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Letter From FPSB Ltd. CEO Noel Maye

Welcome to FPSB Ltd.'s September issue of the *Journal of Financial Planning in India*!

As we continue to respond to the impacts, challenges and opportunities brought about by the COVID-19 pandemic, I hope that you are managing your business and your clients, and that you and your family are staying safe and healthy. To say that these are unprecedented times would be an understatement. However, at times like these, the value of financial planning and of having a financial plan has never been clearer—as is the value of having a committed and competent community of financial planning professionals like you in India willing, ready and able to deliver much-needed advice to your clients.

On 7 October, FPSB Ltd. and the global financial planning community will come together to commemorate World Financial Planning Day through a variety of events and programs across the world. We will use this auspicious occasion to shine a light on how financial planning can give people confidence, help them stay on track with their financial goals and, ultimately, live their today while planning for their tomorrow—especially during these uncertain times.

Please know that your dedication and professionalism are needed today more than ever. As you continue to deliver peace of mind and innovative solutions to your clients, we hope the articles in the following pages will support your practice and inspire you. Read how your colleagues are helping clients who are anxious about their financial futures. Learn about Maslow's theory of 'Hierarchy of Needs.' Discover the latest trends impacting the financial planning profession, and more. Then, share these lessons with your clients to remind them that even when markets are volatile and the situation is unsettled, with a trusted CFP professional by their side, they can take steps to gain control and stay on track for their future goals.

As always, I want to thank the FPSB Network organizations in Hong Kong, Singapore, South Africa, the United Kingdom and the United States for their contributions of global content to this Journal. I also want to thank the CFP professionals in India who provided local articles for this latest issue. If you wish to submit an article for consideration for a future edition of the Journal, please see inside for more information.

In spite of the uncertainty in our world today, FPSB Ltd. continues to work diligently with our partners in India and around the world to deliver our education courses, exams and certifications. Further, we are excited to promote online continuing professional development and networking opportunities that support your practices and the financial planning profession. With World Financial Planning Day on the horizon, we hope you will join us in reminding consumers in India and around the world how the value of financial planning, the value of having a financial plan and the value of working with a competent and ethical CFP professional can help them live their today and plan their tomorrow.

Noel Maye

Noel Maye
Chief Executive Officer
Financial Planning Standards Board Ltd.

About the Journal

The purpose of the *Journal of Financial Planning in India* is to expand the knowledge base of CERTIFIED FINANCIAL PLANNER^{CM} 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^{CM} professionals and their work on behalf of their clients.

Journal of Financial Planning in India is published by Financial Planning Standards Board Ltd. (FPSB Ltd.)

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Writing Guidelines for Contributors

Be a voice and a support in the worldwide financial planning community and contribute to the growing body of knowledge created and delivered *by* financial planning practitioners *for* financial planning practitioners.

Authors of published articles will get **5 CPD points**.

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, 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^{CM} professionals and/or the global community of CFP professionals.

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, February 2021. **Article due date: 31 December 2020.**

Send to: IndiaCFPCertification@fpsb.org

Format: When submitting an article, please include: author name(s), mailing address, email address, phone number, 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.

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Our Work With Clients

Financial Planning Across the Wealth Spectrum

There are plenty of good reasons for sound financial planning, regardless of wealth.

By Paul Bryant

The financial planning profession faces radically different challenges across the wealth spectrum. Adding value to those with tens or even hundreds of millions in wealth is a different prospect to making financial planning expertise affordable and useful to those with little disposable income and limited financial flexibility.

Ultra-high-net-worth (UHNW) individuals – defined by London-based wealth intelligence firm Wealth-X as having greater than US$30m of net worth – are likely to have complex financial concerns related to managing their money.

According to Nick Barran, Chartered FCSI, managing director and head of business development for Rothschild & Co's UK wealth management business, this might include planning in highly technical areas – such as investment structuring for the proceeds of selling the family business, or how to hedge against currency moves – as well as in 'softer' areas, where planning around the next generation is a key theme.

He says that wealthy clients worry about the impact on their children of a significant inheritance wealth. To address this, Rothschild & Co offers programmes such as work experience for the younger generation "to gain exposure to the practical side of managing their wealth, or we can attend family meetings and take on the role of a 'friendly' uncle or aunt and help adult children with their spending plans", he says.

How do financial planners add value to these two groups, and all those in between?

Financial planning in context

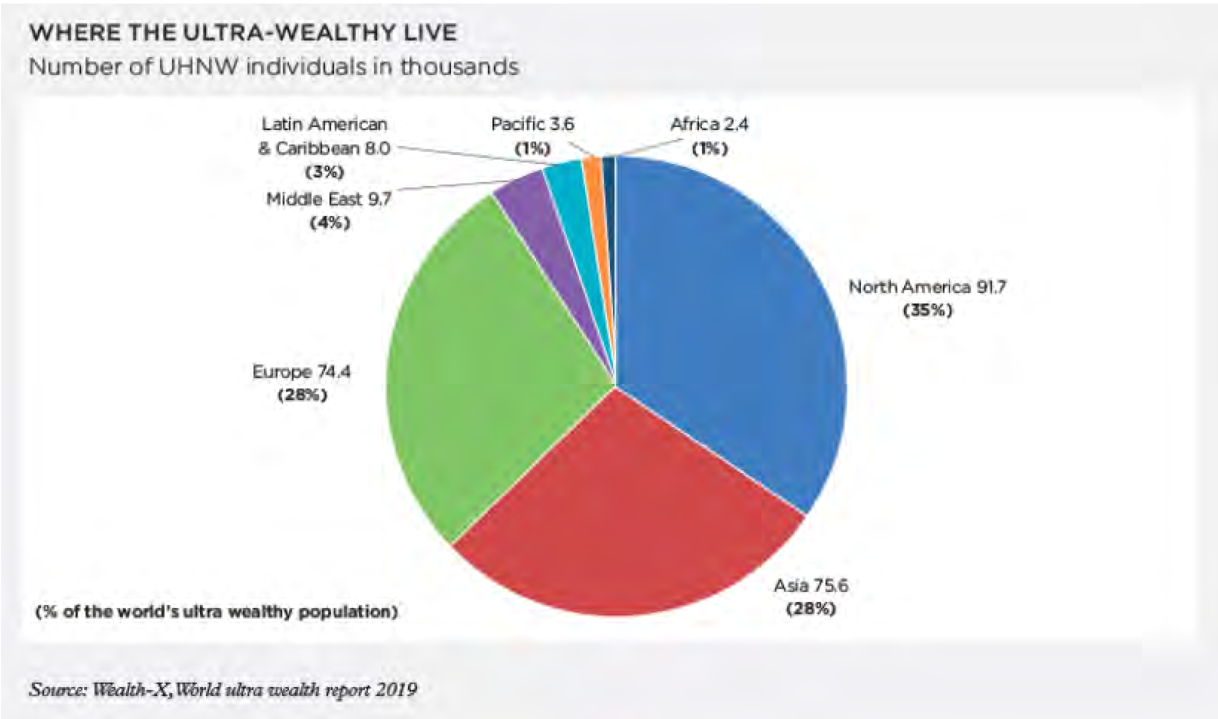
Before answering these questions, financial planning needs to be defined alongside investment management and wealth management – two activities it is distinct from, but also intertwined.

The Financial Planning Standards Board (FPSB) defines financial planning as: "The process of developing strategies to help people manage their financial affairs to meet life goals." It goes on to expand on this by breaking the planning process down into six distinct steps.

A previous *Review* article about vertical integration in financial services delves into how wealth and investment management differ from financial planning, defining investment management as "a discretionary investment management service that gives purely investment advice to generate a specific income or protection of capital"; and wealth management as "a service generally offered to high-net-worth [and UHNW] individuals to organise and manage often complicated investments day-to-day, integrating financial planning and investment management".

Complex challenges of the ultra-wealthy

Wealth-X reports that worldwide, there were 265,490 UHNW individuals in 2018, with concentrations in North America, Europe and Asia.



Charlotte Beyer, founder of the Institute for Private Investors, a global investment education and networking community for over 1,000 UHNW individuals that has operated since 1991, says that financial planning remains critical at this end of the wealth spectrum.

Charlotte says: "It doesn't matter if you have US$500,000 or US$500m to invest, there is a planning thread that is common to all wealth levels, which is the necessity of establishing very clear answers to these two questions: What are your goals and what do you want your money to do?"

She says that the answers to the above questions are going to be vastly different between wealth segments, and that the UHNW segment is a particularly challenging one for financial planners, particularly testing a financial planner's interpersonal skills when trying to tease out answers to the questions.

"Their technical skills will be tested because of the complexity of UHNW individuals' financial affairs. But the ability to marry the interpersonal and the technical side is really where the true value of financial planning to UHNW individuals lies,"she says.

Louis van der Merwe CFP®, director of WealthUp, a financial planning firm based in Durbanville in the Western Cape province of South Africa, agrees with this assessment of where the value lies, saying that many UHNW clients employ multiple advisers, so financial planners will provide "clarity and behavioural coaching" and help "orchestrate and coordinate the pieces of UHNW clients' financial life".

To illustrate the interpersonal skills point, Charlotte cites an example of a family patriarch who had a goal of creating an annual family reunion. The planning decisions required to meet this goal included discussions around where to hold the reunion (if a holiday home should be purchased and if it should be in the mountains or on the beach), how the reunion should be celebrated, and the financial implications of these decisions.

"UHNW individuals are typically paranoid about their wealth," says Charlotte, "often because they are solicited for business (especially by the financial services sector) 24/7. They can be particularly private and uncomfortable talking about their personal and financial affairs. So the financial planner able to get engagement around a personal goal such as this family reunion would need brilliant interpersonal skills. These kinds of disclosures aren't going to be made in the first hour of a data- gathering process, they might come out over six to 12 months, and only if a trusted relationship is established."

Nick Barran says that you can never be too wealthy for advice. He also stresses the complexity challenges facing financial planners, as UHNW individuals often have financial planning requirements that are multi-generational, cross-border, or both. "Financial planning at this wealth level tends to focus on establishing the right structure for an UHNW individual to secure capital for lifetime and succession purposes. Vehicles used might include trusts or family investment companies, partnerships and private funds," he says.

Strategic advice can be useful for families with ongoing businesses interests, planning with regards to succession, balancing family interests with third-party management. This, coupled with "advice on areas such as philanthropy, managing 'lifestyle' assets such as overseas property, and next generation education can be key," he says.

Challenges of HNW clients

Carolyn Gowen CFP^{TM} Chartered FCSI, investment manager and branch principal at Bloomsbury Wealth, has a client base that falls mostly into the high-net-worth (HNW) and very-high-net-worth (VHNW) categories (using Wealth-X's definitions of HNWs having between US$1m and US$5m of net worth and VHNWs having between US$5m and US$30m, with some falling under the UHNW definition as well).

She confirms that in the UHNW segment, planning conversations tend to be more focused on intergenerational wealth transfer, philanthropy, and more complicated financial structures.

In contrast, for less wealthy clients, financial planning mostly centres on achieving financial independence, which she defines as "working because you want to, not because you have to". So the planning process typically focuses more on cashflow planning in order to achieve a target lifestyle. She cites common discussions being around when early retirement becomes feasible; if a new job opportunity aligns with the goals of the financial plan; or how much can be contributed to children's and grandchildren's expenses.

Carolyn says: "I think from some of these examples you should be able to see that financial planning is definitely essential across the wealth spectrum. It is something we feel so strongly about that we will provide financial planning services to clients without managing their money, but we won't manage money unless there is a financial plan."

A profession on the rise

In 2019 the CISI conducted a survey of its Accredited Financial Planning Firms™ – firms that have demonstrated their commitment to the highest professional standards in financial planning for the benefit of UK consumers. Of the 25 firms that responded, 15% have discretionary management permissions and a further 15% plan to add this service in the future. The survey reveals that the number of firms charging explicit fees for financial planning services compared to fees for just arranging a product or investment has increased significantly. In 2019, 50% of firms derived more than 61% of their revenue from explicit financial planning fees, up from just 32% of firms deriving more than 61% in 2018. All firms also expect to increase the number of financial planners employed, with 42% planning to grow this number by 20% or more over five years.

Noel Maye, CEO of the FPSB, points to the growth of financial planning lower down the wealth spectrum, with investment management giants such as US-based Vanguard offering clients with a minimum investment of US$50,000 financial planning services over the telephone. He also says that many wealth management firms now use financial planning as part of their onboarding process. Daniel J. Busi CFP®, vice president and investment counsellor at Canadian wealth management firm RBC PH&N Investment Counsel, also identifies this trend in the UHNW and HNW segments in Canada: "Firms catering to the HNW and UHNW have come to see financial planning as critical to attracting and retaining, these segments of clients," he says. "They are emphasising the importance of professionally accredited financial planners, CFP™ professionals in particular, through both continuing education requirements and hiring practices." He points to examples of large wealth management firms "hiring centralised teams of CFP professionals and subject matter experts as resources for advisers to use in complex client scenarios where specialised expertise and experience are required."

As consumers around the world digest the cumulative impact of the Covid-19 pandemic on their personal finances, the need for financial planning across all wealth spectrums isn't going to go away any time soon. As Daniel points out, the current crisis is "a perfect example of the growing need and application of financial planning". He continues: "In every client interaction I have had we have discussed the current situation and compared it to the financial plan we established from the outset. It has helped to provide context, to direct focus to the right areas, and to guide our reaction if any is required."

Financial planning and the 'advice gap'

Access to financial advice and professional financial planning services can be difficult for those with less wealth. In its 2019 report, *The UK advice gap: are consumer needs for advice and guidance being met?*, financial advisory firm OpenMoney estimates that 5.8 million people in the UK fall into an 'affordable advice gap' – they are willing to pay for financial advice, but think it is too expensive. The report is based on a YouGov survey of 2,088 UK consumers, with around 90% of participants having under £250,000 of household wealth (defined as the total value of all savings, investments, properties other than a main home, and pension funds of those already retired).

The FCA's 2016 *Financial advice market review* references a 2016 survey on behalf of the Association of Professional Financial Advisers, and reveals that 69% of advisers said they had turned away potential clients in the previous 12 months, with the most common reason being that the advice services offered would not have been economic given the circumstances of those clients.

Noel says it is a crucially important problem to solve: "Those at the lower end of the wealth spectrum can probably benefit the most from financial planning because the impact of any one financial decision can be so substantial."

Also, the spectrum of where people can get advice is expanding. There are a growing number of apps on the market, which aim to offer various levels of financial advice and encourage steps towards financial planning.

Noel recognises the important role technology will play in reaching this segment, but he remains sceptical about fully automated models: "The suitability of recommendations from these systems is still not there. To fully automate a system, you have to simplify the planning process too much." Louis van der Merwe agrees that technology is a key enabler when it comes to addressing the advice gap in South Africa: "Technology has allowed the cost of providing financial advice to slowly come down, and we expect this to continue."

Daniel says that in Canada, the "rising regulatory costs and lower fees associated with each dollar of assets under management has pushed the expertise of CFP™ professionals up the market". Like Louis and Noel, he too identifies the importance of technology when it comes to catering to the lower end of the wealth spectrum, saying that "the void left behind is now being filled by 'robo' advice in the mass market".

Noel thinks a 'hybrid' model blending automation and human interaction will ultimately be used to serve the lower end of the wealth spectrum, saying that some financial planning firms are now splitting how planning is delivered into different segments. Some clients might initially be sent to an online portal and get predominantly automated advice, backed up by a human financial planner, whereas others might get access to a human financial planner very early on in the process.

And he acknowledges that the profession needs to do more to make financial planning services available to this market: “It is not just about using technology to make financial planning more efficient. Pro-bono work will need to become more widespread; non-traditional charging models will need to be considered (such as charging per 15 minutes of financial planners’ time); and models need to be set up through employers so that financial planning can become an employee benefit, subsidised or paid for by the employer, as is common with medical benefits.” Louis cites examples of positive progression on this front, with some South African financial planning firms currently offering “services to employer groups to allow for individual financial planning, with the employer acting as the sponsor and facilitator of the financial products.”

The CISI’s annual Financial Planning Week (5-11 October 2020) goes some way towards addressing this ‘advice gap’ in the UK. The event offers members of the public the chance to sign up to free one-to-one sessions with CISI CERTIFIED FINANCIAL PLANNER™ professionals, who can provide a helping hand when it comes to achieving financial wellbeing and life goal planning.

We find no dissenters to the idea that financial planning has huge value to add, regardless of wealth. The more wealthy are currently well served. But financial planners have a lot of work to do to make their skills available to the less wealthy too, otherwise others will attempt to fill this advice gap. Pure robo solutions and apps are making some headway into this market. And Noel even highlights a trend of some consumer protection groups professing to bring the less wealthy into the financial planning world by using social workers – a trend he finds worrying because of these workers’ lack of financial skills.

This article was original published in the CISI members’ magazine, The Review. Republished with permission.

5 Trends Driving Change for the Financial Planning Profession

By David Kop, CFP®

The world of financial advice is changing, with financial planning getting more recognition as a profession. While some of these changes are driven by the practitioners who have stood up and said there is a different way to deliver financial advice, there are also many external factors that are driving the change. For instance, here are five drivers of change in our profession:

1. Regulations
2. Consumerism
3. Technology
4. Remuneration
5. Economic environment

1. Regulation

While regulatory change is driving the way that financial advice is delivered, this is sometimes a lagging trend that reflects really what is happening in the industry and profession. Following the global financial crisis, there has been a renewed focus on the consumer protection mandate by regulators. Today, financial institutions must tick every box in order to be compliant, though bad customer outcomes can still happen.

2. Consumerism

More than ever before, consumers have access to data. Many third-party providers are also pushing data to consumers. As a result, consumers are more knowledgeable than ever before. The problem is that much of the data that consumers have is delivered in a silo, focused on a need, and often designed to sell a particular product.

The reality is that consumers have many goals and needs that are actually in conflict with each other. A single consumer may want to buy a new car, move to a bigger house, go on an annual vacation, save for a child's education, save for retirement, or continue growing their assets - even if they have limited resources.

As a result of this increased access to information, clients often come with a predetermined solution in mind, and might approach a financial planner to confirm their decision. This means that financial planners need to change their approach to giving advice. The ability of financial planners to understand their clients and guide them through the process of prioritizing their needs is becoming even more important than technical skill.

This does not mean that technical skills are not important. What it does mean, however, is that being technically competent is becoming the minimum criteria, and client engagement skills are becoming the differentiating factor.

3. Technology

Technology is commoditizing financial products. This means that financial advice that is focused purely on choosing a financial product is becoming less valuable to consumers, many of who could do that on their own.

The good news is that many consumers still do not trust these technology solutions that focus on investment and products. So while the conversation in 2015 was that technology was going to shut down the financial planning profession, the conversation in 2020 is how financial advisers can use technology to enhance their offering. We have moved from robo-advisor to bionic-adviser (i.e., a technology-enabled human adviser)

4. Remuneration

The commission model has been under attack for many years, and every day there are stories about how commissions are to blame for many of the evils in the industry. While this may be true in certain cases, there is more to the story.

Particularly when it comes to investments, both regulation and client demands are all but ending the commission model financial advisers and financial planners alike. While regulations have been amended globally, this is also one area where forward-thinking practitioners have already started implementing new models.

Many advisers have made the shift to a fee-based model on their investment portfolios where they charge a percentage of assets under management for ongoing advice. This model has proven to be faulty due to the following reasons:

- A product still needs to be purchased for the adviser to be paid, which means there is still a conflict of interest
- An adviser can only earn if they have a client with a large asset base
- Much of the true value delivered – i.e., the advice – is still given away for free
- An adviser's income is linked to the performance of the assets; and in a market downturn, the adviser's income decreases even though the work goes up.

The new trend among advisers and planners is a subscription model for services - either in the form of a one-time payment for services or a monthly retainer for ongoing services. This allows for access to a great client base (i.e., clients with high incomes who do not yet have much in the way of investable assets) and a more stable income stream for the adviser.

5. Economic Environment

The economic environment is also changing the way advisers and planners deliver their service and engage with their clients. In a growing economy, the client review was always positive. It was an easy event to show the growth in investments and “demonstrate” adviser value.

Over the last few years, the economic environment has not been great; and advisers who built their value proposition around investment performance have lost relevance.

Conversely, financial professionals who have focused on helping their clients achieve their goals have developed deeper client relationships. Further, they have found it easier to demonstrate the value of their services.

What does all this mean

These trends have caused the following changes:

1. Financial advice has changed from a transaction-based business to a relationship-based business. This means that the client-adviser engagement has changed to a more long-term, holistic relationship.
2. This has necessitated that advisers look at their business model and roles within their practice. It is no longer sufficient to have only a technician (i.e., the person who delivers the service to the client), but also a manager (i.e., the person who ensures that processes run) and the entrepreneur (i.e., the person who looks to the future) in a financial planning business. It is nearly impossible for a single person to fulfil all these roles. This means that the single-adviser practice would either need to outsource some functions, grow their business, join with other like-minded practices, or join a larger organization.
3. Advisers are starting to find their niche, either through the selection of clients (e.g., only work with doctors or teachers etc) or via disciplines (e.g., investment, estate planning, etc.).
4. Technical skills are just the minimum. If you want to differentiate yourself as an adviser, you need to do more than just meet the regulatory competence requirements. The successful financial planner of the future will be technically competent, technology-enabled, and have strong interpersonal skills.

Does Gold Have a Place in Your Clients' Financial Portfolios?

By Lawrence Chow, CFP®

Debt rising

At the close of 2019, world debt has risen to a record high of above $250 trillion. The total borrowings from households, corporate and government puts the world debt-to-GDP ratio to a record high of 320%. While it has been a decade long exercise by Central Banks to recover from the last financial crisis, the total debt has increased by 50% via monetary policies in order to achieve inflation to spur economic growth.

Money vs. fiat currency

A typical instrument of monetary policies is to control money supply by increasing the supply of fiat currency circulating in the economy. While most people recognise the dollar bills as money, however the value of fiat currency lies in the trust and confidence that people have in the country's government. As currency supply increases, the purchasing power of the currency decreases. This is where the issue lies. Currency does not hold its value over time. Money does.

What is money then? Since ancient times till as recent as the early 20th century, gold and silver were recognised as the primary medium of exchange. It is considered a store of value because it also has practical use in the industrial use, hence there is value in it being a precious metal.

Before August 1971, bank issued notes are backed by a standardised exchange rate against gold known as the Gold Standard which allowed bank note holders to convert their currencies to physical gold at the stated exchange rate. However since August 1971, US President Nixon announced the termination of the Gold

Standard, hence physical gold started trading freely in the open market, which the liberation of currencies from gold standard allowed an infinite increase in currency supply to fuel fiscal requirements. From this point on, gold was relegated from being money itself into just a type of asset while fiat currency became the confidence-based medium of exchange.

Why so little people hold gold as an investment?

Although gold is a hedge against inflation, one of the key arguments against gold as an investment is that is a non-yielding asset. In a modern portfolio, it is difficult for portfolio managers to allocate funds into gold in the face of demands from investors to generate yield on their investments. Since gold price largely reacts to supply and demand in line with economic events, many portfolio managers will choose to allocate their portfolios into other asset types which they can better predict an expected return from fundamental analysis.

Is this the right time to allocate gold?

We have experienced the longest market bull run in history. The longer the bull run sustain, the more we hear from news sources and well-known investors that we are one day closer to the next big financial crisis.

In comparison to all major currencies in the world, gold outperformed all currencies with an annualised return of 19.97% (Bloomberg data). One of the factors may be due to Fed's intentions with interest rate, which goes to show that fiat currency's value is relying on confidence, and hence gold has an indirectly proportional relationship with fiat currency confidence.

One of the risk we are potentially facing is how the central banks deal with the next economic crisis. In the last global financial crisis, most countries resorted to buying assets to increase currency supply in the market, hence the interest rate was cut from the high of 5.25% in 2007 to 0% in 2011. At the current Fed rate of 1.5%, there is little room for further rate cuts unless we enter the negative interest rate region. With this in mind, gold seem to be primed for further upward gains when the next economic crisis arrives. This definitely serves as a form of insurance for anyone's overall financial portfolio

Ways to participate in gold

Traditionally, it is recommended to own 5 to 10% in gold as a hedge against inflation and adverse economic events. These are some ways to gain gold exposure:

1. Physical gold

- Pros – This is the most assured way of owning gold in bullion coins or bars due to its limited availability in circulation. They are highly liquid and can be sold at spot price.
- Cons – Cost of storage can be an issue. Storing in a security box facility will incur high expense over a long time period, especially when gold itself doesn't generate yield to cover this expense. The buy/sell spread can be high due to cost of production.

2. ETF (eg. SPDR Gold)

- Pros – ETF is a low cost way of gaining gold exposure. It can be easily traded with a low spread. A highly liquid instrument.
- Cons – while gold ETFs usually claim that they are backed by physical gold, we cannot redeem gold itself

3. Gold stocks/funds

- Pros – Offer diversification and advantage of professional management by fund managers who pick the gold mining companies.
- Cons – Gold funds are usually invested in gold mining companies hence the price of the fund may not replicate gold price movements directly. Profitability of gold miners also affected by the ability to find more gold mines and to achieve a good yield on gold extraction.

Conclusion

While having gold in our client's portfolio is a debatable topic, we are also dealing with the fact that economic headwind is against us. It is always useful to discuss with our clients alternative ways to protect their portfolio, especially when we are exploring unchartered territories where traditional asset class like equities and bonds may not perform in a textbook manner. The key is diversification into low correlation assets to preserve our clients' portfolios with a long term time horizon in perspective.

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Our Global Presence

World Financial Planning Day Returns 7 October

What Are Cryptocurrencies and Why Does It Matter?

Financial Planners' Duty to Vulnerable Clients

Increasing Financial Literacy: Ways to Engage the Masses

World Financial Planning Day Returns 7 October

Financial Planning Standards Board Teams with Regulators Worldwide to Raise Awareness of Financial Planning

Financial Planning Standards Board Ltd. (FPSB Ltd.) and its global network of affiliate organizations will host the fourth annual World Financial Planning Day on 7 October to raise public awareness of the value of financial planning. The FPSB Network, which represents nearly 190,000 CERTIFIED FINANCIAL PLANNER professionals across 27 territories worldwide, will host a series of programs and events to help consumers improve their financial wellbeing and stay on track in uncertain times.

“As we continue to deal with a global pandemic, more people are feeling life and financial stress, looking to an uncertain future while dealing with a volatile present,” said Noel Maye, CEO of FPSB Ltd. “This year, it is more important than ever to raise awareness of how financial planning can help people prioritize and address short-term needs, framing those actions in the context of longer-term goals. Recognizing that the pandemic requires near-term adjustments which might overshadow long-term plans, our global campaign theme – Live Your Today. Plan Your Tomorrow – demonstrates how financial planning can help us make financial decisions that keep us on track for the future we envision."

World Financial Planning Day highlights need for financial literacy

According to S&P Global, just 33 percent of adults worldwide are financially literate, with women and young people especially vulnerable. World Financial Planning Day aims to reverse this trend, and offer resources to consumers who are ready to take control of their financial future. For those just getting started, worldfpday.org offers a variety of information, such as five ways to combat financial stress, 20 ways to jump-start your financial future, and how to find a CFP professional near you. Other programs and events cover topics such as debt management, financial emergency preparation, home ownership, saving, investment planning and retirement.

For the fourth straight year, FPSB Ltd. has partnered with the International Organization of Securities Commissions (IOSCO) to host World Financial Planning Day during World Investor Week, a global campaign designed to raise awareness about the importance of financial literacy and investor education. "We are pleased to once again partner with FPSB Ltd. to highlight the importance of financial wellbeing and boost financial literacy around the world. By recognizing the importance of financial planning, World Financial Planning Day has the potential to make a real difference for millions of consumers who need help understanding how to get on the right track," said José Alexandre Vasco, Chair of IOSCO's Committee on Retail Investors.

Video contest helps five winners jump-start financial plans

To celebrate World Financial Planning Day, FPSB Ltd. is hosting the "Plan Your Tomorrow" video contest for consumers who need help planning their financial future. Entrants can submit a video of 30 seconds or less at worldfpday.org that answers the question: "How could meeting with a CFP professional help you plan your tomorrow?" From the video entries, five grand prize winners will be chosen to be matched with a local CFP professional for a financial planning session, along with US$1,000 to help pay off debt, save for education, prepare for retirement or other financial goals. To be eligible, contest entrants must be 18 years of age or older, and reside in an FPSB Affiliate territory.

Live global panel event connects financial planning professionals around the world

FPSB Ltd. will host a special live event for financial planning practitioners on 7 October to explore the **Future of Financial Planning: Adapting to a New Normal**. The event will feature panelists discussing topics such as adapting to meet changing client needs, managing virtual client relationships, and the impacts, challenges and opportunities the pandemic has created for establishing financial planning as a global profession. The event will be open to all financial planning professionals, including nearly 190,000 CFP professionals around the world. More details, including the lineup of panelists and topics will be available at worldfpday.org when registration opens in September.

Further information about World Financial Planning Day, finding a CFP professional, the video contest, the live global panel event and global programs and events are available on worldfpday.org and by joining the #WFPD2020 conversation on Facebook, Twitter and LinkedIn.

What Are Cryptocurrencies and Why Does It Matter?

By John Sim, CFP®

Cryptocurrencies, most famously represented by Bitcoin, has been in the news a lot over the years. So, what are cryptocurrencies, and should you be concerned about them? What is the Singapore government's stand on cryptocurrencies? Should I include them in my investment portfolio? I will be attempting to address these questions in this article.

Let's start by briefly defining what we mean by cryptocurrencies and to better understand some characteristics that are associated with them. Cryptocurrencies are a form of digital assets that reside and operate on a platform made up of a large number of computers spread across a network. This platform is usually a blockchain, which is a form of distributed (or decentralised) ledger. You can think of a blockchain as a "record book" tracking all movement of the cryptocurrency between all users.

They can be used as a store of value or as a medium of exchange between untrusted parties across the Internet without the need for a trusted intermediary. And all these intermediaries take a (considerable) cut of the transacted price. But with cryptocurrencies, such a payment system takes place almost instantaneously without the need for trusted payment intermediaries (trustless) and with zero or negligible transaction fees.

All these are achieved through the use of cryptography, hence the name "cryptocurrencies". Cryptography, in this context, is the use of computationally hard problems to secure transactions, control the creation of more cryptocurrencies and to verify the transfer of such cryptocurrencies. A more detailed description of how this works is beyond the scope of this article.

Why Should It Matter to Me?

The significance of cryptocurrencies is how it can potentially disrupt many traditional industries. We will look at 2 areas to illustrate the disruption that is happening.

Payment 2.0

One area ripe for disruption is the US$3.41 trillion payment space. As briefly described above, there are many inefficiencies in the current payment models. There is a need for many intermediaries like payment acquirers / processors, card networks, card issuers, payment gateways etc, resulting in slow and costly end to end transactions. These are currently necessary as there is no other way to exchange value between untrusted parties. These intermediaries essentially act as a trusted party between untrusted buyers and sellers to escrow funds during the buying process and to handle settlement subsequently. But with cryptocurrencies, such payments can be performed effectively peer to peer, near instantaneously, for a fraction of the current costs, and enforced programmatically by the network. This can enable new business models of frequent, in-app, micro-payments.

Digital Advertising 2.0

Another area where cryptocurrencies can potentially disrupt is the US$283.35 billion digital advertising space. In its current form, it is the giant advertising aggregation platforms of Google, Facebook and the likes that get that lion's share of the revenue by monetising their audience. But with the advent of cryptocurrencies, and the ability to support micro-payments cheaply, power and control can be placed back into the hands of users. Advertisers can effectively reward users for engaging with their content. Users can "tip" content creators whom they like, thus incentivising creators to create content that appeals to users. Imagine getting $0.01 for every "Like" you receive on Facebook….

Risks with Cryptocurrencies

While cryptocurrencies offer many advantages and benefits, just like with any nascent technologies, there are many risks associated with this space as well. Scams and fraud are just right around the corner, luring the naive, the greedy and unsuspecting user to part with his digital asset. A simple search on Google for "crypto scams" will yield many real cases of hacks on crypto exchanges where millions of dollars of crypto assets are stolen, of Initial Coin Offering (ICO) and exit scams and more. So buyer beware! The adage "if it is too good to be true, it probably is" never rang truer.

Volatility is another noticeable characteristic of the crypto space. The following chart shows the spectacular rise and equally spectacular fall of Bitcoin's price (over 300%), all within the span of about 1 year!

Cryptocurrencies in Singapore

So what is the status of cryptocurrencies in Singapore? Cryptocurrencies are not legal tender, so spending your cryptocurrencies is not going to be easy. There are various local and foreign fintech companies that are working on smoothening that user experience of using their crypto in a daily setting. However, Singapore is actually one of the more "crypto-friendly" regulatory environment. The Monetary Authority of Singapore (MAS) takes a relatively "light touch" approach to most things crypto, but has a tough stance against its abuse in the area of anti-money laundering (AML) and countering terrorism financing (CTF). As such, Know Your Client (KYC) rule enforcement is strict.

Furthermore, with the recent release of the Payment Services Act (PSA), local and foreign fintech firms are given much clearer regulatory guidelines on their responsibilities and obligations when it comes to dealing with buying and selling of cryptocurrencies. This, in turn, provides clarity and stability for business owners in this upcoming space. Couple this with a well-educated, highly connected population, this puts Singapore at the forefront of creating a well-balanced environment to allow innovation to thrive while keeping users, funds and the financial institutions safe.

In conclusion, cryptocurrencies have only been around since Jan 2009, with the mining of the first Bitcoin. We are at the cusp of a revolution in how money works in this Internet age and while there are a lot of risks still, this innovation cannot be ignored and its impact will be felt as time goes on. So should we invest in cryptocurrencies? My answer is a resounding "Yes", but invest in yourselves first by learning more about this evolving space before dumping a chunk of money at the next big ICO, hoping to make it rich.

[1] https://www.reportsanddata.com/report-detail/digital-payment-market

[2] https://www.emarketer.com/content/global-digital-ad-spending-2019

Financial Planners’ Duty to Vulnerable Clients

“Financial planners are at the frontline when it comes to safeguarding the interests of vulnerable investors. Today let’s look at what the international community is doing for vulnerable investors, and how the very first Guidance Practice Note of the Financial Planning Standards Board addresses this issue head-on.”

— IFPHK Chief Executive Officer Dennis Lau

The definition of vulnerable investors

The world’s population is ageing rapidly. The proportion of the world's population aged 60 or older will nearly double from 12% in 2015 to 22% in 2050. A total of 125 million people in the world were aged 80 years or older in 2018. By 2050, this will be the number of people aged 80 years or older in just China alone. Although many jurisdictions have Know-Your-Client requirements in place, and their laws and regulations generally protect consumers, the issue is whether the special needs of senior investors have been properly addressed. Indeed, there have been calls to widen the net and offer better protection to all vulnerable investors, who have been defined by the Hong Kong Monetary Authority to include the elderly aged 65 or above; the illiterate or those with a primary or below education level; the visually impaired; and those who have limited means. In the context of financial literacy, the Investors Financial and Education Council has expanded on this list by including new immigrants, ethnic minorities, foreign domestic helpers, and the disabled.

Investors who do not otherwise fall into the above categories may also be at risk: the Financial Conduct Authority in the United Kingdom found in 2017 that a surprising 50% of adults studied showed one or more characteristics that signalled their potential vulnerability. For a lot of vulnerable investors, a lack of access to information due to poor digital skills is also a key roadblock for them to obtain useful information on how to avoid being exploited by unscrupulous financial industry practitioners.

What other countries and international organizations advocate for vulnerable investors

In the last few years, the issue of affording protection to vulnerable investors has been part of the rhetoric of the international financial services community. The World Bank has highlighted the importance of a robust consumer complaints mechanism, especially for those who are vulnerable. Similarly, in discussing the approaches for financial consumer protection in the digital age, the Organization for Economic Cooperation and Development said that an evidence-based understanding of the behaviour of vulnerable consumers is key to policy issues.

Countries have also devised their own initiatives and programmes for vulnerable consumers. Back in 2017, The Canadian Foundation for Advancement of Investor Rights (FAIR Canada) and the Canadian Centre for Elder Law released their Joint Report on the Vulnerable Investor Protective Action and Legal Safe Harbour Project, a one-year project that was launched to look at the relationship between investment securities, elder financial abuse, mental capacity, and good faith third party notifications. The report included six recommendations to address financial exploitation, undue influence, and diminished capacity, and garnered enormous support from various regulatory bodies.

In the United States, where consumers have credit scores that affect their ability to borrow, the Consumer Financial Protection Bureau provides targeted help to vulnerable consumers on how to build a good credit record by managing their debt, and saving money. The Financial Conduct Authority (FCA) in the United Kingdom has gone one step further, proactively seeking to directly address the issue of vulnerable consumers. Last summer, the FCA launched a consultation on the proposed guidance for firms on the fair treatment of vulnerable customers. Importantly, the guidance is relevant to all firms involved in the supply of products or services to retail customers, even if they do not have a direct client relationship with them. This amplifies the FCA's goal of making sure that "doing the right thing" for vulnerable consumers becomes deeply entrenched in the culture of financial firms.

Here in Hong Kong, there have been sporadic calls to shield the elderly from financial abuse and unsavoury financial market practices. Given the complexity of financial transactions, stakeholders believe that protection of the vulnerable deserves the attention of policymakers and legislators, NGOs, social workers, and lawyers acting in concert. One solution is for the government to work with charities to enhance the financial security of those who are vulnerable by setting up inexpensive trusts to provide for them financially, as is being done in Singapore through special needs trusts. Apart from the ease of setting up such trusts, added-value services, such as care plans and home visits, may also be provided to vulnerable beneficiaries.

Financial Planning Standards Board's Guidance Practice Note to help financial planning professionals deal with vulnerable clients

The FPSB has been advocating the need to protect vulnerable investors. After submitting a paper on senior investor vulnerability to the International Organization of Securities Commissions in 2017, in November 2019 the FPSB issued its first Guidance Practice Note (GPN) on working with vulnerable clients. Based on best practices and the current understanding of the collective issues relating to the financial exploitation of the vulnerable, the GPN provides general and practical principles-based guidance for financial planning professionals to develop policies on how they work with vulnerable clients.

Of note is that while the elderly is not expressly named as vulnerable in the GPN, this can be implied as the non-exhaustive list of vulnerability is extremely broad, encapsulated as "a person who is temporarily or permanently susceptible to financial detriment". Apart from those who may be cognitively deteriorating, those who require physical aids (such as hearing aids, or writing that is in large print), those who have a language barrier, and those who might not be resilient due to life events or a combination of circumstances that make them too stressed to comprehend the ramifications of the financial planning advice being given, should also be considered vulnerable.

The FPSB advises that the GPN should be implemented in the context of the Financial Planning Practice Standards, so that the value of the financial planning process can be enhanced. In terms of the interplay between the 6-step financial planning process and vulnerable clients, the GPN helpfully elaborates on the standards of practice required. For example, in establishing the client-planner relationship, financial planners need to explain their firms' policies as they relate to vulnerable clients, including how the policies are employed to ensure that each individual client's best interests are served. Moreover, when analysing a client's financial status, financial planners have to be vigilant about inconsistencies so that vulnerabilities may be detected and determined, and, if necessary, call on a person trusted by the vulnerable client to assist. In addition, when developing financial planning recommendations, financial planners should consider the nature and impact of the client's known vulnerability and identify contingencies that could be deployed quickly and effectively should the client's situation or vulnerability change.

Financial planners must protect vulnerable clients

The GPN contains some very useful considerations for firms to formulate a vulnerable client policy on how to identify these types of clients and to accommodate their special needs. Members are encouraged to peruse the GPN so that they can start formulating such policies and to implement them.

The IFPHK and other FPSB affiliates are firmly of the view that vulnerable clients can be best protected if professional bodies and regulators advocate for financial industry practitioners to adopt a "client first/best interest" approach. With the increasing popularity of retirement planning products like annuities, the elderly are particularly exposed to suboptimal practices. Since the rapidly ageing population means a sustained uptick in the number of vulnerable investors, we call for the curricula for financial services industry practitioners to include best practices when interacting with vulnerable consumers, and for financial planning firms to formulate suitable policies with regard to vulnerable clients, so that the most vulnerable in society are given the best standard of care they deserve.

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Increasing Financial Literacy: Ways to Engage the Masses

By Steven Fernandes, CFP^{CM}

Investopedia defines financial literacy as: "…the ability to understand and effectively apply various financial skills, including personal financial management, budgeting, and investing. Financial literacy helps individuals become self-sufficient so that they can achieve financial stability." To some, financial literacy may simply mean understanding the basic difference between savings and investments; but we all know that it's much more. Financial literacy should help one understand basic concepts of safety, liquidity, returns, and simple and compound interest. Even maintaining a good credit rating is part of financial literacy as it affects an individual's ability to get loans and realize some of their financial goals.

Though it's not possible to survey the entire population to get exact data, the level of financial illiteracy in our country is assumed to be very high. But if one goes by the gross savings to GDP at 30% (2019), then we are among one of the highest savers globally. A financially illiterate society may not have such a high savings rate. Perhaps saving has less to do with financial literacy, and it's just the best thing to do with your money?

Most of us deal with urban clients. In general, urban clients tend not to be financially literate and know very little about basic concepts such as compounding. This raises another question: if our city-based clients know so little, what does the rest of the country look like in terms of financial literacy? One possible reason for the low level of financial literacy could be that the number of products available today are far more and complex that they were two decades ago. As a result, making the right choice in such a fast-changing environment is even more of a challenge.

Some Statistics

Lack of awareness is responsible for the low insurance coverage in our country. As per a report by actuarial and consulting firm Milliman, only 44% of the 1.3 billion people in India have health insurance. According to data from the Handbook on Insurance Statistics, 2016-2017 of IRDA, India had 328 million life insurance policies in 2017 accounting for only 25% of the population. Similarly, 55% of Americans invest in the stock markets compared to less than 4% in India according to Gallup research in April 2019.

The “Mutual Funds Sahi Hai” campaign helped increase awareness and helped increase the number of mutual funds investors over the last few years. Similarly, insurance companies have been doing their part by advertising aggressively on television and online, which has also increased awareness. COVID-19 seems to have triggered interest on life and health insurance, which is sure to further increase the levels of coverage. Fortunately, many people today are also learning personal finance concepts via online platforms.

Opportunities to Create Awareness

As advisors, spreading financial literacy needs to be part of our social responsibility. We need to give back to society in whatever way we can and spreading awareness is good for the progress of our nation as well as our profession. A couple of years ago, I had an opportunity through the NGO – Consumer Guidance Society of India – to visit various towns and rural areas of Maharashtra and Madhya Pradesh to conduct financial literacy programs for college students. The youth in the cities became aware of several investment products related to the stock market through their smart phones. As per a report by TechARC, India had 502.2 million smart phones as of December 2019 and the numbers are increasing daily.

With a lot of time at home now due to the COVID-19 induced lockdown, more and more people are hooked on their smartphones, which offers a huge opportunity for financial advisors to spread financial literacy far and wide.

Online Videos

The one movie *Idiot,* made by one of the prominent mutual fund companies, is a classic example of how videos or short films on personal finance can help people understand simple personal finance concepts. Several advisors have already started working on these videos. The hope is that not only will these types of videos increase financial literacy, but they may also help convert viewers into actual clients. Either way, there's no denying that simplifying these concepts through video can help make the learning process more interesting.

Online Classes

I know a couple of financial advisors who are promoting online financial coaching for a small fee through Zoom and Google's video app. With COVID-19 becoming a part of our lives for a longer time than imagined, online platforms can help advisors earning revenue for coaching prospective clients. This allows advisors to create custom programs for younger investors, working-class clients or any other segment you can imagine. With turmoil in markets, low interest rates in fixed income schemes and an unfavorable real estate sector, more and more investors are trying to understand aspects of personal finance to make informed decisions. This segment is bound to grow and help in fostering even more awareness. With social distancing becoming the norm for the immediate future, advisors can even explore corporate opportunities for conducting online awareness programs employees.

Blogs

Several advisors need to be credited for starting blogs over a decade ago. They began writing about various aspects of personal finance and have helped create a generation of informed investors. There is still a huge opportunity for those who love the art of writing and are willing to answer questions regularly. Blogs have been hugely popular because each piece is followed by a thread of questions and answers that create the opportunity for a true dialogue. Blogs are here to stay and will only keep getting better. I know advisors who regularly get fee-paying clients through their blogs.

Writing in Local Newsletters / Media

There are several organizations/self-help groups/ professional groups that publish their own newsletters, and have a sizeable circulation and readership. Planners can focus on these segments as the space at several of the large, well-known media houses is already crowded.

It's good to note that now school textbooks have started carrying topics of "Financial Planning" as a part of math. Maharashtra State Board, among others, have started teaching basic concepts like compounding, inflation, calculation of future value, etc. Hopefully this younger generation will be more informed as a result. We have seen that most people don't take interest in their personal finance and, as a result, keep committing mistakes by selecting the wrong asset class for their investments. At least mandatory personal finance lessons at the school level will help today's young learn important financial planning concepts that they will carry into their working years.

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Our Changing Marketplace

Corona Classes: Financial Lessons for the Future

Health Insurance Claims

Behavioural 'Money' Biases: Insights for Financial Planners

Corona Classes: Financial Lessons for the Future

By Rachna Chauhan, CFP^{CM}, SEBI RIA

The COVID-19 pandemic has thrown the global economy into an unimaginable situation. Every day, we witness mistakes that have very serious consequences for our lives. Good health and wealth is what we wish for our loved ones. Unfortunately, these wishes are threatened by the coronavirus pandemic. If we do not take this global crisis seriously, we run the risk of jeopardizing our survival, sustainability and success.

When things go fine and everything is working for you, it's rather common to throw caution to the wind. This leaves us woefully unprepared, especially when something as contagious and far-reaching as COVID-19 strikes. The reality is that none of us were prepared to face such a challenge.

Although lessons on managing your exposure to risk are well documented in finance curriculum, this crisis has given us practical hands-on experience. And as financial planners, this crisis should serve as a reminder of our responsibility to our clients.

Financial Lessons of Past, Practically Revisited in Present for the Future and Forever

1) Right asset allocation

Portfolio diversification can be a hard-learned lesson for clients. Asset allocation is just jargon for many; and the term is often misused to sell high-priced products rather than the right product.

To protect clients from this kind of exploitation, we should educate them on the fact that asset allocation is not just a word - but it's a strategy that can be "right" only if it is discussed, explained and designed specifically for them.

2) Portfolio rebalancing

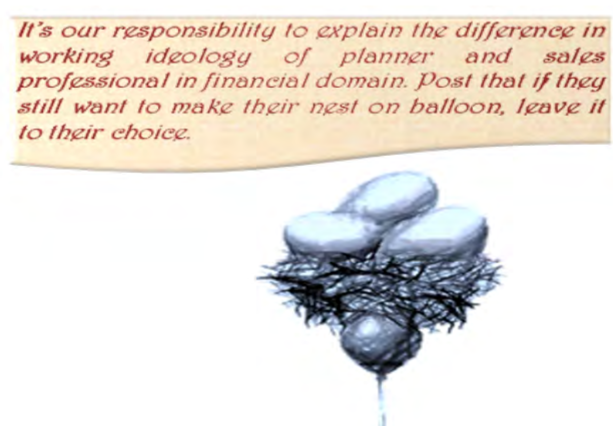
Portfolio rebalancing is essential for maintaining the original or desired level of asset allocation. Ignoring this very important step can lead to disaster during times of crisis. If clients lose the balance in their portfolios, they run the risk of exceeding their risk tolerances and jeopardizing their investment goals.

If we can successfully explain asset allocation in the early stages of our interactions with clients, however, not only will clients better understand the strategy during our regular reviews, they will come to appreciate the benefits during times of crisis.

3) Portfolio review

Portfolio review is just like a periodical health checkup where our vitals are checked by our doctor. Likewise, periodical portfolio reviews check the vitals of client portfolios and allow us to revisit where things stand in terms of asset allocation and portfolio rebalancing. It is especially helpful in identifying high-risk holdings in clients' portfolios.

4) Difference between planner and sales professional



Bad financial advice is quite common. Sometimes people in our industry make bold or ambitious predictions about an investment without doing the necessary fundamental research. And when their predictions don't materialize, it's clients that pay the cost.

Clients mostly get tricked by aggressive sales tactics or blindly trust the name on the salesperson's business card. As a result, it is our responsibility to explain the difference between planners and sales professionals in the financial industry.

5) Don't dip into your emergency fund and always keep "opportunity funds" ready

Just one bad day can be devastating to an investor. When clients are seeing losses in their portfolios, it is easy to forget all the good days. As financial planners, we should ensure that clients maintain an emergency fund in safe and liquid investments that will cover their expenses for six months to a year. We should advise them to hold onto these emergencies funds until there's an actual emergency. Meanwhile, an opportunity fund can be created during portfolio reviews and re-allocations. This enables clients to take advantage of investment opportunities as they arise.

6) Portfolio design according to your risk appetite, risk tolerance and risk ability

Over time, we may witness a negative event that impacts an asset class. And if we are unfortunate, we might witness a series of negative events in the market. For many clients, too many negative events can cause them to panic – especially when their risk exposure has exceeded their risk tolerance. So in addition to designing their portfolios as per their risk profile, we should guide them through the crisis and save them from making a bad situation worse.

7) Clients should be encouraged to check a product's suitability and the qualifications of the seller

To my surprise, while working in the financial services industry, I have met multiple colleagues that originally came from different professional backgrounds – including dentists, pharmacists, sales professionals, journalists, and the list goes on. Many of us are committed to providing the best services to our clients. But clients must always focus on working with financial professionals that have their best interest at heart. While most of us are highly competent, there are some investment professionals driven by greed while others simply lack expertise. As financial planners, we should guide clients and encourage them to spend time inquiring about the qualifications and knowledge of the investment professionals they work with. Otherwise, they run the very real risk of losing their hard-earned money.

8) Be a realistic investor and not adventurous

Adventurous clients fall into the "handle with care" category. When stocks fall, for example, they want to buy everything. Perhaps the market will reverse course. But what if it doesn't?

Not much can be done about these types of clients – except to offer words of caution and provide sound advice. One of my clients once invested heavily in airline Kingfisher as soon as the price started to decline. Despite my warnings, he kept adding to his position every time the stock dipped. Unfortunately, that stock never bounced back, his dreams crashed forever and today he is allergic to the stock market.

9) Adopt and adapt to changing technology

One thing we have all learned from the coronavirus pandemic is the importance of adapting and embracing new technology where necessary. This is particularly important for keeping the lines of communication open with your clients, especially senior citizens who may feel more helpless in times like these. As financial planners, we need to educate clients about the potential for using technology keeping their investments safe from cybercriminals.

10) Go on high alert whenever the smoke is visible

One important lesson from this global pandemic is to go on high alert whenever you see a smoke – because where there is smoke, there is fire. And it's important to keep clients informed about what you are seeing. This will allow you to plan a course of action that can potentially protect your clients' investments in volatile markets.

11) Leverage / loan doesn't mean free food

Our elders would often tell us to live within one's means or capability. This simple philosophy saved us during the 2008 recession. We knew our limits and risk appetite, so we never overexposed ourselves by taking on too much leverage. Now the situation is completely reversed. More investors are over leveraged. This new trend of easy loans often lands people in a vicious cycle or debt trap during especially during hard times.

Lastly, I would say that the pain and suffering from the COVID-19 pandemic is unimaginable and the effects will be felt for to come. I would conclude this article with a little prayer: "God we have learnt our lessons the hard way and promise to keep our learning's with us through our lifetime, so please forgive us and end this Corona Class".

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Health Insurance Claims

By Rajiv Saraf, FIII, CFP^{CM}

Executive Summary

In this COVID-19 era, health insurance has become even more important. But do we really understand health insurance? There are exclusions, conditions, limits and sub limits. To a layman, it might appear like a deliberate attempt to create a maze of clauses designed to deny a genuine claim.

This article attempts to bring clarity to some of the features of health insurance in simple language. The article relies on actual court/ombudsman rulings rather than textbook theory. Why is a claim rejected? What can we do to prevent such a situation? That is the focus of this article.

Understanding Insurance

We live in times when health is a primary concern for most of us. Health insurance was always advisable, but now it is essential. But most people are perplexed by the clauses in a health insurance policy. They are peeved when a claim is denied or paid partially. The policyholder's unhappiness could result from:

- Lack of knowledge about the product
- No awareness of relevant clauses and exclusions
- Non-disclosure of a pre-existing disease

Why are health insurance claims rejected? What are the caveats in a typical health insurance policy? Why is the proposal form so significant? What are the remedies available if a claim is rejected? What can we learn from recent insurance ombudsman rulings? How is a health policy different from a life insurance policy?

To answer these questions, we need to understand how a claim is processed. A health insurer will consider various aspects when a claim is received:

- Whether the person hospitalized is covered under the policy
- Whether the claim is admissible
- Whether there is a co-pay or deductible applicable
- Whether a particular expense comes under an excluded category
- Whether a claim has already occurred
- Whether charges are reasonable according to the location

The health policy does not pay all types of expenses. Costs incurred while treating an illness can be classified into two categories:

a. Costs for cure: These are the actual medical expenses incurred.
b. Costs for care: These are mainly non-medical expenditures like laundry charges, toiletries, etc.

Usually, costs for care are not covered.

Many prospective buyers instinctively think of health plans in terms of life insurance. Some will remark that there are no returns in a health policy while under life insurance you get tax free returns. It is important for planners to explain the difference between insurance coverage and investment returns.

But there are significant differences between life and health insurance, and these must be spelled out to clients before they purchase a health insurance policy.

Table 1: Differences between life & health insurance

Life Insurance	Health Insurance
Long term	Short term
Benefit policies	Indemnity mostly but also benefit policies
Can be assigned	Cannot be assigned
Loan can be taken	No loan
Has surrender value	No surrender value
Payment on death or maturity	Payment on hospitalization
Sec 45 applicable	Sec 45 not applicable

Benefit Policies

Under benefit policies, a lump sum is paid, regardless of expenses incurred. Policies issued by life insurers are benefit policies. Critical illness cover or cancer plans issued by health or general insurers are also benefit policies. If you have a policy of Rs.5 lakhs and the bill amounts to Rs.3 lakhs you will be paid Rs.5 lakhs. The policy will discontinue.

Indemnity Plans

Under indemnity plans, only actual costs incurred are paid subject to the limit of the sum insured. If your sum insured is Rs.5 lakhs and the bill amounts to Rs.3 lakhs you will be reimbursed Rs.3 lakhs only. The policy will continue.

Section 45

Sec 45 of the Insurance Act stipulates that a life insurance policy cannot be questioned after the lapse of two years. However, this does not apply to a health insurance policy. This has significant implications. For example, if your policy is rejected after two and a half years following the policy’s inception date due to a pre-existing disease, you cannot claim protection under Section 45.

Health insurance is vital. So is life insurance. But health insurance policy documents have more complex clauses compared to other types of insurances, which need to be spelled out to the customer.

Every health policy has a list of exclusions. Financial planners must advise their clients to read them carefully. Here is a sample list of exclusions you may find in a health policy:

- Admission for evaluation/investigation purpose only, without active line of treatment
- High-hazard activities, suicide attempt, radioactive contamination, etc.
- Illnesses resulting from alcohol/drug usage
- HIV, hormone therapy, obesity treatment, fertility treatment, cosmetic surgeries, etc.
- Outpatient and dental treatments
- Treatments outside the country
- Maternity-related illnesses

Many people question the need for exclusions. They believe that these are excuses to deny claims. This is not true. You may get admitted in hospital for cosmetic treatment. Or perhaps you are a habitual drinker and now very ill. No insurer can afford to compensate these expenses.

Despite all the caveats, more than 80% of the health insurance claims filed in 2018-2019 were settled in India. Only 10% were rejected, suggesting the situation is not so hopeless after all.

The table below shows the status of health insurance claims for 2018-2019 (as per IRDAI Annual Report 2018-19):

Table 2: Health Insurance Claims (2018-19)

Number of claims settled	**1.59 crores**
Amount paid as claims	Rs. 34983 crores
Average amount paid per claim	Rs.21984
Percentage of claims settled through third-party administrators (TPAs)	72%
Claims through cashless mode	54%
Claims through reimbursement mode	42%
Both cashless and reimbursement	4%
Percentage of claims settled	82%
Percentage of claims repudiated	10%
Percentage of claims pending	8%

We should also consider the features that are unique to health insurance policies. Every health policy has waiting periods for various illnesses.

1. No illness is covered in the first 30 days of the policy, except hospitalization due to an accident.
2. Many diseases are specified in the policy document. These are not covered after a period of two years.
3. Pre-existing diseases are not covered for 48 months. Some insurers may have a lower time limit for his clause.

Most disputes in health insurance ensue from pre-existing diseases. We really need to explain the concept of pre-existing diseases to our clients.

IRDAI defines pre-existing disease as “any condition ailment or injury or related conditions for which there were signs or symptoms and/or were diagnosed and/or for which medical advice / treatment was received within 48 months prior to the first policy issued by the insurer and renewed continuously thereafter.”

What does this imply? It means that if you have undergone treatment for any disease within 48 months of the date of inception of the first health policy, it will be considered a pre-existing disease. Any hospitalization arising out of a pre-existing disease will not be covered until 48 months of continuous coverage have elapsed for the insured person.

Some people find it unfair that pre-existing diseases are not covered. It must be remembered that a certainty cannot be covered by insurance. Insurance only covers unforeseen and unpredictable events. A pre-existing disease is a certainty; therefore, a waiting period is necessary.

Any pre-existing disease must be disclosed in the proposal form that is the basis of the insurance contract. If any false information is given in the proposal form, the policy is likely to be cancelled. It would be wise for the proposer to fill up the proposal form on his own taking great care to answer each question truthfully. For instance, the proposal form may have a question like whether the proposer has undergone any medical treatment in the last two years. Or it might ask whether the proposer is a smoker or drinks alcohol. There may be a question regarding policy cancellations in the past. Any false answer may lead to cancellation of the policy and forfeiture of the premium.

It is important to point here the views of the Supreme Court in the landmark case Satwant Singh Sandhu vs. The New India Assurance Co.

“When a question is asked in the proposal form about a specific aspect, the assured (proposer) is obliged to make a true and full disclosure on the subject which is within his knowledge. However, obligations to disclose extend only to facts that are known to the applicant and not to what he ought to have known.”

Break in Policy

Financial planners must insist on timely payment of renewal premium. If a premium is not paid on time or during the grace period, a client stands to lose all benefits acquired during the period of insurance. It will be treated like a new policy. The waiting period will start all over again. Any bonus generated will be lost. As there is no surrender value, the premium paid will be a total loss.

Disputes and Awards

Let us now consider a few real-life examples based on awards by the Insurance Ombudsman. It will help us to understand why claims are rejected.

1) Day care procedures

A health policy becomes operative only when hospitalization occurs. But day care treatments are also covered by most policies. One must be careful here. In a recent ruling, the Insurance Ombudsman (Ahmedabad), upheld the insurer's decision to reject a claim for chemotherapy. In this case, chemotherapy was covered under day care procedures. But the treating doctor recommended oral chemotherapy tablets that could be taken at home. The Ombudsman noted that treatment at hospital was not necessary and the claim was untenable. (Mr. Nandkishore C. Mistry vs. National Insurance Co. Ltd.)

In another interesting case, claim for administration of an intravitreal injection at an operation room of a hospital was not held maintainable as the Ombudsman ruled that an injection is not a surgery. (Mr. Pradeep G S vs. United India Insurance Co. Ltd.)

2) Pre-existing disease

A claim was denied by the insurer citing pre-existing disease (triple vessel disease). The Ombudsman ruled that there was no documentary evidence of the complainant having or was a known case of triple vessel disease prior to the inception of the policy. Disclosure of material facts extends only to facts that are known to the applicant and not to what he ought to have known. The ruling was in favour of the insured (Mr. M.G.Ravikumar vs. Star Health Insurance)

We can consider another case where a claim was rejected due to a pre-existing disease. (Mr. Hanumanth Rajendra vs. Religare Insurance) at Bangalore.

The insured client produced a letter from the hospital stating that he does not have any pre-existing disease. The client also stated that the proposal form was filled up by the agent and he was not responsible for statements in the proposal form. The Ombudsman did not recognize the letter from the hospital as internal records showed otherwise. Regarding the proposal form that is filled out by the agent, the Ombudsman noted the proposal form was signed by the proposer. The proposer alone knew about the pre-existing ailment and could not put the blame the agent at this stage. The ruling was against the insured.

What can we discern from the above two cases?

1. The insurer will have to prove with documentary evidence that the pre-existing disease existed before inception of the policy, and that the assured knew about it.
2. The insured may not be aware that he has a disease while buying a policy; in such case, the insured is likely to get relief.
3. Letters from hospital certifying that a pre-existing disease did not exist before inception of policy may not be enough to get a favourable ruling.
4. Filling out the proposal form by the agent does not affect the case in any way. The responsibility lies with the insured.
5. If the insured was aware of the PED and did not disclose it in the proposal form, the claim will be rejected.

3) Reasonable and customary charges clause

Hidden in the fine print of the policy document is the reasonable and customary charges clause, which states that charges should be consistent with the prevailing charges in the geographical area for similar services. It may be that you have paid your surgeon Rs.50000. But the insurer allows a partial payment of Rs.30000. The insurer may contend that standard fees are Rs.30000. Or the insured may have consulted two doctors and paid fees to both. This also may be questioned by the insurer.

In one case, a claim was partially rejected by the insurer, stating that disbursement amount was in line with the PPN (preferred partner network) rates of the hospital. The insured argued that the deduction made by the insurer was not justified as he was not informed about the pricing earlier. The Ombudsman ruled in favour of the insured. The point is, it can get tough for the customer when a claim is turned down. At such times, financial planners need to go the extra mile to help the customer. (Mr. Anil Khanna vs. The National Insurance Co. Ltd.).

4) Proportionate clause

Many health plans have room sub limits. If coverage is Rs.4 lakhs and the room limit is 1%, room charges up to Rs.4000 are allowable. However, if the room cost is Rs. 6000, which is 50% higher, then all charges – not including medication - will have to be assumed proportionately by the insured. In this case, the amount was up to 50%. This causes some grief to clients; and financial planners must caution their clients in advance about this clause.

5) Sub limits

There could be other sub limits too. For instance, a claim amount may be restricted to Rs.50000 for cataract treatment. Ambulance charges could be Rs.2000 per hospitalization. The limit for Ayush (Ayurveda, Unani etc.) treatment needs to be checked if you are planning this treatment. Also double check that you are receiving Ayush treatment in an approved hospital or institute.

6) Payments only if included in hospital bill

Suppose you have paid your surgeon Rs. 45,000 by check, and this is not part of the hospital bill. Many hospitals insist that surgeon's fees should be paid separately. But your policy clause allows only Rs.20000 reimbursement if the surgeon's fees is not part of the hospital bill. The balance amount of Rs.25000 will have to be paid by you. Also, the insurer will require seeing the bill from the surgeon.

7) The medical practitioner should not be a close relative

A lady received treatment by her son, who was a practicing doctor in Ahmedabad. Her claim was rejected by the insurer on grounds of being treated by a close relative. The decision of the insurer was upheld by the Ombudsman

(Dr. Geeta H. Brahmbhatt vs. United India Insurance Co. Ltd.). The moral to this story: avoid doctors who are related to you or risk having your claim rejected.

8) Hospitalization for less than 24 hours

A person was injured in an accident and got treated as an outpatient. His claim was disallowed by the insurer as there was no hospitalization. Outpatient treatment was not covered by the policy. The decision of the insurer was endorsed by the Ombudsman. (Mr. Bharat S. Kandolia v/s Bajaj Allianz General Insurance Co. Ltd.).

9) OPD (outpatient treatment)

Generally, outpatient treatment is not covered by health insurance policies. In another real-world case, a patient was admitted for abdominal pain but the claim was denied by the insurer. The insurer contended that it was a case for OPD. The patient was managed with IV fluids, IV antibiotics, IV analgesics and other supporting measures that cannot be given on OPD basis. The claim was decided in favour of the insured.

As we can see, financial planners should study a health policy thoroughly – considering all of its nuances – before recommending it to a client

Grievance Redressal

Whenever you have an issue with the insurer, the person to approach is the Grievance Redressal Officer (GRO). The details of the GRO are provided in every policy. If your complaint does not get resolved there, you can lodge your complaint with IRDAI's IGMS. (Integrated Grievance Management System). Or you may approach the Consumer Forum, Insurance Ombudsman or the Civil Court. It is better to approach the Ombudsman as the process is quicker. And if the award goes against you, an appeal can be filed in the court. The insurer has no such luck. The Ombudsman's award is binding on the insurer.

We need health insurance. But we also need to understand health insurance. As financial planners, we are morally bound to explain all the intricacies of health insurance to our clients.

END NOTES

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Behavioural 'Money' Biases: Insights for Financial Planners

By Alok Kumar, Ph.D, CFPCM

One sunny afternoon, a friend called to inquire about COVID-19 lockdown in my area. During the chat, he revealed that he just redeemed some of his long-term equity mutual funds for fear of further erosion in his portfolio. Was he in need of quick money? No, not at all. I was actually surprised as he had a solid financial plan – one that he had been following pretty religiously for a few years. He confessed that he had not planned those redemptions, but went ahead as a few of his colleagues had done the same thing two days prior.

Take the case of my middle-aged neighbour. He had received a considerable sum of money from the settlement of ancestral property. He went ahead and parked everything in fixed deposits, believing they are the safest.

Financial Planners often come across similar situations where people have made impulsive financial decisions. In doing so, they have neither consulted their friends or peers, nor referred to scientific data or resources.

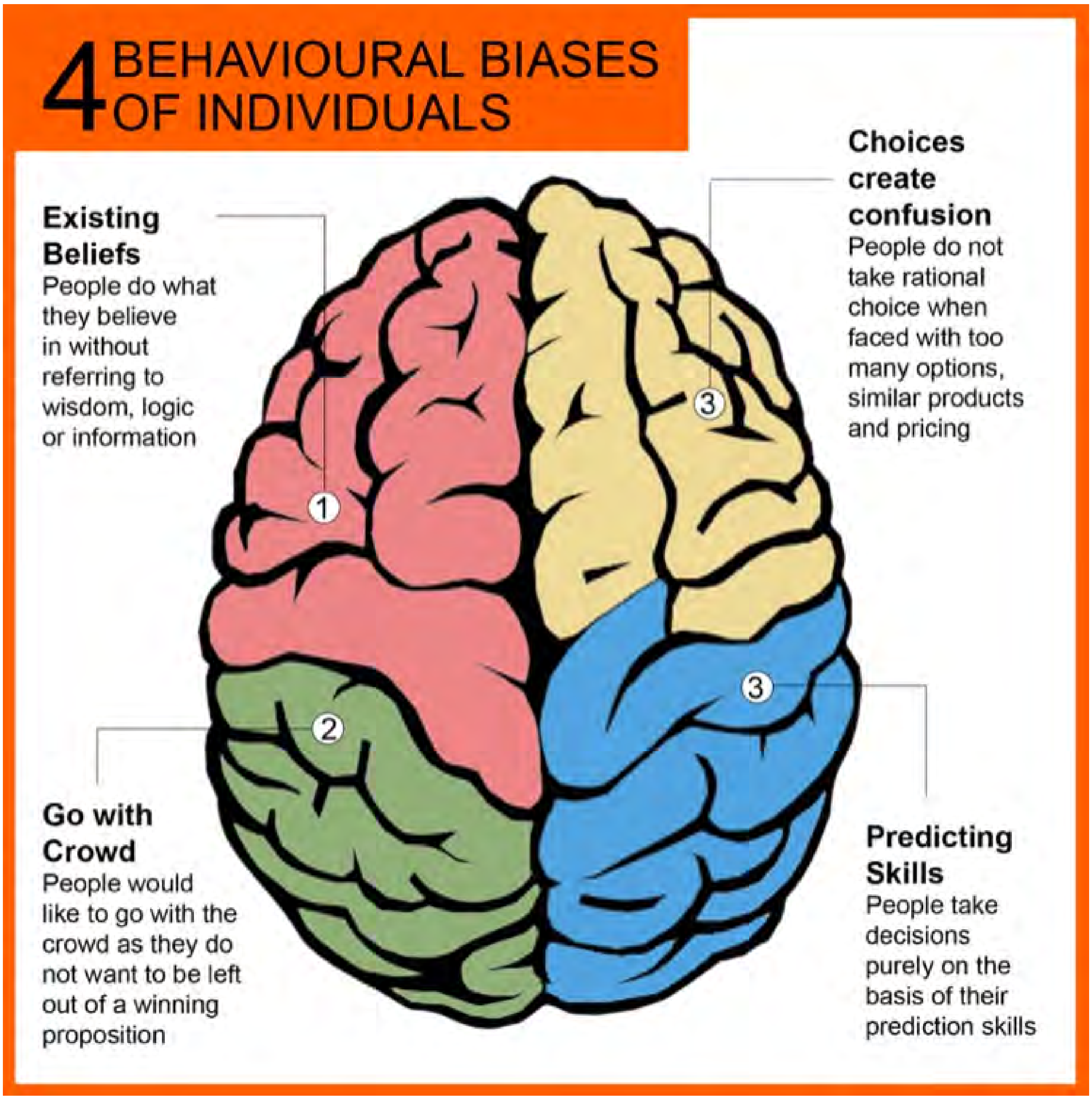
So, why do people display such erratic and knee-jerk behaviour, especially while handling their hard-earned money? What are the reasons people fall prey to their own emotions when making financial decisions? Some of the answers can be found in behavioural finance.

What Is Behavioural Finance Then?

Simply put, it is the study of investor psychology when making financial decisions. Behavioural finance focuses on people's interpretation of available information and how they subsequently apply this information to their financial decisions.

Cognitive or Behavioural Biases

A cognitive bias, commonly referred to as behavioural bias, happens whenever we make decisions that are skewed by our personal beliefs. No matter how savvy or experienced we might be, we can all act irrationally and make decisions based on our biases rather than facts.



Behavioural biases arise for a number of reasons.

Existing Beliefs

People's existing beliefs play a major role in the decisions they make. Any information that supports our belief may grab our attention immediately. My old college professor use to say, "I prefer to take all decisions on Wednesday, it being the day of Lord Ganesha!" Quite a few of us show a tendency to ignore bad news and believe in whatever we want to believe. Or many times, we use irrelevant information to support our beliefs. This leads us to make decisions without validating our thought processes with readily available resources, including friends and peers.

Go With the Crowd

Being social creatures, we humans have a tendency to look to others around us for cues. If the masses of people are visiting a store, watching a movie, or choosing a particular school for their kids, it's easy to reflexively assume these are the best options. This behaviour is especially pronounced among investors who follow the buying and selling behaviour of others. But there is a flaw in this approach – what matters to one person may not be as important for another.

Choices Create Confusion

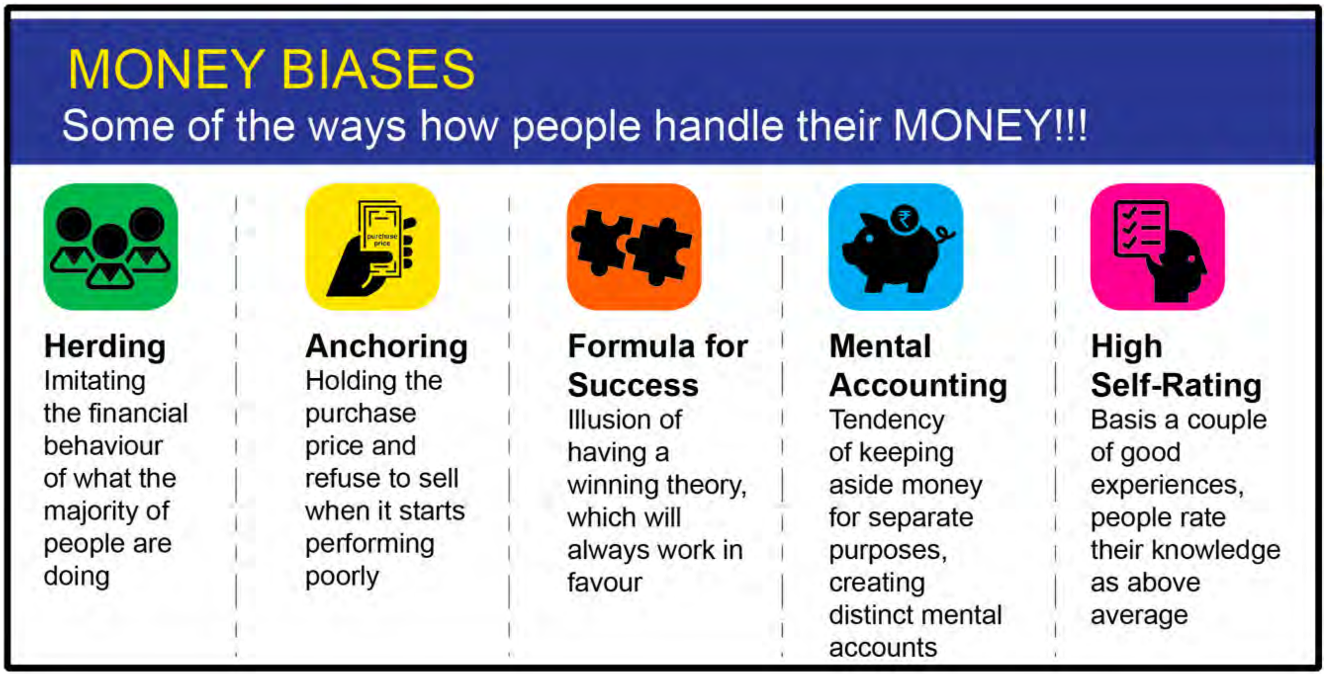
When a person has a lot choices in front of them, making a decision can feel overwhelming. What if you can only choose one, or at the most two options, from the lot? This dilemma can arise when choosing anything – from the perfect restaurant to the best financial assets for your portfolio.

Predicting Skills

Some people may be confident in their ability to predict – be it the weather, political situations, the economy or even capital markets. But we all run the risk of being overconfident in our ability to predict. Indeed, making decisions purely on the basis of one's ability to predict can quickly become a behavioural bias and lead to bad decision making.

Money Biases

We all believe ourselves to be rational consumers. But the reality is that sometimes our brains can trick us into making logical decisions that actually work against us. For instance, we might buy or sell an asset for reasons other than its intrinsic value. If we are not alert, these types of money biases can seriously hurt our finances.



Below we can further explore behavioural finance and its implication for investors.

Herding

We often love following others, as we do not want to lose a good thing. This is especially true for investors who imitate the financial behaviour of the majority. So, if everyone seems to be buying a particular stock whose price is going up, others may want to jump in too. The danger, however, is buying investments that may not be appropriate given our financial goals or risk appetite. This ‘herding’ or ‘following the crowd’ eventually leads to so-called ‘bubbles’ in a stock, sector or even the financial market itself.

Anchoring

Some investors ‘anchor’ to the purchase price of their investment and refuse to sell when it starts performing poorly. They do not assess the reasons for the stock’s price decline, instead hoping to one day break even, if not gain. Many other investors continue to compare the current price with its 52-week highs without accounting for the market changes that are contributing to the drop in price. In most of the cases, such ‘anchoring’ adds to investors’ losses, until one day the entire invested capital is lost.

Formula for Success

Another type of bias is referred to as “formula for success”. We often see this when investors develop a strategy for investing that may work on occasion; and they begin thinking this approach will work in all circumstances. This leaves the investor with an illusion of a “winning strategy” when, in fact, it is disastrous to follow the same strategy in all circumstances.

Mental Accounting

People have a tendency to keep money aside for distinct purposes, effectively creating separate “mental accounts” to be used for specific purposes. In cases such as these, money for buying groceries is treated differently than the money for paying school tuition – and the two shall never meet. Often, we come across situations where people may have cash available, but they opt instead for personal loans to meet their financial needs.

High Self-Rating

When it comes to stock picking, a few good bets can lead us to believe we are good at making investment decisions. After a few good investment experiences, many of us might rate our investment knowledge as above average. This leads to higher self-confidence when making investment decisions. However, when the same investments perform poorly, we do not introspect. Instead, we blame the market, economy or just bad luck.

Behavioural finance tries to understand how people forget fundamentals and make investment decisions based on biases and emotions. Such biases and emotions can explain stock market anomalies such as the sudden rise or fall in stock prices.

Behavioural Biasness and Financial Planning

For many financial planners, building a great relationship with clients is as important as delivering investment performance. For this, they are learning about behavioural finance as a subject that can provide them with the tools to help understand how clients actually think and behave, and then guide them in an appropriate way.

Recommended Habits for Investors

Here are some habits that financial planners suggest to clients to help them become better investors.

Stay Away From Illusions

All financial markets are uncertain and no one, no matter how knowledgeable, has control over everything. Clients need to be aware of these two facts and not be under any false illusion about their own skills. It is always advisable to learn and explore the financial markets and make investing a scientific approach.

No Emotions

Clients need to put aside their emotions and beliefs while making investment decisions. Emotions are a big hurdle to any rational decision-making process. As such, investment decisions should be based on parameters like risk appetite, investment horizon and financial goals.

Do Your Own Research

When clients plan to invest in any asset class or a stock, they should first gather information, do some own research and discuss the outcomes with their planner, friends or peers before investing. This would result in a more rational decision-making process – one that is free of haste and rich in knowledge.

Trim the Options

Have you ever wondered why it is difficult to buy something when you are confronted with lots of choices? Too many options create confusion and self-doubt. Clients should narrow down their investment options based on research, their goals and time horizon to make investment decisions easier.

Be Ready for Losses

Along with the gains, clients should be ready to accept the losses also. This shows that they are following a rational approach and are prepared for the good outcomes as well as the bad.

Way Forward

In short, behavioural finance proposes that biases cloud decision-making. The good news is that there are strategies within behavioural finance that help address such irrational human behaviour. Understanding the types of biases can help us avoid falling victim to them.

For financial planners, adopting these concepts and principles of behavioural finance can help them acquire and retain clients. They need to continue working with clients in overcoming some of their biases so as to develop a more practical and rational approach. The key to success for each one of us is to make better decisions that are free from biases and emotions.

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Our Shared Wisdom

Firms Helping CFP Professionals Respond to COVID-19

Maslow's Theory of 'Hierarchy of Needs' and the Financial Planning Pyramid

Wise Way to Handle Panicky Clients and Get Referrals

Firms Are Helping Their CFP® Professionals Respond to COVID-19

CFP BOARD

In early April, financial planning leaders across the country gathered virtually to discuss how they have been coping with the impact of COVID-19. The meeting, the latest gathering of CFP Board's **Financial Advice Working Group (FAWG)**, brought together leaders from top financial services firms across multiple business models to discuss how their firms and teams are adapting and what the implications have been for the financial advice industry.

"Firms recognize that they have an obligation to their advisors working on the frontlines to ensure they have the resources they need," says Joseph Maugeri, CFP®, CFP Board's Managing Director of Corporate Relations. "At this FAWG meeting, we explored how to maintain the face-to-face nature of financial advice virtually and how it's necessary to shape client conversations because of the pandemic."

The Shift to Virtual Financial Planning

The widespread implementation of work from home policies has ushered in a new era of remote financial planning, a common practice for many individual advisors but something larger firms are adopting en masse.

According to the participants of the FAWG, their top challenge has been overcoming technology issues related to the setup of remote work.

One firm recently launched a webcast series to help their advisors adjust to working remotely. The series focused on communicating with empathy when teaching how to use technology vs. focusing on the tech itself.

This shift to virtual has also led many firms to place an increased emphasis on client communications and making sure the clients are as comfortable as possible when using technology.

According to a representative for one firm, the biggest challenge moving forward will be to maintain the face-to-face financial planning “business model.” As of now, they haven’t seen any issues in terms of losing that element, but it’s something the whole industry will be managing as it moves through this together.

How to Shape Client Conversations in the Era of COVID-19

Understandably, clients are stressed about the implications of the pandemic on their personal finances. FAWG participants have found that the most effective tool to manage stress is financial planning.

But how do you get clients to respond positively to that information? It starts with reframing client conversations to be less about coronavirus.

Many participants in the FAWG said their firms are encouraging their advisors to focus on solutions and start the conversation with ‘how are you doing’ and ‘has anything changed financially’ rather than leading off with anything related to COVID-19.

This gives the advisor an opportunity to go back to the foundations of financial planning and really lean into goal changing discussions.

When clients reach out, FAWG participants emphasized that it’s important for advisors to take the “I’m never too busy for you” approach, which demonstrates a sense of calm and focuses the conversation on the client.

This is important, the firms argue, because it provides an opportunity for client and advisor to start thinking about the value of advice and why the financial planning relationship is so important. This first step is to reframe the advisor conversation – checking in with clients and leaving the interaction open ended rather than agenda driven.

There's also a tendency, according to CFP Board's Maugeri, for CFP® professionals to convey a lot of information to clients during times of stress. "In times of stress, it can be more productive to act as a listener first and a financial planner second."

The Crucial Role of Technology in the Future of Financial Planning

In some ways, the pandemic affirms the takeaways of CFP Board's 2018 Digital Advice Working Group when it explored the future of financial advice, concluding that technology will play a crucial role in enhancing the services provided by financial advisors without supplanting them.

Although it gained prominence through unforeseen circumstances, virtual meeting technology has made it possible for financial advisors to continue counseling their clients in this time of remote work. Change has arrived for the financial advice industry, and it will be interesting to see the long-term ramifications this shift will have once the immediate crisis subsides.

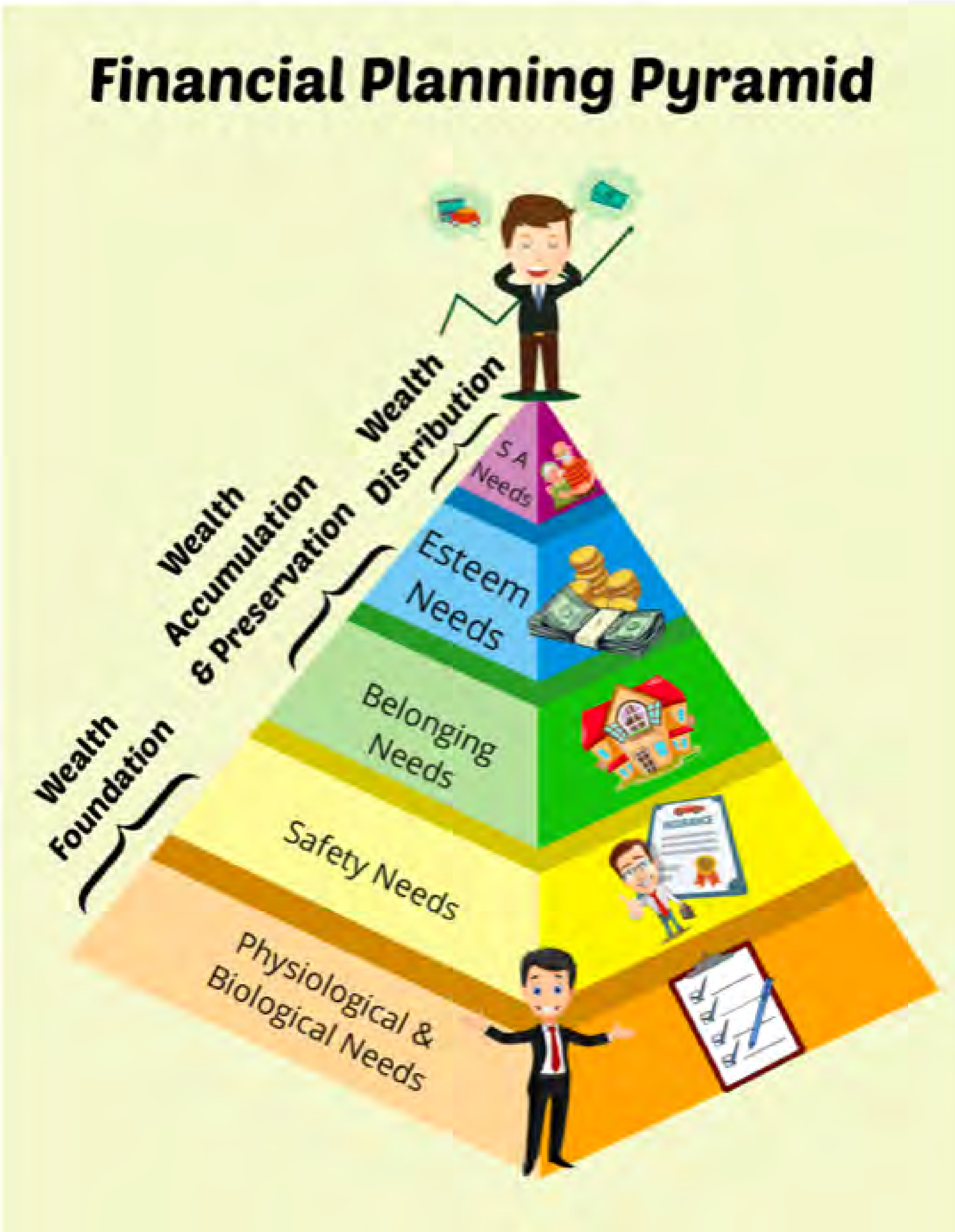
Maslow's Theory of 'Hierarchy of Needs' and the Financial Planning Pyramid

By Jinal Mehta, CFP[CM]

Interacting with new clients can be a challenge. Getting them on board requires a lot of hard work and effort. Perhaps they are looking for solutions to help save for a house, a car, retirement or any number of other financial goals. But we have to ask ourselves an important question: How do we gain their confidence? The answer lies in our ability to understand their motivations for financial freedom and to help them make their dreams a reality.

One well-known theory of motivation is **Maslow's 'Hierarchy of Needs'**. In 1943, Abraham Maslow published his hypothesis in a paper entitled, *A theory of Motivation,* and later expanded his thinking by citing observations of human behaviour in his 1954 book *Motivation and Personality*.

The theory suggests that people are motivated to fulfil their basic needs first, and then move onto their more advanced needs. The hierarchy of this framework is divided into five levels, forming a pyramid. The most fundamental needs are at the bottom of the pyramid, with each additional level of needs becoming progressively more advanced.



The underlying concept of Maslow's *Hierarchy of Needs* pyramid helps us build our own *Financial Planning Pyramids*. Here, we address clients' need at each level, and then advance towards their higher goals. As we move to satisfy each level of needs, hopefully we will witness a corresponding increase in clients' levels of trust.

Sample Client Journey

To explore this concept of a *Financial Planning Pyramid* further, let's lead a sample client - Client X - through his or her financial journey.

At the base of Maslow's pyramid are the **Biological and Physiological Needs**. This includes necessities such as food, clothing, shelter and sleep. These needs are satisfied when a person actually starts earning. They are confident of taking care of their family's needs. For any financial plan to be successful, every individual would need a steady source of income. So at this stage, Client X should create monthly budget sheets, determine which expenses can be curbed or how to increase savings. Ideally, this is the stage where Client X creates a financial plan. They can begin thinking about other necessities such as creating an emergency fund, considering their options for saving and exploring investment vehicles.

Safety Needs

Once these basic needs are relatively satisfied, we can begin focusing on the client's **Safety Needs**. Here, clients require protection and financial security. They want to take measures for protecting their family in case of any unexpected life event such as sudden death, loss of a job or any number of uncertainties. This is where we might encourage clients to purchase insurance. You can also suggest they purchase assets such as a house, a vehicle or financial products, in accordance with their needs and available cash. This will help improve the client's confidence in their planner.

Belonging Needs

Advancing to the next stage of the pyramid, Client X is considering how to satisfy those **Belonging Needs**. This is the stage where a client might begin planning for his or her family's future needs, such as children's education, marriage or retirement. You will likely notice how human needs arrange themselves in the hierarchies of pre-potency. Hence, the appearance of one need usually rests on the prior satisfaction of another, more pre-potent need. Being a financial planner, we have to help Client X to navigate his or her financial goals and investments. Suggest they consider paying some liabilities, investing more or reallocating their investments to achieve their desired goals.

Self-Esteem Needs

Moving further up the financial planning pyramid, we can reasonably assume that Client X has now accumulated a certain degree of wealth. He or she has minimal financial responsibilities, thereby allowing themselves to advance to the next level within the hierarchy – namely **Self-Esteem Needs**. At this stage, Client X is either approaching retirement or is already retired, with most of their financial goals having been realized. Maslow noted two versions of esteem needs: a lower version (which may include the need for respect from others, status, recognition, fame, prestige and attention); and a higher version (which may include the need for self-respect, strength, competence, mastery, self-confidence, freedom and independence). He writes in *Motivation and Personality* that "hierarchies are interrelated rather than sharply separated." This means that esteem and the subsequent levels are not strictly separated. Instead, the levels are closely related. At this Level, for example, Client X may want to safeguard their financial freedom by reducing or eliminating their liabilities. Client X may also want to start a small venture or travel. The planner can assist them by suggesting separate retirement products or revise the financial plan in such a way that will help them achieve their post-retirement goals.

Self-Actualization

As we progress to the next level of the pyramid, we can say that Client X is now on the path to **Self-Actualization**. They want to give back to their family, society or country. This may involve bequeathing their assets either now or after death in order to leave a legacy for their family and society. They may also consider being a mentor, choosing a path to nirvana or providing service to their broader community. It is here, at this last leg, where planners should help clients make a will if one does not exist, or creating trusts, succession deeds or gift deeds.

Bear in mind, your clients might be at any of these levels when you first interact with them. It is important for us to understand their motivations, and then help them advance to the next level. In other words, your approach may depend on your client's level of needs.

As we step back and look at the financial pyramid, we can see that the bottom two levels are the "**wealth foundation"** stages; the third and fourth level are the **"wealth accumulation" and "wealth preservation"** stages; and the top of the pyramid represents the **"wealth distribution"** stage.

Understanding these concepts and their relationship to Maslow's *Hierarchy of Needs* not only helps financial planners understand the motivations behind their clients' behaviour, but also helps with client retention. Since all human needs are interrelated, applying this theory to your client interactions could lead to meaningful results in many situations.

Jinal is a CERTIFIED FINANCIAL PLANNER^{CM} professional and founder of 'Beyond Learning Finance', a financial planning education establishment that provides customized learning resources to students. She can be reached at beyondlearningteam@gmail.com.

The Wise Way to Handle Panicky Clients and Get Referrals, Too

By Amar Pandit, CFA, CFP^{CM}

Ajay, a retiree in his late 60s, was speaking with his financial advisor Rahul. (The story is real, but the names have been changed.) Ajay was advised by his financial advisor to expect very sharp corrections in the market, the type of which they had seen before. Ajay was normally very calm and composed. But this time was different. He was extremely worried about his portfolio, not to mention the well-being of his family and friends. He was even considering moving everything into cash.

This type of scenario is fairly common. Sometimes clients want to stop SIPs or sell off their investments because of the perceived safety of cash.

Meanwhile, Rahul also received a call from Atul – a client who never wanted to invest and usually kept his money in deposit accounts. But Atul was ready to invest in the market. When Rahul asked why he wanted to invest now, Atul replied, "The Banks are no longer safe, and I want to diversify my investments through mutual funds."

So, what's really happening in both these cases?

Ajay and Atul are worried, and as a consequence, their amygdala (the centre for emotions, and emotional behaviour in our brains) is super active. Their amygdala is telling them to run to safety.

According to Daniel Kahneman, author of *Thinking, Fast and Slow,* this type of behaviour can be attributed to two systems of thinking.

System 1 is the first responder and operates reflexively without thought. For example, if you see a tiger approaching, most of us would flee without giving it a second thought. This reflexive system acts on feelings. System 2 is our thinking brain, also known as the deliberate or thoughtful one. This is where we think about the future, plan and exercise self–control. However, when clients come to you, often times System 1 is at work.

In these circumstances, your job is to help clients move from System 1 to System 2. Unless your clients are in a position to consciously reflect on their decisions, you may find yourself wasting time with data, analysis or trying to prove how intelligent you are. Whether you realize it or not, these are times when your clients are really looking for you to play a leadership role in their lives and help them make the right decision in turbulent times.

In these circumstances, the first thing you should do is to acknowledge their thoughts so they feel heard, and then empathize with them by actively and genuinely listening to their concerns.

Consider some of the following questions as a starting point:

- What are they really trying to say?
- What is actually bothering them?
- Are they concerned about any impact on their lifestyle or monthly cash flow?
- Are they worried about the market decline? Is this causing sleepless nights?
- Are there any other things that they would like to talk about?

In Ajay's case, one of his friends was bragging about how smart he was to sell his investments, how the world was doomed and why Ajay also needed to sell.

Rahul understood his concern and calmly reassured Ajay. He showed Ajay that no matter what happens, he will continue receiving a steady income for the next four years regardless of the market levels. The conversation continued with Rahul explaining that the client's proactive rebalancing strategy would help him exit his fixed income investments (i.e., sell high) and take a staggered approach to investing in equities (i.e., buy low). Rahul further demonstrated that Ajay would be able to pass along a substantial amount to his children and grandchildren even if the markets were to drop by another 20%.

Once Rahul was confident that Ajay's System 2 was in control, he went on to explain how global markets have responded to dips in the past, and why moving out of equities would complicate his investment goals.

By this point, Ajay was calm, composed and prepared to invest even more into equities. Ajay also offered to introduce Rahul to some of his friends who were in need of investment advice.

These types of scenarios remind us that our real value is not always apparent in bull markets, but in tough times like these. Advising people on how to invest their money is not easy. It can be especially stressful when you feel responsible for your clients' investments and financial futures. India needs more solid investment professionals like you who are prepared to assume leadership role in the lives of their clients.

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and www.happyrichadvisor.com (for advisors)

FINANCIAL PLANNING STANDARDS BOARD

Continuing Professional Development (CPD)

Welcome to the CPD quiz! This quiz is 10 questions long, and you need to answer 7 out of 10 correctly in order to earn 5 CPD points. Your quiz results will be provided after you complete all the questions.

After you receive your score, you will be able to review the quiz to see the individual answers for each question. You will be able to take the quiz up to two times.

Good luck!

Behavioural ‘Money’ Biases: Insights for Financial Planners

1. Behavioural bias towards money leads one into buying or selling assets for reasons other than their intrinsic value. ‘Herding,’ one such money bias, is best summarized by the author as ____.

   a. Imitating the financial behaviour of what the majority of people are doing
   b. Holding the purchase price and refusing to sell when it starts performing poorly
   c. Illusion of having a winning theory, which will always work in favour
   d. Rating self-knowledge to be above average

Maslow’s Theory of ‘Hierarchy of Needs’ and the Financial Planning Pyramid

2. In the view of the author, clients approaching retirement, having majority of their financial goals realized, are now advancing to the next level of the Financial Planning Pyramid, which is _____.

   a. Safety Needs
   b. Belonging Needs
   c. Self-Esteem Needs
   d. Self-Actualization Needs

Corona Classes: Financial Lessons for the Future

3. The author believes that the corona crisis should serve as a reminder to financial planners of their responsibility towards their clients. Accordingly, financial planners should design client portfolios based on _____ of their clients.

   a. Investible corpus
   b. Risk tolerance
   c. The family size
   d. The available emergency fund

Increasing Financial Literacy: Ways to Engage the Masses

4. The author suggests that financial planners should utilize the opportunity presented by COVID and come online to connect with people and clients. While establishing such connections, the core purpose of the planner should be to ______.

a. Address complaints swiftly
b. Understand financial goals
c. Explain the complex product features
d. Increase financial literacy and awareness

Health Insurance Claims

5. A large majority of health insurance policies in India are ________.

a. Benefit policies, where a lump sum is paid regardless of expense incurred.
b. Indemnity plans, where actual costs incurred are paid subject to the limit of the sum insured.
c. Policies with tax-free returns.
d. Policies with investible surplus invested in capital markets.

Does Gold Have a Place in Your Clients' Financial Portfolios?

6. Apart from physical gold and gold stocks, the author suggests that Gold ETF is also a good option for investment in this asset class. Which one of the following is not a correct feature of gold ETFs?

a. Low cost
b. Easy to trade
c. High liquidity
d. Can be redeemed as gold itself

What Are Cryptocurrencies and Why Does It Matter?

7. The author believes that there are many inefficiencies in the current digital online payment models. According to him, which of the following benefits can be brought about by the use of Cryptocurrencies while making payments?

a. Payments can be performed effectively
b. Payments can be done near instantaneously
c. Payments can be done at a fraction of the current costs
d. All of the above

Financial Planners’ Duty to Vulnerable Clients

8. Since an aging population translates into a higher number of vulnerable investors, the author opines that such vulnerable clients can be best protected if financial industry practitioners ________.

a. Adopt a client first/best interest approach
b. Offer them retirement planning products like annuities
c. Follow the six-step financial planning process diligently
d. Construct a debt-oriented portfolio

Financial Planning Across the Wealth Spectrum

9. Financial planners of Ultra High Net Worth (UHNW) individuals face complex challenges, as such individuals often have financial requirements that are ________.

a. Multi-generational
b. Cross-border
c. Both of the above

5 Trends Driving Change for the Financial Planning Profession

10. Globally, regulation is one of the many external factors driving change in the delivery of financial advice by planners. The mandate of more and more regulators around the world now is ________.

a. Financial products and their pricing
b. Planner building in-house solutions
c. Consumer protection
d. Technical competency of planner

End of Quiz

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