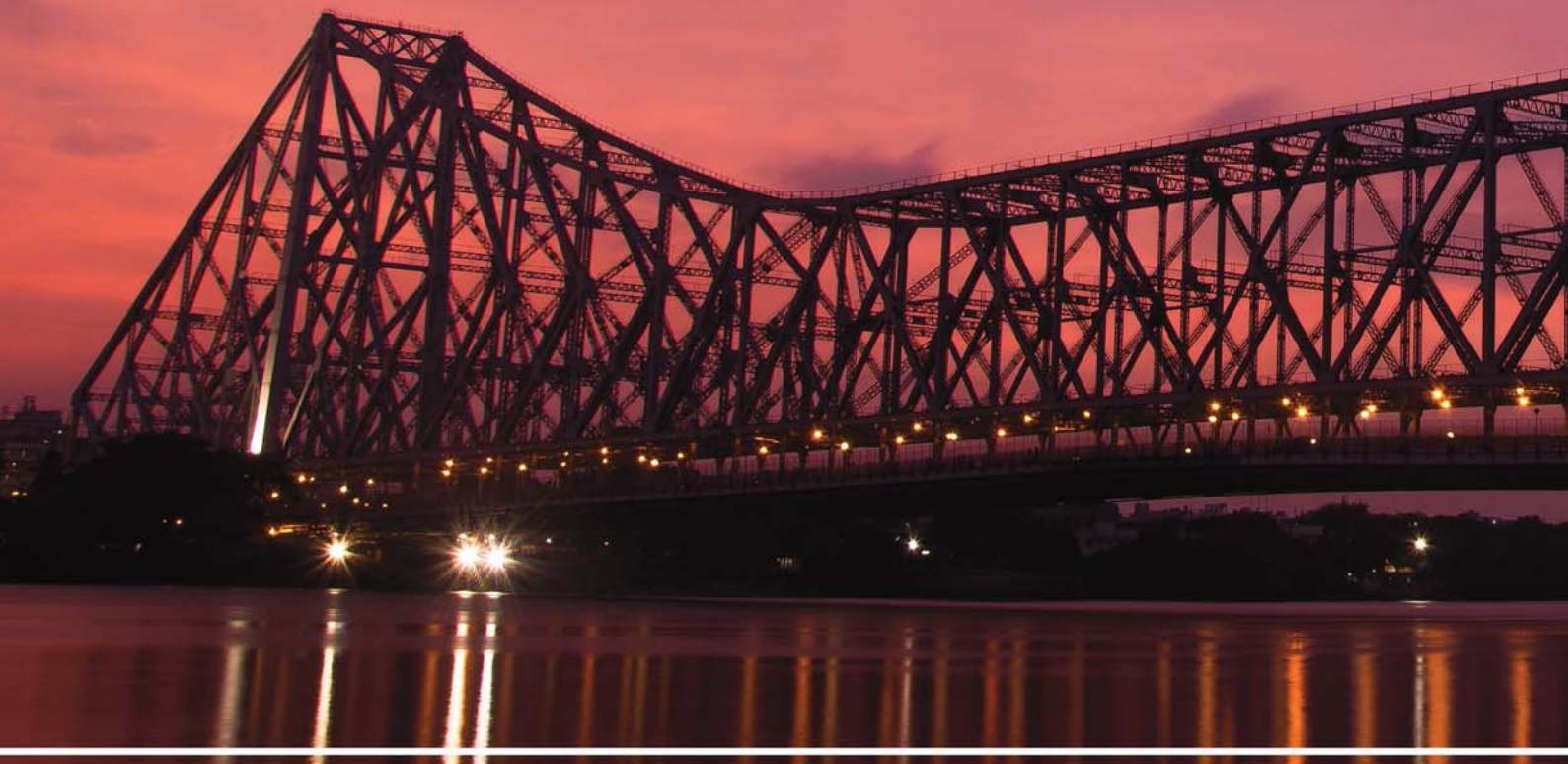




JOURNAL of Financial Planning IN INDIA

SEPTEMBER 2024



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CPD Quiz: Pass the CPD Quiz and Earn 4 CPD points

Editor of the Journal of Financial Planning in India: Alok Kumar, CFP



Editor's Note

This August saw India celebrating its 78th Independence Day with full fervour. From the ramparts of the majestic Red Fort, our Hon'ble Prime Minister emphasized multiple priority items on the agenda of the Indian Government and the steps being taken to fulfil the broader vision of Viksit Bharat 2047.

With the government's push towards financial inclusion and the introduction of various schemes and digital platforms, being financially literate will ensure that individuals can fully benefit from these opportunities and safeguard their financial future.

As more and more of us understand and engage with banking services, investment opportunities, and insurance products, the overall financial inclusion and stability of the economy will improve. This engagement will also foster a culture of entrepreneurship and innovation, as individuals who are financially savvy are better positioned to start and sustain businesses.

On a macroeconomic level, a financially literate population will drive economic growth through increased consumer spending, responsible borrowing, and investment in various sectors. It will also reduce the burden on social welfare systems by promoting self-reliance and financial planning.

As many of you would have experienced in your respective areas of work, financial planning is important

for both the wealthy and the common man. For those with substantial assets, financial planning focuses on wealth management, tax optimization, estate planning, and preserving wealth across generations. For the average person it involves budgeting, saving, debt management, and retirement planning.

In essence, as India continues to evolve economically, the ability to understand and navigate financial landscapes is becoming a fundamental skill for personal and societal well-being.

The articles included in this edition aim to provide content that is not only informative but also accessible and actionable, and we hope you will find value in the pages of this Journal. We also hope it will help you in your conversations with the clients as you educate and guide them in meeting their financial goals.

We invite you to engage with our articles, share your feedback, and continue the conversation surrounding personal finance.

Your thoughts and suggestions are welcome at akumar@fpsb.in

Best Regards!



CEO's Note Krishan Mishra

Dear CFP® Professionals,

As we enter the final quarter of 2024, it's the perfect time to reflect on our shared journey and the incredible strides we've made together at FPSB India. This year has been filled with growth, fresh partnerships, and exciting milestones that set the stage for even more remarkable achievements in the future.

In August, we forged new partnerships that align with our mission to elevate financial planning standards across India. These collaborations, though small in their beginnings, hold tremendous potential for meaningful change. I can't wait to share the innovative initiatives that will soon take shape from these alliances.

With September comes a renewed sense of opportunity. I'm excited to present the latest issue of the Journal of Financial Planning in India. This September 2024 edition shines a light on the vital role we are playing in shaping the financial planning landscape and reaffirms our unwavering commitment to excellence within our growing community.

FPSB India successfully organized the India Financial Planning Conclave 2024, on October 4, 2024, at GIFT City in collaboration with IFSCA. GIFT City IFSC is a rapidly emerging hub for global financial services. The Conclave also served as a platform to honor our newest CFP® certificants, celebrating their achievements and setting them up for success in the dynamic world of financial planning. During the same event, winners of the FPSB

India Awards 2024, were recognize for their exceptional contributions to our community in various profiles. These first ever Awards from FPSB India reflect the passion, innovation, and collaboration that make our CFP® professionals and the FPSB India team truly extraordinary.

A detailed coverage on the Conclave shall be featured in the December 2024 edition of our Journal.

Moreover, we have reignited the Homecoming Campaign, inviting CFP® professionals who haven't renewed their certification in over five years to rejoin our community. This is a heartfelt invitation to welcome them back and reignite their connection with the financial planning profession.

On a personal note, August marked one year since I took on the role of CEO at FPSB India. It has been a deeply rewarding journey, and I feel privileged to lead such a dedicated and talented organization. I am constantly inspired by the commitment and passion each of you brings to our shared mission.

As we push ahead, let's embrace the opportunities that await us and work together to close out 2024 on a high note. I am excited about what's to come and honored to lead this incredible community of professionals.

Warm regards,
Krishan Mishra
Chief Executive Officer, FPSB India



About *The* Journal

FPSB INDIA

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

Journal of Financial Planning in India is published by Financial Planning Standards Board India (FPSB India). The opinions, beliefs and viewpoints expressed by the various authors in this Journal do not necessarily reflect the opinions, beliefs and viewpoints of FPSB India, its employees or its affiliated organizations. The information provided in the Journal is for informational purposes. It should not be considered legal or financial advice. You assume the sole responsibility of evaluating the merits and risks associated with the use of any information or other Journal content and should consult with an independent professional to determine what may be best for your situation.

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Call *For* Articles

Writing Guidelines for Contributions

- **Articles:** We welcome previously written work and ideas that pertain to one of the areas of financial planning: tax planning, debt management, cash flow management, ethics and legal and regulatory environment, education planning, retirement planning, investment planning, insurance planning, and estate planning. The articles should be of about 1200-1500 words in length, including all photos and graphics. Articles must be written in English and be relevant to Indian CFP professionals and/or the global CFP community.
- **Audience:** You are writing for people like you – other CFP professionals! Please provide timely and accurate information that has practical implications.
- **Style:** The Journal of Financial Planning in India is focused on providing and promoting easy-to comprehend, professional written work. A contributor's thoughts, comments, ideas, and graphics should be easy to understand and structured for flow.

Elements to be included for submission:

- Publication date - Dec 2024.
Article submission date: 15 Nov 2024.
- Publication date - Mar 2025.
Article submission date: 15 Feb 2025.
- Send to: certifications@fpsb.in
- Format: When submitting an article, please include author name(s), email address, phone number, author(s) picture, and a brief profile of the author(s).
- Executive Summary: The executive summary is not a sales pitch for the article, but instead, a summary telling the reader what to expect, the purpose, the topic, the why, and the important practitioner implications. Executive summaries should be no more than 250 words.
- Graphics: No more than 5 photos and graphics per article.
- Endnotes/References: Please be sure to use APA formatting for references and endnotes.

* Authors of published articles will get 4 CPD POINTS*

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I agree to execute any documents that may be required to affect the agreements contained herein and to indemnify FPSB India for any claims, demands, or causes of action related to the licenses I have granted, and all matters waived or released herein.



Homecoming Campaign - an Exclusive One-time offer

The financial planning movement in India is more than two decades old. During this time, many people have fulfilled the requirements of Education, experience, examinations and ethics and attained the prestigious CFP certification. While many such certificants have active certification, there are some candidates whose certification has expired for more than 5 years.

While FPSB India regularly reaches out to those whose certification has expired within the last 5 years, we now offer this one-time opportunity through the home coming campaign to the candidates whose certification has expired for a period beyond 5 years.

Objective: The objective of the campaign is to bring back into the fold past CFP certificants who have not renewed their certification for more than 5 years and thus are not eligible for direct renewal.

Applicability: The Homecoming campaign is a one-time offer which started on August 1, 2024, and is valid until December 31, 2024. The candidates will get the option to submit the financial plan in the coming two cycles.

Eligibility: Only the candidates who have been CFP Certificants in the past and whose certification has expired for more than 5 years can apply in this campaign. Candidates who had cleared all the examinations but had not taken the certification are not eligible to apply under this scheme.

Study Material: Purchasing study material from FPSB India is not mandatory under this campaign, though candidates will have an option to purchase the study material by paying the requisite fee.

Mentorship: - **Two** sessions of mentorship will be provided by FPSB India, free of charge. This mentorship shall be mandatory for the candidates registering under the homecoming campaign.

Already Registered Candidates: Candidates who are already registered in fast-track mode can continue to complete all the requisite requirements for certification.

Process:

Step 1. The candidate must register with FPSB India – Registration Fee INR 18000 (Valid for the next 2 cycles of FPA submission)

Step 2: Complete FPSB® Global Ethics course

Step 3- Register for Financial Plan Assessment and Submit the financial plan in the applicable cycle - INR 10500

After clearing the Financial Plan Assessment, the candidate shall -

- a. Disclose any Disciplinary, Criminal or Civil Proceedings that occurred since their last renewal, consistent with local laws.
- b. Re-attest to adherence to FPSB's Global Financial Planning Standards (Financial Planner Code of Ethics and Professional Responsibility and Financial Planning Practice Standards); and Rules of Conduct.
- c. Re-attest to adherence to the rules for correct use of the CFP marks and demonstrate that they ceased use of the marks when no longer certified
- d. Complete a new application for certification, document completion of all current certification requirements, including work experience.

FPSB India is excited to introduce this special, one-time offer to help you regain your certification and continue your professional journey as a CFP professional. This is a unique opportunity to update your credentials and stay ahead in your field, enhance your career prospects and professional credibility.

The offer is valid until December 31, 2024, so don't miss out!

If you have any questions or need assistance, please feel free to contact our team at support@fpsb.in.

We look forward to welcoming you back!



EVENT REPORT

5th July, 2024

BOOTCAMP

for Financial Planning Professionals

SETTING UP YOUR FINANCIAL PLANNING PRACTICE



पुंजी बाजार एवं जोखिम प्रबंध केंद्र
CENTRE FOR CAPITAL MARKETS
& RISK MANAGEMENT

FPB INDIA



Inviting CFP® Professionals and Students to a

BOOTCAMP

For Setting Up Your Own
Financial Planning Practice!



Auditorium, IIM Bangalore



Friday July 5th, 2024



09:00 AM to 06:00 PM

Objective of the event

The boot camp event was exclusively designed for the CERTIFIED FINANCIAL PLANNER® professionals and students pursuing the CFP® certification program. The event had some of the most eminent professionals and industry experts who would share their rich experiences through technical sessions and panel discussions and provide the audience with a platform to engage in insightful discussions, making the event a unique learning opportunity for all the participants.

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- Blueprint for the future
- Inaugural Speech
- Keynote Speech
- Welcome Speech
- Technical Session 1

Part 1 - Entrepreneurship

Part 2 - Strategy

- Panel Discussion 1

From Prospects to Clients: Your First 25 Clients and Beyond

- Technical Session 2

Part 1 - Investor Psychology

Part 2 - Marketing / Sustainability

- Panel Discussion 2

From Vision to Reality: Strategies for Establishing a Successful Financial Planning Practice

- Technical Session 3

AI and the Future of Banking

- Panel Discussion 3

Risk Management and Contingency Planning for Your Business

- Closing Speech

The Financial Planning Standards Board India (FPSB India), the Indian subsidiary of Financial Planning Standards Board Ltd. (FPSB Ltd.) in conjunction with the Indian Institute of Management Bangalore (IIM-Bangalore) and Centre For Capital Markets & Risk Management (CCMRM) organized a boot camp for financial planning professionals.

The boot camp focussed on supporting and mentoring financial planning professionals, enabling them to run their practice. The event highlighted the need for strategic planning, risk, and contingency planning to build one's practice.



About the Event

Blueprint For The Future

Krishan Mishra
CEO, FPSB India



Krishan Mishra outlined a strategic blueprint for the future of the financial sector. He emphasized the importance of sustainable finance, highlighting the need for practices that support long-term economic stability and environmental responsibility. He also discussed the critical role of networking skills in the financial industry, encouraging professionals to build relationships and share knowledge.

The boot camp focussed on authorizing, supporting, and mentoring financial planning firms, enabling CFP® professionals to run their own practice. Also helping them upskill their employees, and enter this program without any extra fee. He expressed optimism about the future, stating that these combined efforts will enhance professional standards, promote financial literacy, and create a more resilient and connected financial community.

Inaugural Speech

Prof. Rishikesh T Krishnan
Director IIM Bangalore

- He announced that the institution has achieved a notable 32nd rank in the QS World University Rankings and highlighted the significant changes and advancements that have been implemented at IIMB, contributing to its enhanced global recognition.
- He mentioned that FPSB India is taking significant steps in the field of financial planning, particularly within the finance sector. They have successfully collaborated with the National Stock Exchange to raise awareness about the importance of financial planning across the country. The efforts and initiatives undertaken by FPSB India have been well-received and extended his gratitude to everyone for their continued support in promoting financial literacy and planning.



Welcome Speech

Prof. M Jayadev
Chairperson, CCMRM- IIMB

- He mentioned that it was good to be part of a team of enthusiastic professionals and congratulated FPSB India for organizing a BootCamp for financial professionals. He also discussed that FPSB India has created numerous student opportunities, including scholarships for those pursuing the course. He also spoke about how retirement and financial planning are crucial, especially in a vibrant market where savings must be effectively utilized.
- Collaborations with IIMB, CCMRM, and FPSB India will help reach more people seeking financial planning guidance. It's vital to spread awareness about financial planning. The CFP® certification program by FPSB India and local chapters can scale this project to assist more citizens nationwide, leveraging technology for greater reach and impact.





Keynote Speech

Prof. Jacob Joshy
Faculty, IIM Ahmedabad

- Jacob Joshy discussed his recent paper examining the performance of multi-factor funds in India. He provided a detailed analysis of how these funds have performed in the Indian market, highlighting key insights and findings from his research. He also presented the data and insights from his paper, and illustrated the strategic advantages of multi-factor funds in achieving long-term financial objectives.
- He concluded by encouraging investors to consider incorporating multi-factor funds into their investment strategies to better navigate the complexities of the Indian market.

Technical Round 1 Part 1 - Entrepreneurship

Deepak Jain
Co-Founder, FinAtoZ

- The Technical Round was led by Deepak Jain, co-founder of FinAtoZ, where we explored the dynamic world of finance entrepreneurship alongside a diverse panel of industry experts. The discussion highlighted that fostering meaningful connections not only opens doors to collaboration and investment opportunities but also provides essential mentorship and support.
- He described networking as a noble endeavour, connecting people and ideas to foster innovation and resilience in the entrepreneurial community. The session concluded with a resounding call to prioritise relationship-building as a strategic imperative for entrepreneurial success in today's competitive business environment.



Technical Round 1 Part 2 - Strategy

Karan Batra Chief Operating Officer, Fisdom

- The discussion, led by Mr. Karan Batra, COO of Fisdom, offering valuable strategic insights on financial planning and entrepreneurship. He emphasised the importance of pairing a good product with excellent distribution, passionately asserting that "a good product with great distribution will nearly always win against a great product with mediocre distribution."
- He shared practical advice, illustrating that in the real world, this means focusing not only on developing top-quality products but also on creating efficient distribution channels to reach a wider audience. He concluded by discussing how businesses can ensure their products gain the necessary visibility and accessibility to succeed in competitive markets.



Panel Discussion 1

From Prospects to Clients: Your First 25 Clients and Beyond

Moderator - Mr. Karthik CS, Co-founder, Knowise Learning Academy

Panelists ;

- 1 - **Dilshad Billimoria**, Founder, MD & Chief Financial Planner at Dilzer Consultants Pvt Ltd
- 2 - **B Srinivasan**, Director & Financial Planner, Shree Sidvin Financial Services & Investments Pvt. Ltd.
- 3 - **Yuva Raja**, Managing Director, Boho Finserv Pvt. Ltd.
- 4 - **Arun Thukral**, Professor of Practice, KJ Somaiya Institute of Management

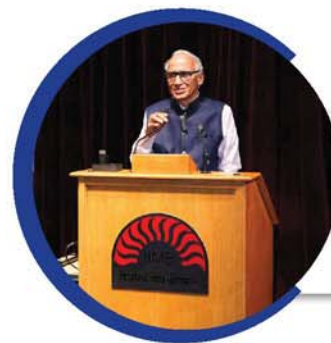
- The discussion began with focus on effective client acquisition strategies. The panellists emphasised the importance of understanding the unique needs and preferences of prospects to create compelling value propositions. The panellist highlighted targeted marketing and personalised outreach as essential tools in attracting potential clients.
- The conversation also covered tips for converting prospects into long-term clients. They emphasised the importance of follow-ups and ongoing engagement, suggesting the use of technology for regular check-ins and personalised service offerings.

Technical Round 2

Part 1 - Investor Psychology

Dr. Prasanna Chandra
Director, Centre for Financial Management

- Dr. Prasanna Chandra delved into understanding investor behaviour and highlighting the psychological factors influencing investment decisions. He emphasised the significant role emotions play in how investors approach their financial choices, often leading to decisions driven by fear, greed, or overconfidence.
- By recognizing these psychological influences and guiding clients through emotional market fluctuations, financial planners can foster more rational investment behaviours and help clients achieve their long-term financial goals. This approach not only builds trust but also enhances the overall client-planner relationship, leading to more successful financial outcomes.



Technical Round 2

Part 2 - Marketing Your CFP® Venture

Robin Bhowmik
Chief Business Officer, Manipal Academy of BFSI

- He highlighted the importance of leveraging digital tools to reach a broader audience, emphasising that today's entrepreneurs must embrace technology to succeed. He shared practical insights on utilising social media, digital marketing, and data analytics to enhance visibility and engagement.
- He explained that by effectively harnessing these digital tools, new ventures can not only expand their market reach but also create lasting connections with customers. His approach underscores the need for a strategic blend of innovation and sustainability, ensuring that new businesses can thrive in the competitive digital landscape.





Panel Discussion 2

From Vision to Reality: Strategies for Establishing a Successful Financial Planning Practice

Moderator - Mr. Sabarinathan G, Faculty, Finance & Accounting Area IIM Bangalore

Panelists ;

- 1 - **Nitin Vishen**, Faculty, Finance Area, IIM Bangalore
- 2 - **Suresh Sadagopan**, MD & Principal Officer, Ladder7 Wealth Planners Pvt. Ltd.
- 3 - **A Suresh**, Paralegal Consultant, Estate Planner Prop Seva
- 4 - **Uday Dhoot**, Partner, Venn Wealth, Founder - OyePaisa

- The Panel highlighted that financial planning is not just a service but the core foundation that supports and drives all other business activities.
- The discussion also explored overcoming initial challenges, such as managing client expectations and establishing a market presence. Panelists shared strategies for addressing these challenges and provided tips for sustaining growth, including continuous professional development and adapting to market changes.
- Overall, the session offered a blend of practical advice and personal experiences, equipping attendees with the knowledge and inspiration needed to transform their vision of a financial planning practice into a successful reality.

Technical Round 3

Mathew Joseph

Director & Head, CIMB Bank Artificial Intelligence Labs

- Mr. Joseph highlighted the numerous opportunities AI presents in financial planning, such as personalised investment advice, predictive analytics, and improved decision-making processes.
- He emphasised the importance of integrating AI tools to enhance client services, explaining how AI can offer more tailored and efficient customer experiences. Mr. Joseph's insights underscored the strategic imperative for financial institutions to adopt AI, ensuring they stay competitive and meet the evolving needs of their clients.





Panel Discussion 3

Risk Management and Contingency Planning for Your Business

Moderator - Mr. Amit Gupta, Founder, Reppro

Panelists ;

1 - **Amisha Sethi**, Vice President, Global Marketing Inflect

2 - **Teena Rawal**, Head of Strategic Alliances, FPSB India

3 - **Swati Kumari**, B Wealthy- Youtuber, Zee Business | Star India |
CNBC Awaaz

4 - **Biju Punnachalil**, Chief Risk Officer, South Indian Bank

- The discussion began with a focus on risk management and the importance of having robust contingency plans in place. The panelists emphasised that identifying potential risks early and preparing for various scenarios can help businesses mitigate impacts and maintain continuity during unforeseen events.
- Taking care of employees and supporting them was highlighted as a critical component of risk management. The panelists discussed strategies for fostering a positive work environment, including open communication, providing mental health resources, and recognizing employee contributions.
- By prioritizing contingency planning, fostering a supportive work environment, and upholding health and safety standards, businesses can build resilience and navigate challenges

Closing Speech

Dr. Aishwarya Krishna
Research Consultant & Manager, CCMRM - IIMB

She spoke about signing the MoU 3 months ago, and the initial idea was to organize a BootCamp. She expressed gratitude for the wonderful cooperation, describing the BootCamp as an eye-opener that provided valuable insights into data and facilitated interaction with others. She acknowledged Mr. Krishan Mishra and Ms. Teena Rawal along with the entire FPSB India team for their significant contributions in organizing the BootCamp, Prof. M. Jayadev for his encouragement, and Ms. Chandralekha for her unwavering support throughout the event.





Looking forward to have
you in our next event!

Thank you

Our **Shared** Wisdom





Please “Mind the gap” while investing!

Kaustubh Belapurkar, CFA,
Director Manager Research,
Morningstar Investment Research India

Investing is never easy, financial decisions always involve emotions, particularly greed and fear. These emotions can play a significant role in the way we make investing decisions, and many times best laid plans get cast aside.

This often results in a gap between fund returns and the return an investor makes in the fund (Investor Returns), also known as the Behavior gap. The Behavior Gap exists as investors make ill-timed entry and exit decisions into funds. Investing in funds following the trend of recent performance, expecting yesterday's winners to continue to be the winners tomorrow can be counterproductive.

That investor return gap varies by asset classes and fund categories but exists in all cases. The persistent gap between the returns investors actually experience and reported total returns makes cash flow timing one of the most significant factors—along with investment costs and tax efficiency—which can influence an investor's end results.

We published a study in 2022 for Indian Mutual funds, which found significant gaps existed between fund returns and investor returns across asset class and time periods.

Behavior Gap by time frame:



Source : Morningstar Research, Data as on 30th June 2022

Over a 10-year period, investor returns lagged by 2.8% from fund returns for all asset classes combined. It was particularly higher for volatile asset classes like equity and allocation funds.

10-year Behavior Gap by Asset Class:



Source : Morningstar Research, Data as on 30th June 2022

What explains the gap?

Most reported fund total returns are time-weighted, meaning they assume a lump-sum investment made at the beginning of the measurement term that's held throughout the whole period to the end. But investor returns can be a more telling measure because they include the impact of cash inflows and outflows, with different investors investing and exiting at different points in time. Investor returns are essentially an internal rate-of-return calculation that accounts for periods when you have more rupees invested, which will carry more weight in your overall results. They signify the return an average Rupee invested in the fund has made.

Investor returns will almost always differ from reported total returns unless there are no cash flows in or out of the fund during a given period. To use a simple example, let's say an investor invests INR 1,000 into a specific fund at the beginning of each year. That fund goes on to earn total returns of 10% the first year, 10% the second year, and negative 10% the third year, which works out to an annualized return of 2.9%. But in rupee-weighted terms, the investor's return is negative 0.4%, because there was less money invested in the fund during the first two years of positive returns and more money exposed to the loss during the third year. This is just one investor, now imagine lakhs of investors entering and exiting a fund at different points of time.

But why does entry and exit in a fund matter so much?

We often talk about the benefits of long-term investing in a volatile asset class like equities, what really matters is "time in the market" rather than "timing the market". Over the long haul, the stock market's out performance over cash boils down to just a few critical months. Miss those months and you will have missed all the risk premium to be earned from holding a volatile asset such as equities.

Our study on market performance shows that over a 10-year period, between October 2013 and September 2023, Indian stocks owed their out performance over cash to just 12 months—10% of the months in the sample. If you held stocks for all 108 months apart from those 12 months, which we will call "critical months," (best months of relative out performance), you would not have beaten cash.

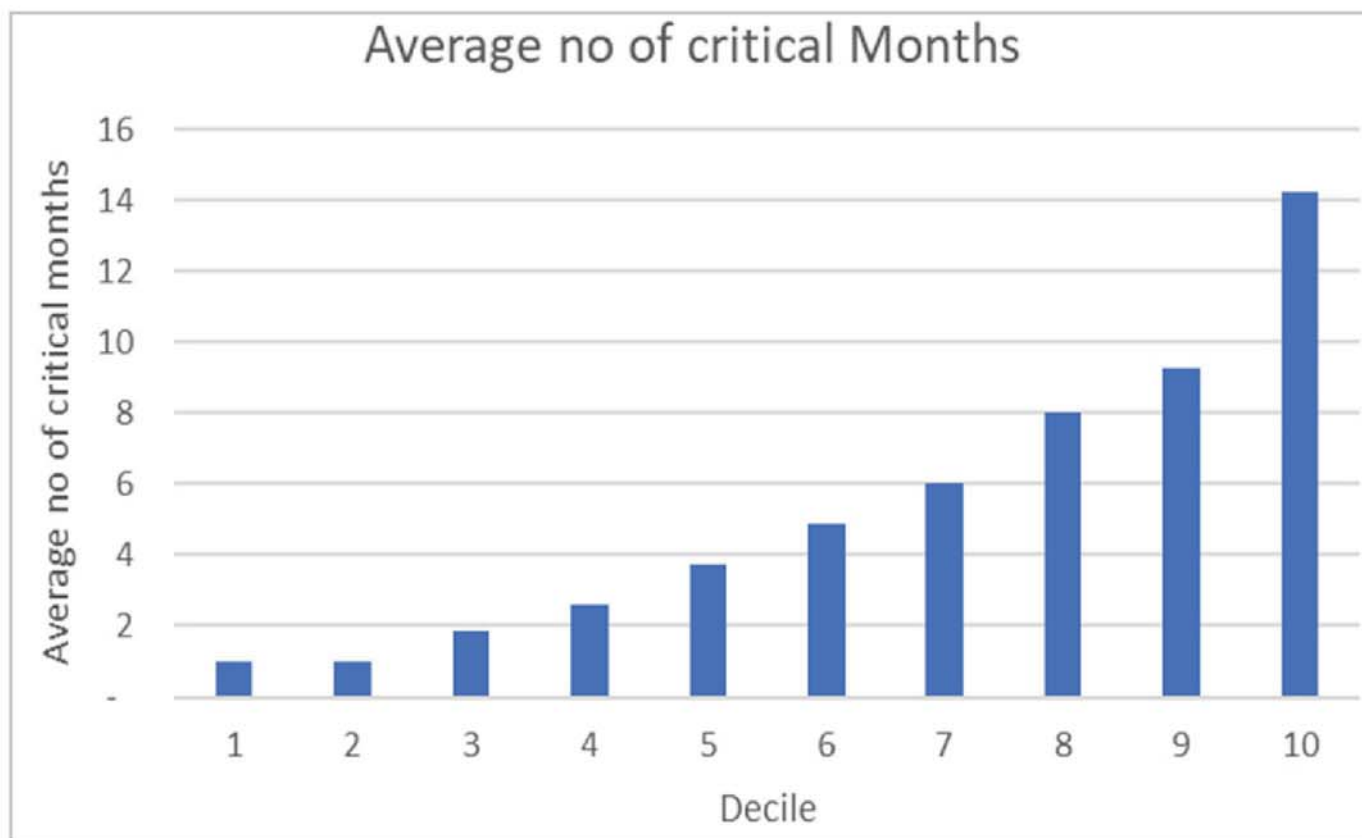
For actively managed funds beating their benchmarks, the number of critical months on an average is even lower at 5 months (4.2% of the times). Miss those 5 good months of performance and your returns would be lower than the benchmark, although the fund outperformed. Even the best performing (top decile) funds have only 14 months accounting for their entire out performance over the benchmark.

Critical Months of Performance by Category:

Category	Mean	Median	25th Percentile	75th Percentile
Overall	5	4	2	7
ELSS	5	4	2	7
Flexi Cap	5	5	4	5
Large & Mid	6	4	2	9
Large Cap	4	4	2	5
Mid Cap	4	4	2	4
Small Cap	7	6	3	7

Source : Morningstar Research, Data as on 30th Sep 2023

Critical Months of Performance by Decile:



Source : Morningstar Research, Data as on 30th Sep 2023

This is not just an Indian phenomenon. A global study released by Morningstar in 2019 witnessed that similar trends existed for US Large Cap stocks for investments since 1926, where 5% of the months attributed for the overall out performance over cash. Similarly, the global study of out performance for the last 15 years found that 5% of months account for the out performance of actively managed funds globally.

The obvious implication of these findings is that it is exceedingly hazardous to try to time markets. Staying invested is the name of the game, be it in equities as an asset class or the funds you select to invest through.

Trying to find the best time to buy or sell a fund is most likely futile. Most of the time, even outperforming funds basically track or trail the index.

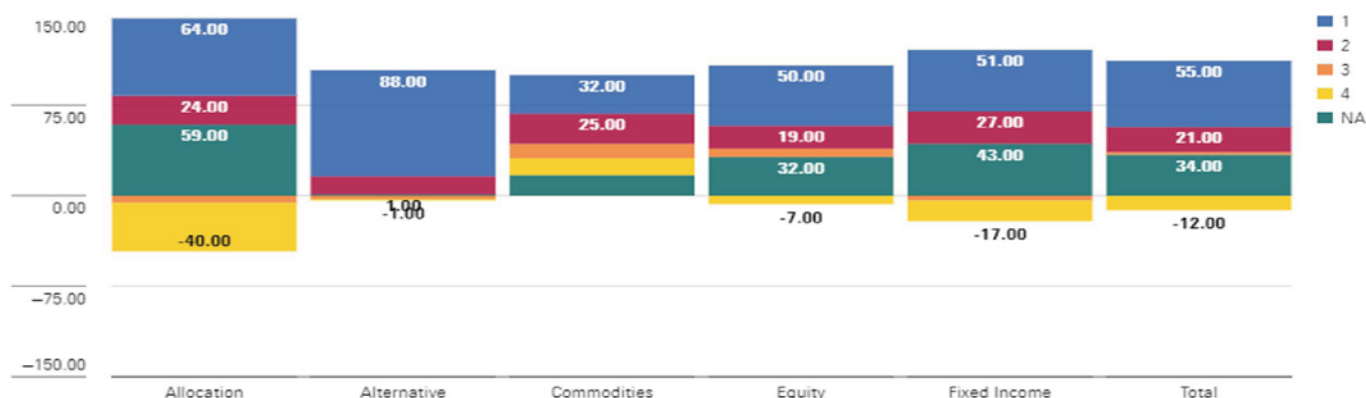
If you think you have identified a skilled manager, the best course of action is to buy in or rupee-cost average, regardless of the moment, and hold on to the fund over long periods of time.

The obvious, and perhaps even more important, corollary is that a fair amount of patience is required to adhere to such a program. A good manager may take a long time before critical months materialize. Thus, don't sell based on the "what have you done for me lately" rationale. The gospel of wisdom can be adapted to active management: No one knows the day or the hour when out performance will strike.

What we have observed with investor flows

Investors tend to use past returns as the primary yardstick for selecting funds as is evident from the monthly flows data over the last 5 years. Across asset classes, the majority of the investor flows went into funds that were in the 1st & 2nd quartile based on last 1-year returns, while 4th quartile funds largely witnessed outflows.

% Monthly Net Inflows into funds based on 1 Year Performance Quartile (5 Year Data)



Source : Morningstar Research, Data as on 30th June 2024

As mentioned above, bad decisions such as trading too often, buying funds purely based on recent performance after they've already run up, and selling in a panic after market declines can all chip away at investor returns. But even perfectly reasonable approaches to managing a portfolio—such as investing a portion of every paycheck or shifting more assets toward fixed-income assets as you approach retirement—can open a gap between investor results and reported total returns.

Investor returns will never perfectly match total returns because few investors can simply buy and hold over every time period. But the negative return gaps for the majority of investor rupees suggest there's still room for improvement. Investors can increase their odds of success by taking a more disciplined approach and trying to avoid some of the most common pitfalls, such as buying high and selling low.

Learning From the Results

This imparts a few lessons on how investors can avoid these gaps and capture more of their fund investments' total returns. Investors can improve their results by holding a small number of widely diversified funds, automating mundane tasks like rebalancing, avoiding narrower or highly volatile funds, and embracing techniques that put investing on autopilot, such as rupee-cost-averaging, or SIPs.

The persistent gap between investors' actual results and reported total returns may seem daunting, but investors can take away a few key lessons about how to improve their results.

Focus on holding a small number of widely diversified funds. As the mutual fund industry has grown, asset managers have rolled out more and more highly specialized funds. Theme-based funds, sector funds, and smart beta funds are just a few examples. But most investors are better served by keeping things simple and sticking with plain-vanilla, broadly diversified funds. More broadly defined core offerings, within equity categories, such as large-cap and flexi-caps, have done significantly better than narrower offerings, such as sector funds and thematic funds.

Similarly, for fixed-income categories, while overall investor return gaps are narrower than equities, we can see the same hold true where core categories, such as short duration, have narrower gaps as compared with more-volatile categories such as dynamic bond or gilt funds. From a portfolio-construction perspective, that means investors should lean heavily on these areas of core holdings and avoid narrowly defined funds that tend to have the widest return gaps.

Don't make investments purely based on past performance. Often investors are swayed into investing into the top-performing funds over the short term. This often results in a big gap in investor returns. Funds go through cyclical periods of under performance due to style headwinds. Investors often end up selling out of recently underperforming funds and buying into recent out performers, only for the trend to reverse, resulting in large investor return gaps.

Avoid narrow or highly volatile funds. As a corollary to focusing on broadly diversified funds, it's also important to avoid highly specialized or volatile offerings. As mentioned above, rupee-weighted returns for the most specialized category groups and categories often fall behind those of more broadly diversified offerings. A classic example are technology funds: They gained immense interest from investors since the pandemic, but most flows came into these funds after the sharp runup, thus leaving investors with significant return gaps.

Embrace techniques that put investment decisions on autopilot, such as rupee-cost-averaging. Rupee-cost-averaging often gets a bad rap because it creates a drag on returns when market returns are generally positive. Investors who have a lump sum available will usually earn better results by putting it all to work as soon as possible instead of investing it gradually over time (which means keeping some assets on the sidelines). Investors who have the means—and the temperament—to buy and hold over the long term will likely enjoy the best results.

The buy-and-hold approach depends on two key things, though: 1) having money available to invest all at once, and 2) having enough discipline to buy and hold despite the vagaries of the market. Unless they're fortunate enough to have large sums of money available via inherited wealth or other windfalls, though, most investors can only invest a little at a time as money becomes available—for example, setting aside a certain percentage of each paycheck to invest for retirement.

Conclusion

Overall, the data shows there's a persistent gap between the returns investors experience and reported total returns. This gap makes cash flow timing one of the most significant factors—along with investment costs and tax efficiency—that can influence an investor's end results.

The study also shines more light on the merits of keeping things simple, favoring broadly diversified funds, and following a disciplined investment approach. While following a buy-and-hold approach will generally lead to the best results for investors who have enough assets available, rupee-cost-averaging can be an excellent way to enforce investment discipline and avoid the perils of poorly timed cash flows. Whether they invest a lump sum up front or follow a rupee-cost-averaging system, investors who follow a consistent investment approach and avoid chasing performance will likely reap rewards over time.

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While SIPs grew, so did F&O: Why retail investors need to be protected from unregulated finfluencers

Krishan Mishra,

CEO FPSB India

The disruption induced by the rise of social media platforms over the last decade and a half has had a pervasive impact on the way industries function, especially in large consumer markets like India. The 'personal finance' industry in India is an apt case study, which has witnessed a significant uptick in using social media platforms by individuals/organizations. These individuals, who are largely unregulated, share information and advice with prospective investors on a range of topics covering the entire spectrum of financial planning on social media platforms like Facebook, Instagram and Twitter and many others. Their counsel covers most financial instruments, including market securities, mutual funds, insurance and pension funds.

Notably, no stipulations define the eligibility criterion and qualifications under an established legislative framework in India. Therefore, most of 'Financial Influencers' or 'Finfluencers' are ill-equipped to offer professional advice and guidance to investors, who commit their hard-earned money based on such information.

Action by regulators

India's financial regulators, like the Securities and Exchange Board of India (SEBI), are mandated by law to protect the interests of investors in securities and promote the development and regulation of the securities market. They are also empowered to take measures to prohibit fraudulent and unfair trade practices in the securities market.

Cognizant of the risks posed by finfluencers, Indian regulators have taken various measures to regulate the activities of stakeholders in India's personal finance space. In June 2024, SEBI approved new regulations to regulate finfluencers and to address the growing risks from biased/misleading advice given on a commission-based model. As per the new rules, brokers and mutual funds are prohibited from using the services of unregulated financial advisors for marketing and advertising campaigns.

SEBI has also taken down more than 15,000 'content sites' by unregulated financial influencers as part of their efforts to safeguard investors' interests. The Reserve Bank of India's Financial Inclusion and Development Department, too, has released its Financial Awareness Messages (FAME) document, which calls on consumers to exercise due diligence before investing their money.

Proposed solutions

While regulators acknowledge the challenges, and through various measures are trying to keep a check on unethical practices in the country, there is a need to create a robust enforcement mechanism to realize the stated objectives of the regulations. As the responsibility for regulating the financial sector in India is shared by multiple institutions, it is imperative to attain consensus while defining the 'collective risks' posed by unregulated finfluencers. As there are no cost barriers for entry of finfluencers in the Indian market, the approved regulations might not effectively prevent new,

dubious outfits from emerging. Therefore, regulators in the country's financial system must work to create capacities for ensuring a consistent flow of market intelligence vis-à-vis such influencers.

Enhancing the level of financial awareness in the country is equally important. Under the National Strategy on Financial Education, vulnerable groups must be identified and trained. A possible solution could be the creation of 'community trainers' in each district/division, who can identify the specific vulnerabilities of groups in their respective communities and plug information gaps.

Conclusion

While the move to regulate the activities of finfluencers is a welcome step, its smooth implementation hinges on seamless coordination among various agencies/departments of the Union government, regulators and educators at the grassroots level. At the same time, the government must also establish a framework of eligibility criterion to define 'recognized financial planners/advisors' irrespective of the medium/platform being used for dissemination. In addition to the eligibility criterion, all registering finfluencers must be mandated to apprise their audience of the potential risks associated with different categories of investments.

Finally, the regulators and leading industry players must jointly develop a far-sighted strategy for expanding access to financial education and addressing systemic gaps at multiple levels.



Our **Work with** Clients





'Personal' in the Financial Plan

S.S. Radha Ramana, CFP,
General Manager, SIDBI

Matters of wealth and waistline concern most people. Wealth is difficult to accumulate but easy to lose and waistline is the other way round. Desirable levels of both demand discipline over long periods of time along with a plan of action.

But in a financial plan, most people focus on rates of return, schemes, market movements, etc. which are not in their hands. They ignore what they can control – their behaviour. Financial planners can do their customers lasting good by teaching them the criticality of behaviour in their financial journey.

A plan sets you some goals. In a financial plan, time and amount become critical goal posts. Without them, actions can be random.

Growing up, I experienced 3 asset classes. Firstly, I saw my elders buying land and building houses where land prices multiplied over very long periods. The second asset class I experienced was equity when I saw a cousin buy and sell equity from a stockbroker and tell me how he made a profit (not wealth, I now notice). The third asset class was debt through bank/post office deposits giving steady income.

So, I took to these asset classes when I started earning. I purchased some land to hold for long term. Market scams of 1990s and 2000s made me sell equity whenever its price went up as I wanted to make 'profit'. In debt, provident fund kept crawling. A decade later, the value of land multiplied in value. Several stocks I bought became multi-baggers – but all the buying and selling did not yield much. Debt compounded. If I had a good planner, my financial behaviour would have been better.

My personal finance planning began much later. I read, 'The millionaire next door' which led me to discover personal finance planning. But my impression at that time was that a planner would identify investments with best returns!

My first planner inquired about my life goals and mailed a plan. After 2 years, feeling something was missing, I contacted another planner who suggested a portfolio of mutual funds, periodic reviews, etc. I felt better initially but by 3rd year, I got the same feeling of something missing.

I tried a third planner briefly. They all helped bring a focus – especially the second planner. At this point, I decided to get CFP certification and completed it. I still was focusing on excel sheets and rates of return but a subtle change started. For instance, I shifted from multiple mutual funds to just one fund whose investing principles we liked the most.

Around this time, I read Carl Richards' 'The Behaviour Gap'. The gap in market rate of return and the rate earned by investor is attributed to investor's behaviour.

My planners reduced randomness in my investment actions but were handicapped by not knowing my investment behaviour. There was a communication gap. Please note, I realized this over a period as events happened.

Rate of return, formulae, excels, etc. are tools to help plot a course. But staying the course is behaviour. People and their aggregate behaviour in stock exchanges, etc. move markets as people are accompanied by emotions, biases, fears, etc. This is why equity markets fall when societies are pessimistic (COVID-19) and go up when societies are euphoric. The tools we mentioned above don't move markets.

So, the person's behaviour has an impactful role on wealth creation than all the tools. From my experience, I share a check list for a newbie personal finance planner.

First – appreciate that your client has unique issues, needs and challenges. Each individual experiences life differently. So, approach each client afresh - to explore, understand and find nuances. The results can surprise you.

Second – know the customer as a person, her background, family, where she comes from, how she looks at money and risk, life goals, necessities, comforts and luxuries. Be a little less obsessed with your power point, graphics, etc.

Third – weigh if the customer's wishes can be on the list of goals or if they harm her long-term financial security. Don't let a customer pressurize you to include an undesirable investment. You may lose some business but those who remain will be happier and wealthier in the long run.

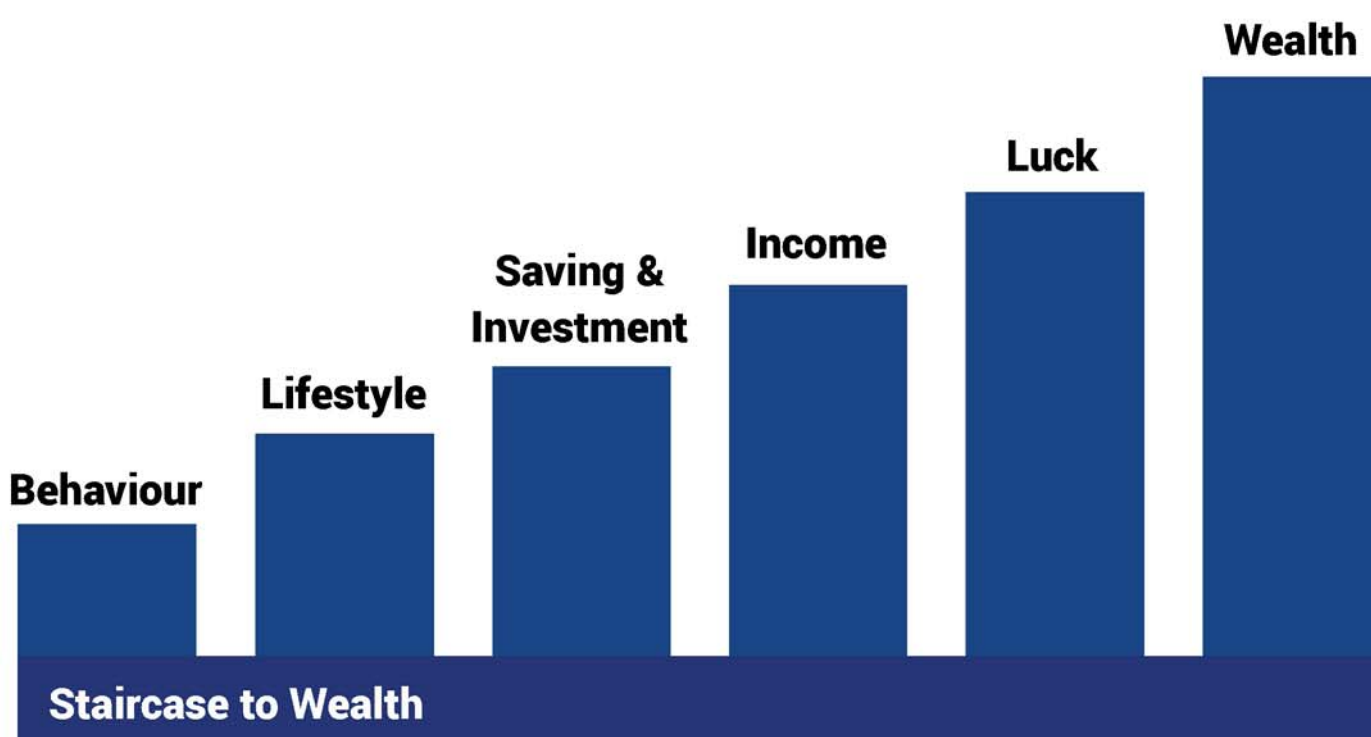
Fourth – understand a customer's apprehensions and biases for an asset class or investment product. View them from her life stage, life experience, risk bearing ability and attitude, goals, dreams and lay it out before her.

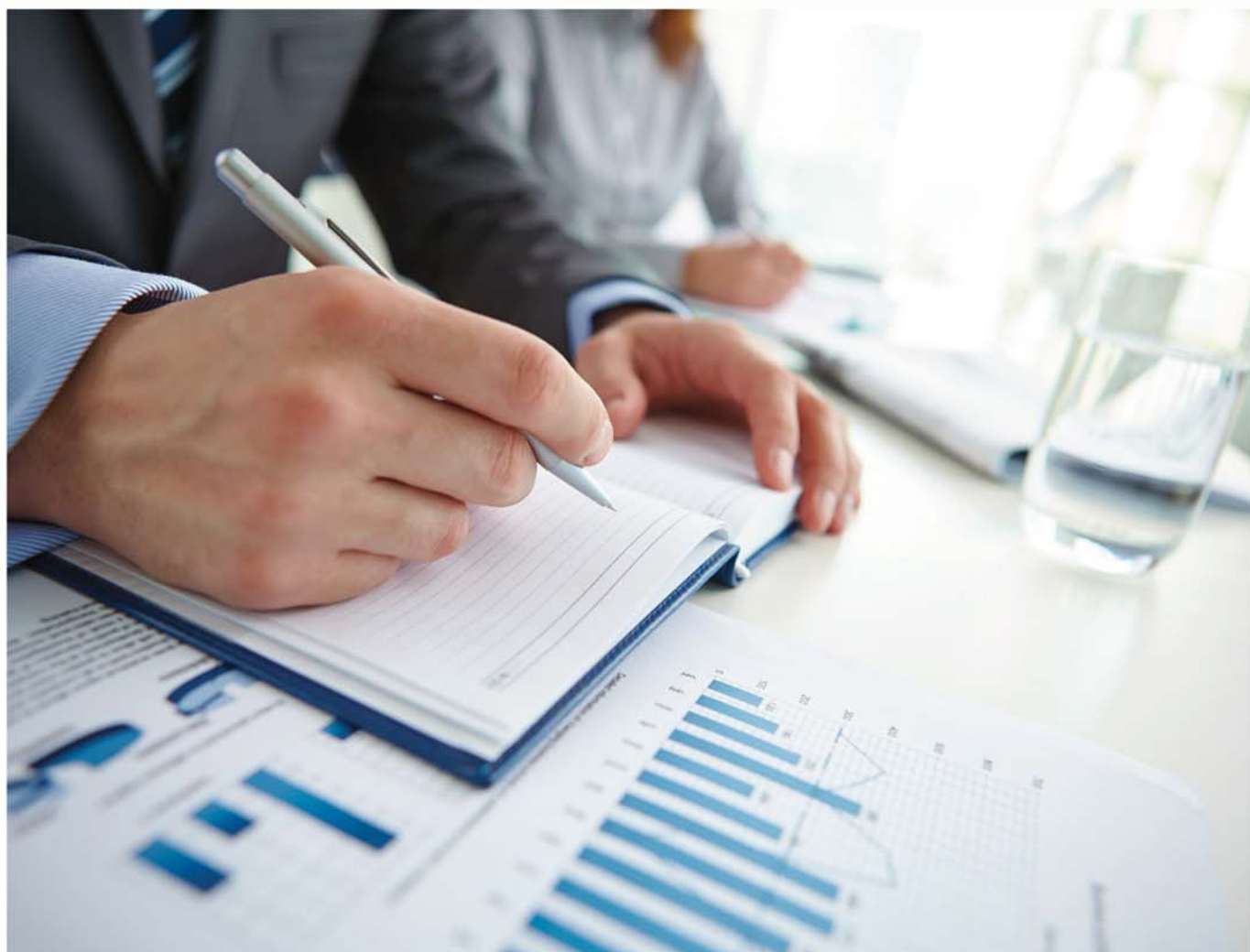
Fifth – excel sheets don't capture life's uncertainty. You can model a monthly investment and resulting corpus. But weigh your client's ability to continue with the plan in uncertain times – especially for long term debt.

Sixth – don't try to impress your client with how good you are. Your client observes and makes her own assessment. So be honest and professional in attitude.

Seventh – monitor your client's progress in investments and attitude towards money and investment. Be her mentor in money life.

Lastly – give your client the confidence and comfort that you heard her fully – the said and the unsaid – and that you are guiding her for her best interest.





I tried to showcase the importance of behaviour in wealth journey through the above sketch. The sketch has a series of stairs – behaviour and lifestyle at the bottom are not only foundation but also the most difficult to climb. Both aspects are internal and to do with the mind. Then the money part comes in. If a person crosses the difficult ones, then the climb towards wealth becomes easy. You might even get lucky at the end. Till luck comes, you have already done the hard yards and can carry on. That is to say, you don't depend on luck – if it comes your way as it does to all of us in an unexpected fashion, you will only do better.

Most people are decent, intelligent and learned in their own way. A customer seeking a planner is a unique human being with unique emotions and behavioural traits. People get perturbed by the financial jargon – they don't know the nitty gritty. Not that they are dumb even if they look overwhelmed – they must be knowledgeable in their field. So, don't let their financial ignorance bother you – it's why you are there. Make it simple for them to understand and follow.

Be humble. Listen to customers very attentively. Give them the comfort that almost everyone commits money mistakes – it is reducing the frequency and size of those mistakes that is important. When your child wants to learn cycling – you hold it only for that long and then let go. You stay around to give the comfort of your presence – don't cling to the cycle forever. Something on those lines for the customer you are helping in personal finance plan can make the journey enjoyable and equally rewarding for both the customer and you.

The word 'personal' in personal finance planning is the most critical point. Make it an equal partner in your financial plan.

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Insurance as a Financial Planning Tool: A Comprehensive Analysis

Taresh Bhatia, CFP

In the complex and ever-evolving field of financial planning, insurance serves as a cornerstone for safeguarding the financial well-being of individuals and families. As financial planners, it is our duty to integrate insurance strategically into our clients' comprehensive financial plans. This article explores the various types of insurance—life, health, critical illness, and home insurance—and how they can be effectively leveraged to manage risk, protect income, and ensure long-term financial stability.

Insurance vs. Investment: The Distinction

It is crucial to distinguish between insurance as a protective tool and investment as a growth tool. This understanding is fundamental to sound financial planning and should make financial planners feel more knowledgeable and competent in their roles. Advising clients to separate their insurance needs from investment goals is a fundamental principle of sound financial planning. Products that blur these lines, such as investment-linked insurance plans, often lead to suboptimal financial outcomes. Recommending clients to focus on pure protection products can result in more efficient use of their resources.

Role of Insurance in a Comprehensive Financial Plan

Risk Management

Insurance, as the bedrock of risk management in financial planning, provides the necessary protection to ensure that unexpected events do not derail the client's financial objectives. By prioritizing the closure of coverage gaps and addressing potential risks early in the planning process, we can build a strong foundation for long-term financial stability, instilling a sense of security and confidence in our strategies.

Income Protection

Life insurance, particularly term insurance, is a critical tool for income replacement. In the event of the premature death of a family's primary earner, the death benefit ensures that the family's financial needs are met, and their standard of living is maintained. This aspect of insurance is non-negotiable and should be a top priority in any comprehensive financial plan.

Wealth Preservation

Insurance also plays a vital role in protecting existing assets from unforeseen events. Whether insuring property against natural disasters or safeguarding a business from liability claims, insurance helps preserve wealth by mitigating the financial impact of such risks.

Healthcare Planning

The integration of health and critical illness insurance into a financial plan ensures that clients are prepared for healthcare costs, which can quickly deplete savings and investment portfolios. Financial planners can help clients navigate healthcare expenses without compromising their financial goals by ensuring adequate coverage and maintaining liquidity through an emergency fund.

Estate Planning

While less prevalent in India than in some Western countries, the use of insurance for estate planning is gradually gaining traction. Life insurance can facilitate the smooth transfer of wealth and cover estate taxes, ensuring that the client's legacy is preserved for future generations.

Tax Implications of Insurance in India

Section 80C: Life Insurance Premiums

Life insurance premiums qualify for tax deductions under Section 80C, making them valuable tax planning tools. However, planners must ensure that the tax benefits are consistent with the primary purpose of the insurance, which is to provide adequate protection.

Section 80D: Health Insurance Premiums

Health insurance premiums, along with preventive health check-up costs, qualify for deductions under Section 80D. While the old tax regime that allows these deductions is slowly being phased out, it remains relevant for many clients and should be factored into their tax planning strategy.

Section 10(10D): Tax-Free Maturity Proceeds

Maturity proceeds from life insurance policies are generally tax-free under Section 10(10D), provided certain conditions are met. This tax benefit is essential in long-term financial planning, particularly when structuring the client's estate and succession plans.

Challenges and Considerations in Insurance Planning

Underinsurance and Over Insurance

One of the most significant challenges in insurance planning is ensuring that clients are neither underinsured nor overinsured. Underinsurance leaves clients vulnerable to financial shocks, while over insurance can lead to unnecessary financial strain. For instance, a client with a young family may need a term insurance cover that adequately replaces their income in the event of their untimely demise. However, purchasing an excessive amount of coverage might strain their finances, diverting resources away from other crucial goals like education savings or retirement planning.

Case let: Consider a client, Rajesh, who was advised to take a term insurance policy worth Rs. 1 crore, which was appropriate given his financial obligations, including a home loan and children's education. However, when reviewing his financial plan two years later, it was found that his income had significantly increased, and his liabilities had reduced. In this scenario, his insurance coverage was adjusted to reflect his current financial situation, avoiding both underinsurance and over insurance.

Policy Selection

Selecting the right insurance products is another crucial aspect of financial planning. The market is flooded with various insurance products, each with its own set of terms, benefits, and costs. Financial planners must navigate this complex landscape to recommend policies that align with their client's specific needs and long-term goals. It is important to evaluate factors such as the insurer's claim settlement ratio, policy flexibility, and additional riders.

Case Let: A client, Sneha, was initially attracted to a life insurance policy that combined investment with insurance. However, after evaluating her financial goals and understanding the higher costs and lower returns associated with such a product, she was advised to opt for a pure term insurance plan and invest the difference in a mutual fund. This strategy provided her with adequate protection and better growth potential.

Impact of Inflation

Inflation is an often-overlooked factor in insurance planning. Over time, inflation can erode the value of insurance coverage, particularly in health insurance. Medical costs in India have been rising at an annual rate of 12-15%, outpacing general inflation. This necessitates regular reviews of health insurance coverage to ensure it remains sufficient.

For example, a health insurance policy purchased ten years ago with a sum assured of Rs. 5 lakhs might have been

adequate at that point of time. However, given the rising costs of medical treatments, the same coverage today might fall short. Financial planners should adjust coverage amounts periodically, considering inflation and changes in healthcare costs.

Regulatory Considerations

Staying updated with regulatory changes is essential in insurance planning. The Insurance Regulatory and Development Authority of India (IRDAI) regularly updates guidelines that impact insurance products, such as changes in the maximum sum assured, exclusions, past history declarations, tax implications, or new product regulations. Planners must stay informed about these changes to provide clients with accurate and compliant advice.

In fact, recent IRDAI regulations have introduced standard health insurance policies, ensuring that essential coverage is available to all at reasonable rates. Financial planners should be aware of such developments and guide clients, accordingly, ensuring they benefit from these regulatory changes.

Future Trends in Insurance and Financial Planning

InsurTech

The integration of technology into insurance—InsurTech—is transforming the industry. From AI-driven underwriting processes to blockchain-based claims management, InsurTech is enhancing efficiency and client engagement. Financial planners should leverage these technologies to provide better service, such as using digital platforms to track policies, manage renewals, and streamline claims processes.

New companies are revolutionizing how insurance is bought and managed in India. These platforms allow clients to compare policies, purchase insurance online, and manage their portfolios digitally. Financial planners can use these tools to offer more transparency and convenience to their clients.

However, my experiences make me advise against going online to hire virtual assistants and instead choose a personal advisor of repute and experience. This becomes a critical deciding factor!

The role of technology in transforming insurance planning and client engagement becomes critical at some junctures of client advisory management, especially timely reminders and updating of family members (including the birth or death of any family members). Reliable and trustworthy software and online apps managed by advisors and used by clients in an easy interface become essential for long-term client confidence and overall reliability and data management.

Sustainability in Insurance

Sustainability is becoming a key consideration in insurance, driven by growing awareness of environmental, social, and governance (ESG) issues. Insurers are increasingly offering green insurance products that align with clients' values. For instance, some companies now offer discounts on premiums for electric vehicles or energy-efficient homes. Financial planners should consider how these products can be integrated into their clients' financial plans.

The global shift towards sustainable finance is influencing the Indian insurance market. Companies are beginning to incorporate ESG factors into their underwriting and investment decisions, offering clients products that support their sustainability goals.

Call to Action for Financial Planners

As financial planners, it is imperative that we guide our clients through the complexities of insurance planning with a well-rounded, informed, and strategic approach. Here are nine actionable steps I suggest financial planners to consider when integrating insurance into their clients' comprehensive financial plans:

1. Prioritize Risk Management

Ensure that your clients have adequate insurance coverage to protect against significant risks that could derail their financial plans. Focus on protecting income and assets from unforeseen events and make this a priority over more speculative financial products.

2. Educate Clients on the Importance of Pure Protection

Clarify the difference between pure protection insurance (such as term plans) and investment-linked insurance products. Advocate for pure protection products that offer maximum coverage at minimal costs, ensuring clients understand their true value.

3. Tailor Insurance Solutions to Client Needs

Customize insurance solutions to meet each client's specific needs, considering factors such as age, health status, family structure, history declarations, income levels, and financial goals. Provide solutions that are relevant and appropriate for their unique situations.

4. Regularly Review and Adjust coverage

Review your clients' insurance coverage regularly and adjust as necessary. Life circumstances change, and coverage should evolve accordingly to ensure it remains adequate and aligned with current needs.

5. Leverage Tax Benefits Effectively

Ensure that clients are aware of the tax benefits associated with insurance products under the Income Tax Act, such as deductions under Sections 80C and 80D. Incorporate these benefits into their overall tax planning strategy but maintain the primary focus on protection.

6. Integrate insurance into the Broader Financial Plan

Ensure that insurance coverage complements other aspects of the client's financial plan, such as retirement savings, estate planning, and investment strategies. Consider how insurance can support and enhance the overall plan.

7. Communicate Clearly and Transparently

Communicate clearly and transparently with clients about their insurance options. Explain terms, conditions, potential benefits, and limitations, ensuring they fully understand how each product fits into their financial plan.

8. Stay Informed and Up to Date

Keep up with the latest developments in the insurance industry, including new products, regulations, and trends. This knowledge will enable you to provide the best possible advice to your clients.

9. Advocate for Client-Centric Solutions

Always put the client's best interests first. Recommend solutions that are truly beneficial to them, even if it means advising against popular but less advantageous products. A client-centric approach fosters trust and long-term success.

Conclusion

Insurance is an indispensable tool in comprehensive financial planning. By taking these actionable steps, financial planners can ensure that they provide their clients with the best possible guidance, protecting their financial future and helping them achieve their long-term goals.

Let us commit to integrating insurance into our client's financial plans with the same care, diligence, and expertise that we apply to every other aspect of their financial journey. By doing so, we provide them with the peace of mind that comes from knowing they are protected against life's uncertainties and that their financial future is secure.

Taresh Bhatia, CFP, is a Coach at the Richness Academy, and can be reached at taresh@taresh.in

Our **Changing** Market Place





Integrating ESG Factors into Investment Decisions: A Path to Sustainable Growth

Pankaj Dhingra

ESG is a framework that helps stakeholders understand how a business manages environmental, social, and governance-related risks and opportunities (sometimes called ESG factors). It originated in 2004 with the launch of the United Nations' Principles for Responsible Investment.

In today's investment landscape, investors are no longer solely focused on traditional financial metrics but are also considering how companies manage ESG issues and their impact on long-term performance. The COVID-19 pandemic has accelerated the trend towards sustainable investing, with 81% of institutional investors surveyed by Morgan Stanley saying that they believe companies with strong ESG practices are more resilient in times of crisis. This shift reflects a broader recognition that sustainable and responsible business practices are integral to financial success and risk management.

This article explores the importance of integrating ESG factors into investment decisions and provides insights into how investors can effectively incorporate these considerations into their strategies.

The Rise of ESG Integration

The integration of ESG factors into investment decisions has gained significant traction due to several key developments:

- 1. Growing Awareness:** Investors are becoming more aware of the broader impact that environmental, social, and governance issues have on financial performance and risk. Climate change, social justice, and corporate governance have moved to the forefront of investment considerations.
- 2. Regulatory scrutiny:** Increasingly stringent regulations and guidelines are being implemented to enhance corporate transparency and accountability in ESG practices. Governments and regulatory bodies are mandating more comprehensive ESG disclosures, pushing companies to adopt and report on sustainable practices.
- 3. Demand for Transparency:** There is a rising demand from investors for greater transparency and accountability in corporate ESG performance. This demand is driving companies to improve their ESG practices and reporting.

Key Components of ESG Integration

To effectively integrate ESG factors into investment decisions, financial planners should consider the following components:

1. Environmental Factors:

- **Climate Change:** Assessing a company's exposure to climate risks and its strategies for mitigating environmental impacts, such as carbon emissions and resource usage.

- **Resource Management:** Through energy and resource saving, businesses that promote environmental sustainability may cut costs and boost efficiency. Example: Walmart's environmental efforts, which led to yearly cost savings of \$1 billion by 2015.

2. Social Factors:

- **Labor Practices:** Analyzing employee relations, labor standards, and fair treatment within the workforce. This includes evaluating diversity and inclusion practices and employee well-being.
- **Community Impact:** Considering how companies contribute to and engage with their communities, including corporate philanthropy and social responsibility initiatives.

3. Governance Factors:

- **Board Structure:** Reviewing the composition and diversity of the board of directors, as well as governance practices related to executive compensation and shareholder rights.
- **Transparency and Accountability:** Evaluating the company's commitment to transparency, ethical behavior, and effective internal controls to prevent corruption and misconduct.

Implementing ESG Integration

Financial planners can help investors can integrate ESG factors into their investment processes through several approaches:

1. **ESG Screening:** One of the approaches is to apply negative or positive screening criteria to exclude or include investments based on ESG factors. This can involve avoiding companies with poor ESG practices or looking for those having strong sustainability credentials.
2. **ESG Integration into Analysis:** Incorporating ESG factors into traditional financial analysis by assessing how ESG issues can impact a company's risk profile, financial performance, and long-term growth prospects.
3. **Thematic Investing:** Focusing on investment themes or sectors that align with specific ESG goals, such as renewable energy, clean technology, or social impact ventures.
4. **Engagement and Stewardship:** Actively engaging with companies on ESG issues through shareholder advocacy, voting on shareholder resolutions, and promoting better ESG practices.

Challenges: Hurdles to Overcome

Despite the progress, ESG investing still faces several challenges:

- **Consistency of Data:** ESG data can vary in quality and consistency, making it challenging in comparing companies. So ensuring the use of reliable and standardized data sources is important.
- **Greenwashing:** Some companies may engage in "greenwashing," making false or misleading claims about their ESG credentials. This can erode investor confidence and hinder the legitimacy of ESG investing. Verifying claims and looking for evidence of genuine commitment and impact can prove to be crucial here.
- **Financial Returns vs ESG:** Some investors worry that prioritizing ESG might compromise financial returns. However, many studies suggest that integrating ESG factors can enhance long-term performance by mitigating risks and capitalizing on emerging trends.

Some factors to consider:

- **Global Standards:** Efforts are underway to harmonize ESG reporting standards across different regions, such as the development of the International Sustainability Standards Board (ISSB) and its efforts to create global standards for sustainability reporting. However, work on this is still in progress.

- **Regulation:** Increasing regulatory requirements and standardized reporting frameworks are likely to enhance transparency and comparability of ESG information.
- **Advancements in Technology:** Innovations in data analytics and artificial intelligence can improve ESG data collection, analysis, and reporting.

Investor's Growing Attention

As awareness of ESG issues grows, more investors are expected to incorporate ESG factors into their strategies, further driving sustainable practices across industries.

Corporate governance practices are under increased scrutiny. Investors are paying closer attention to Board diversity, executive compensation, and ethical behavior, demanding higher standards of transparency and accountability.

Also, investors are increasingly using their ownership stakes to engage with companies on ESG issues. This includes voting on shareholder resolutions, participating in dialogues with management, and advocating for improved ESG practices.

The Road Ahead: A Sustainable Future

The future of ESG investing is bright, but continued efforts are needed to ensure its long-term viability. Integrating ESG (Environmental, Social, and Governance) factors into investment strategies is key to achieving sustainable growth and a sustainable future. This method allows investors to better assess risks, leverage opportunities, and drive long-term value.

By balancing financial returns with a commitment to social and environmental responsibility, ESG-focused investing supports the creation of a more sustainable and just economy.

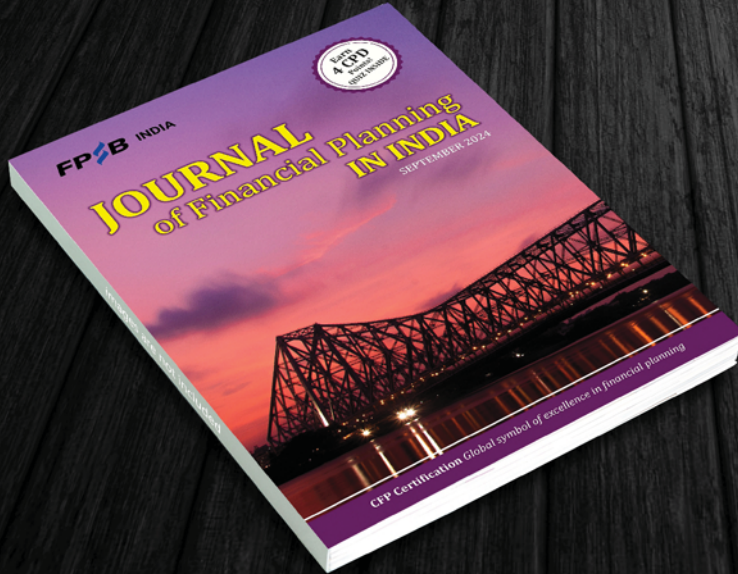
Integrating ESG factors into investment decisions not only supports sustainable growth but also aligns towards responsible and ethical investing. By considering ESG aspects, investors can contribute to positive societal and environmental outcomes while potentially enhancing their financial returns.

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CPD Quiz for Journal of Financial Planning in India

(September 2024 Edition)



Welcome to the CPD Quiz!

This quiz is 5 questions long, and you need to answer 4 questions correctly to earn 4 CPD points. Your quiz results will be displayed after you complete all the questions.

Current CFP professionals are required to take the CPD Quiz by logging into their My FPSB Learning portal. CPD points earned shall be reflected directly in their LMS online.

You will be able to take the CPD Quiz up to two times.

Good Luck!

Please "Mind the gap" while investing!

1. Based on a Research conducted by Morningstar, the author deduced that a major reason for the significant gaps between the fund returns and investor returns across asset class and time periods was:
 - a. the performance of different asset classes over time
 - b. the fact that while fund's total returns are time-weighted the investor returns include the impact of cash inflows and outflows at different points of time
 - c. the investment time frame of short-term or long-term
 - d. the investor buying funds based on recent performance

'Personal' in the Financial Plan

2. In the view of the author, as people focus on goals and investments many of them tend to forget a crucial aspect of their financial journey, which is _____.
 - a. the rate of return
 - b. the market movement
 - c. their own behavior
 - d. the choice of investment schemes

Insurance as a Financial Planning Tool

3. The author opines that the most significant challenge for a planner while working on the insurance planning of a client is____
- a. the selection of right policy
 - b. the impact of inflation on the policy proceeds
 - c. regulatory considerations
 - d. ensuring that the client is neither under-insured nor over-insured

Integrating ESG Factors into Investment Decisions

4. The author is of the view that financial planners can help investors integrate ESG factors into their investment processes by adopting the following approach:
- a. ESG screening
 - b. ESG integration into analysis
 - c. engagement and stewardship
 - d. all of the above

While SIPs grew, so did F&O

5. The author opines that while the move to regulate the activities of finfluencers is a welcome step, its smooth implementation is dependent on_____.
- a. seamless inter-departmental coordination
 - b. checking unethical practices
 - c. introduction of cost barriers
 - d. flow of market intelligence



End of the Quiz

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