global  
2023 Value of Financial Planning Research commissioned by  
Financial Planning Standards Board Ltd.



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