



NISM

# Financial education for working executives

An initiative of SEBI & NISM

## Agenda

- Need for and advantages of financial education
- Basics of savings and investments
- Choosing the right investment options
- Asset allocation strategy
- Savings and investment related products
- Protection related products
- Borrowing related products
- Retirement planning
- Finances for entrepreneurs
- Ponzi schemes
- Tax planning

## Need for financial education

- Deterioration of personal finances
- Proliferation of new and complex financial products



## Advantages of Financial Education

- Helps build a secure financial future
- Prepared for financial emergencies
- Protection from marketing gimmicks
- Feeling a sense of accomplishment
- Disciplined approach to money
- Awareness of questionable practices
- Setting a good example for your family
- Benefit other aspects of your life

# Financial planning



# Basics of Savings and Investment

## □ Savings

- Short term
- Value remains stable
- Lower returns over long term

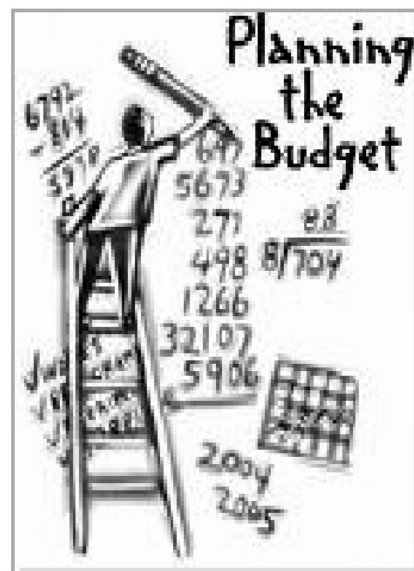
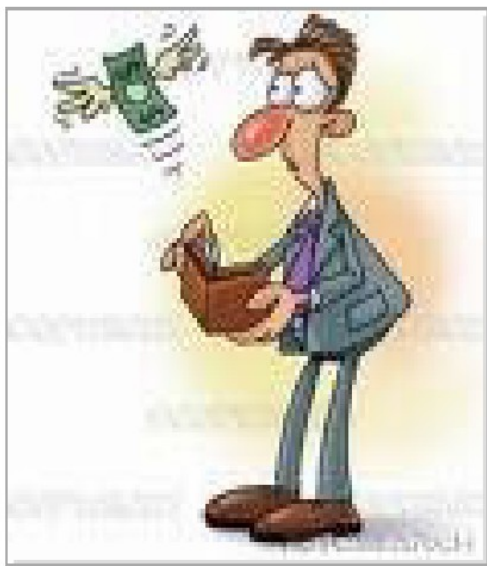
## □ Investing


- Long term
- Value moves up and down in short term
- Potentially higher returns over long term







## BUDGETING



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- What is budgeting?
    - A process for tracking, planning and controlling the inflow and outflow of income.



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- Benefits of budgeting
    - Checks or balances to prevent overspending
    - Unexpected need for funds
    - Discipline
    - Helps maintain standard of living

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# WHAT IS INFLATION?

# Inflation Effects on Investments

	Investment
Initial investment	Rs. 1,000
Interest on investment	5% p.a.
Value after a year	Rs. 1,050
Inflation	6% p.a.
Your expenses after a year	Rs. 1,060





# RISK AND RETURN

## Risk and Return

- Risk and investing go hand in hand
- Risk increases as the expected potential return increases
- Even “no-risk” products such as savings accounts and government bonds carry the risk of earning less than the inflation rate
- It is crucial to manage your risk





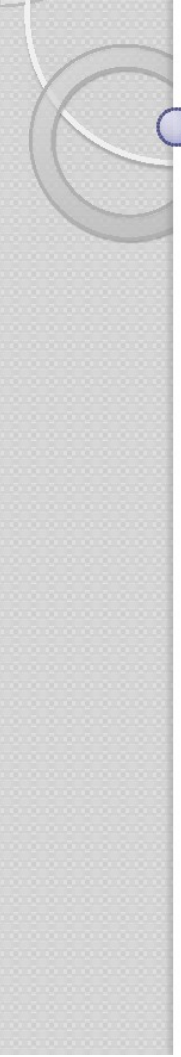
## The eighth wonder - compounding

- What happens to Rs.100 invested @ 10% for 5 years in bank FD?

Year	Amount (at 10% fixed rate of interest)	Floating rate	Amount (terms of floating rate)
1	110	10%	110
2	121	9%	119.9
3	133.1	12%	133.50
4	146.41	10%	146.8508
5	161.05	9%	160.06

## Time Value of Money

- The value of the money today is not the same as it will be in the future

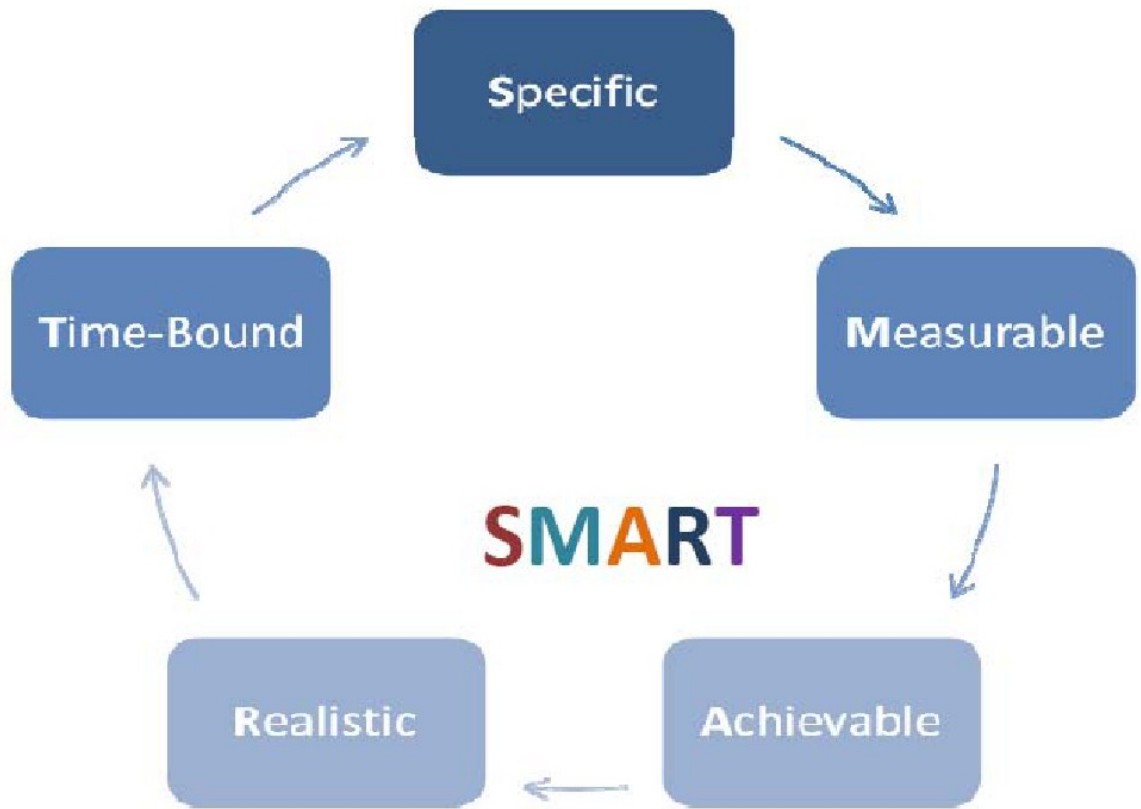
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- Are all goals achieved
  - No, Most of our Goals are not achieved

- What prevents you?
  - Are these goals clearly defined ?
  - The goals seem to be vague
  - They need to be clearly defined
  - Convert them in to SMART goals







## Savings & investment related products

- Bank deposits
- Small savings schemes
- Bonds / debentures
- Company fixed deposits
- Mutual funds
- Equity shares

# Protection Related Products

## Insurance

### ◦ Life insurance

- Term life insurance
- Endowment policies
- Annuities / Pension plans
- ULIPs

### ◦ Health insurance

- Comprehensive health insurance
- Hospitalisation policy
- Critical illness plan
- Specific condition coverage

## New Pension System, 2009

- Available to all Indians between 18 and 55 years
- Defined contribution system
- On maturity, either
  - Withdraw the money, or
  - Buy immediate annuity, or
  - Both: Minimum 40% for buying annuity and maximum 60% withdrawn
- Non-withdrawable account till the age of 60

## Borrowing Related Products

- Personal loans
- Home loans
- Reverse mortgage
- Loan against securities
- Credit card debt



## Retirement Planning

- Start early and retire peacefully
- Plan wisely
- Track and review your plan
- Don't dip into your retirement savings

## Finances for entrepreneurs

- Understand financial needs of self and business
- Save money in job before jumping in self employment
- Borrow from close relatives/ friends on strict business terms, if required
- Start groundwork while still in job
- Apply for loans from organisations designed to fund SMEs



## Ponzi schemes

- Ponzi schemes promise high returns and low risk
- Initial investors may get high promised returns
- Money from initial investors is given to new investors – thus it is only rotation of funds, not investment of funds
- If its too good to be true – its probably not true. It's a Ponzi!

## Tax Planning

- Section 80C gives rebate upto Rs. 1,00,000 for select investments like life insurance premiums, housing loan principal, PPF, ELSS, etc.
- Long Term Capital Gains are not taxable for equities
- 80D (medical insurance), 80G (donations) and 24D (Housing loan interest repayment) are other important sections

## How to begin?

- PAN Card, passport, driving license is a must as personal identification proof
- Telephone, electricity, utility bills are required for address proof
- Know Your Client (KYC) form needs to be filled
- Demat accounts & trading accounts required for equity investing. MF investing does not require demat

## Regulators

- Various regulators in Indian financial markets are:
  - Securities & Exchange Board of India (SEBI)
  - Reserve Bank of India (RBI)
  - Forward Markets Commission (FMC)
  - Insurance Regulatory & Development Authority (IRDA)
  - Ministry of Corporate Affairs (MCA)
  - Ministry of Finance (MoF)



**THANK YOU!**