FPSB INDIA

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JOURNAL of Financial Planning IN INDIA

DECEMBER 2024

CFP Certification *Global symbol of excellence in financial planning*

What's *Inside...*

OUR SHARED WISDOM

OUR WORK WITH CLIENTS

OUR CHANGING MARKET PLACE

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

As we bid farewell to a year of immense transformation and progress, we stand at the threshold of a new year—one that promises both exciting opportunities and unique challenges for the financial planning community in India, and also for the world.

During 2024 our industry has seen many facets - from evolving regulatory frameworks to the rise of new technologies reshaping how financial services are delivered.

Digital lending platforms and e-wallets, Aadhaar-Linked Payment System etc. are some of the key initiatives which are making easier for people to access subsidies and receive welfare payments directly into their bank accounts. Programs like National Centre for Financial Education (NCFE) and Financial Literacy Week encourage citizens to manage their money better, invest wisely, and plan for their future.

All these changes, and many more in force, aim to improve financial inclusion, promote savings and investment, and ensure better financial security for citizens.

The year ahead is brimming with potential to build on this momentum and redefine what is possible in financial planning. The continued growth of the Indian economy, the expanding middle class, and increasing digital penetration are factors that will open new avenues for financial planners to provide value to their clients. Adoption of artificial intelligence and data analytics in financial planning will enhance our ability to offer personalized and efficient services.

However, alongside these opportunities, market volatility, the global geo-political landscape, and the changing needs of clients will demand that we remain agile, informed, adding to our skill sets and forward-thinking in our approach.

In this issue, our articles focus on strategies to navigate these shifts, offering insights and practical tools to help you capitalize on the opportunities while mitigating risks.

Together, let's embrace the new year with optimism, innovation, and a renewed commitment to excellence in the service of our clients.

Wishing you a prosperous and fulfilling New Year!

CEO's Note
Krishan Mishra

Dear CFP® Professionals,

As we approach the close of 2024, I find myself reflecting on a year of remarkable milestones and collective accomplishments that have propelled the financial planning profession forward in India. Together, we have strengthened the foundation of financial education and planning in India, carving new paths for our community and building on the trust and reputation that the CERTIFIED FINANCIAL PLANNER® certification holds globally.

One of the standouts of this year has been our collaboration with prestigious institutions that share our vision for financial empowerment. The partnership with the Indian Institute of Management Ahmedabad (IIMA) for the 'Asset Pricing and Factor Investing Workshop' underscored the importance of academic rigor in advancing financial planning knowledge. Similarly, the launch of the Post Graduate Program in Financial Planning with National Institute of Securities Markets (NISM) and the opening of admissions for the Executive PGDM in Financial Planning program with K J Somaiya Institute of Management marked transformative steps in bridging academic excellence with professional certification.

This year, we also introduced the innovative 'Psychology in Practice' course for financial planning professionals, which focuses on understanding client behaviour and emotions, an essential dimension in delivering client-centred financial planning advice. Additionally, the recognition of CFP Certification by National Centre for Financial Education (NCFE) for the financial education trainers (FET) has further validated our efforts to foster a financially literate India. I would encourage you to apply for Financial Education Trainers at NCFE and become a part of Financially Sustainable New Bharat journey.

None of these achievements would have been possible without the unwavering support and dedication of our CFP Professionals, partners, and the FPSB India team. Your passion for advancing the financial planning profession and your commitment to ethical standards inspire us to aim higher each day.

As we prepare to embrace 2025, let us carry forward the momentum, the vision of a financially literate 'Viksit Bharat 2047', and the shared mission to make financial planning an integral part of every household.

I invite you to enjoy reading this final edition of the Journal of Financial Planning India for 2024—a reflection of our achievements and a celebration of the collective efforts of the financial planning professionals that have brought us here. Let it inspire us to aim even higher in the year to come.

Thank you for being a vital part of this incredible journey. Together, we are shaping the future of financial planning in India and beyond.

Warm regards,
Krishan Mishra
CEO, FPSB India

FPSB INDIA

About The Journal

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

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.

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 - March 2025.
Article submission date: 15 Feb 2025.

• Publication date - June 2025.
Article submission date: 15 May 2025.

• Send to: akumar@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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2. Use my name and likeness, including without limitation, pictures, and photos of me.
3. Make edits to the Article, including its title, that may be necessary to meet publication requirements, including without limitation size, layout, and format requirements.

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.

FPSB INDIA

Brand Guidelines

These brand guidelines are applicable to Education Providers, Universities, Business Schools, Colleges, and the Corporates, collectively referred to herein as "Partner(s)."

CFP Certification *Global excellence in financial planning*

About FPSB India

FPSB India is the leading financial planning body in India and is dedicated to establishing, upholding and promoting professional standards in financial planning throughout India. FPSB India offers the globally recognized CFP certification, which represents excellence in financial planning through rigorous competency and ethical standards. It is home to over **2,731** CFP professionals in India and part of a global network of organizations representing more than **2,23,700** CFP professionals worldwide. FPSB India is the Indian subsidiary of Financial Planning Standards Board Ltd., the global standards-setting body for the financial planning profession and owner of the international CERTIFIED FINANCIAL PLANNER® certification program.

Purpose

The main objective of these brand guidelines is to ensure the consistent positioning and promotion of the CFP marks throughout India. These guidelines are essential for maintaining a unified and cohesive visual and tonal representation of the CFP certification. Our partners play a crucial role in spreading awareness about CFP certification among potential students. Therefore, it is vital to use accurate messaging and provide students with trustworthy information. This approach not only helps build trust within the student community but also safeguards the integrity of our brand.

Promoting yourself as an Authorized Education Partner / Accredited University / Business School / Approved Corporate Partner

Status Prerequisite: Partners must not self-promote as Authorized or Approved partner until they have obtained the required status.

B2B Collaborations Responsibility: Partners engaging in B2B collaborations must ensure that all affiliated entities adhere to FPSB's promotional guidelines and best practices in student counselling.

Modification of Program: Partners intending to alter program structure, teaching methods, or study modes must notify FPSB India in advance to maintain transparency and program quality.

Websites, Social Media, & Press Releases: Partners cannot host websites or profiles resembling FPSB India's. However, they can include hyperlinks from FPSB India's site to their own.

Promoting as Authorized Education Provider: Advertise yourself as an Authorized Education Provider (AEP) of FPSB India. Refrain from using terms like AEP of "US FPSB" / "Global FPSB" / "Global CFP Certification".

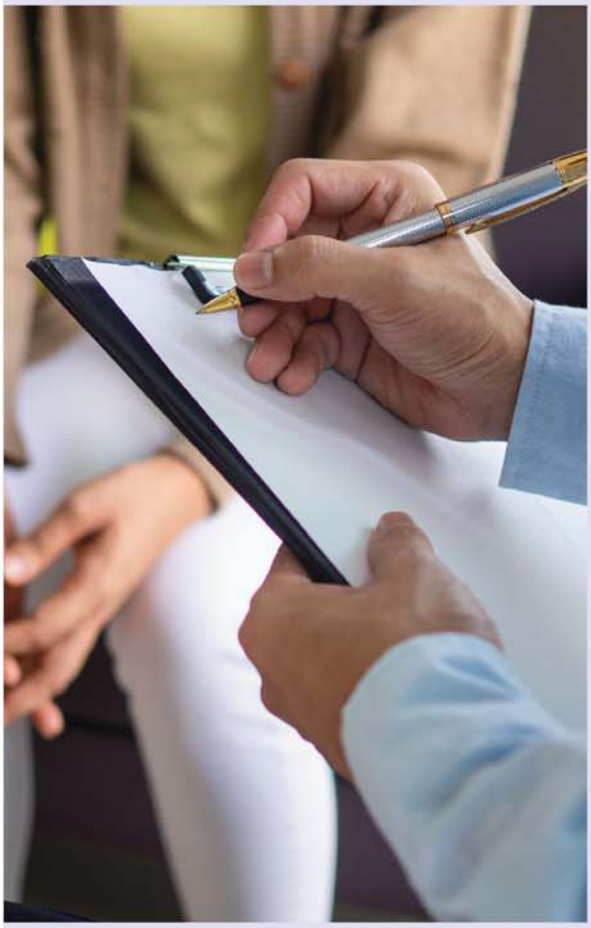
Promotion of Integrated Program

Few examples of how to promote an Integrated Program

- Course name with CERTIFIED FINANCIAL PLANNER.®
- Pursue CFP® certification along with your post-graduation/MBA.
- Unlock the potential for a dual achievement – embark on your journey towards CFP® certification while pursuing your post-graduation/MBA.
- Fast-track your progression towards a thriving career in financial planning by pursuing a dual degree – Course name with CERTIFIED FINANCIAL PLANNER.®
- Plan your studies to complete CFP® certification along with your xyz course, FPSB India conducts exam every month, to know more visit FPSB India.
- Course name (CFP ® Logo) - powered by FPSB India (to be mentioned below the course name)

Student Counselling & Messaging

- **Respectful Promotion:** Avoid comparing CFP certification with other qualifications in a way that discredits any institute or qualification.
- **Transparency:** Ensure students are well-informed about program details, fees, exams, ethics module, work experience requirements, and the suitable pathway.
- **Avoid Unsubstantiated Claims:** Avoid making unsubstantiated claims such as declaring to be the "Best tuition provider" or offering pass guarantees. Claims must be substantiated by evidence, and it is advised to refrain from offering pass guarantees.
- **Clarification on Promises:** When making promises regarding placements, exercise caution and clarify that employment guarantees are offered by the partner institution, not by FPSB India.
- **Promotion of Course Completion:** Avoid promoting the certification with claims like "can be completed within 6-8 months." Or "easy to pass" Instead, highlight the flexibility of the certification program, emphasizing higher exam frequencies and remote/center-based options, while also addressing the program's rigorous curriculum.
- **Fast Track Pathway Promotion:** In promoting Fast Track pathways, emphasize recognizing prior learning and experience, rather than the number of exams exempted. Fast Track pathways aim to credit a student's prior learning and experience, making this the primary focus of promotion.



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01

FPSB Ownership:

The CFP marks must be used in a way that makes it clear that FPSB owns them.

02

Logo Alteration:

The FPSB India/ CFP marks logo should not be altered by modifying in text form, animating, making three dimensional, or using them on patterned background as a watermark or as part of background itself.

03

Territory Specific Trademark:

Use a territory specific trademarks symbol. For India we use registered trademark. i.e., ®

04

Color Alterations and Logo Size:

The logos cannot be used in different colors other than which is provided below. To ensure optimum legibility of the logo, a minimum size of 6mm width is recommended.

Logo for CFP Marks:

CFP®

CFP®

FPSB India Logo:

Logo on white Background

FPSB INDIA

FPSB INDIA

CFP®

Logo on Dark Background

FPSB INDIA

FPSB INDIA

CFP Marks Usage guidelines

E.g., Jane Smith is a CFP® professional. She achieved the CERTIFIED FINANCIAL PLANNER® designation in 2010. The CFP mark represents the global symbol of excellence in financial planning.

- Always use CFP and CERTIFIED FINANCIAL PLANNER as adjectives.
- Always use an approved nouns with CFP and "CERTIFIED FINANCIAL PLANNER:
- Mark(s), professional, practitioner, exam/examination, certification, designation, credential, certificant, education.
- CERTIFIED FINANCIAL PLANNER must always be used in all caps or small caps in copy. This distinguishes the words to confirm its status as trademark.
- CFP should not be used as an acronym for CERTIFIED FINANCIAL PLANNER including in parentheses.
- CFP mark in India is now listed as a Registered Trademark.
- Do not use or pronounce CFP in a plural form, such as "CFPs." Instead, refer to individuals as CFP Professionals or use other approved nouns from the list mentioned above.
- First use of CFP and CERTIFIED FINANCIAL PLANNER must appear with ® (superscript) in its first use in written/ printed materials.

Compliance with FPSB India Guidelines:

Consent for Student Data: Always obtain written consent from students before uploading their details or declaring results on your social media channels.

Result Accuracy: Present results exactly as provided by FPSB India; avoid any alterations, combinations, or recalculations.

Avoid Misleading Claims: Refrain from making claims such as having the highest number of rankers or members in your region or country.

Pass Percentage Comparisons: Do not compare your pass percentages with National Pass Rates or reference them.

Continuous Education: Stay informed and updated about the latest information and changes related to CFP certification to provide accurate guidance to students.

Creative Approval: Prior to publishing, obtain approval for your promotional materials and creatives from the regional team of FPSB India.

Listing FPSB India Official Names: Do not use the names of FPSB India officials for marketing events or engagement activities without their written consent.

Violation of Brand Guidelines Consequences:

In cases where partner and their affiliates breach the advertising regulations outlined herein, FPSB India will follow a specific course of action:

Written Warning

FPSB India will issue a written warning to the partner, specifying the breach and setting a reasonable timeline for them to respond and rectify the issue in 3 days.

Resolution Deadline

If the partner fails to resolve the breach within the stipulated timeframe or commits repeated breaches, FPSB India reserves the right to take further action.

Suspension or Removal of Accreditation

FPSB India may, at its discretion, suspend or revoke accreditation or authorized approval if a breach persists or if there are repeated violations of the advertising regulations. The decision to suspend or remove accreditation will be made solely by FPSB India and will be considered final.

THANK YOU

For any query feel free to contact us at

fpsb.institute@fpsb.in

FPSB INDIA | CFP®

FPSB India is the Indian subsidiary of Financial Planning Standards Board Ltd., the global standards-setting body for the financial planning profession and owner of the international CERTIFIED FINANCIAL PLANNER certification program.

India Financial Planning Conclave - Objective

- Explore the challenges and opportunities in the financial planning industry
- Promote awareness of the skills required for success in the financial planning ecosystem
- Highlight the importance of **integrating financial education into schools, colleges and B-Schools.**
- Discuss emerging trends such as technological advancements, new investment platforms, and the increasing demand for qualified financial professionals to meet the evolving needs of individuals and businesses.

Agenda

Our Key Talking Points

- **Celebrating WFPD 2024 with FPSB India's Vision For Financial Planning**
- **Special Address**
- **Keynote Speech**
- **Technical Session**
  - **IFSCA and FPSB India - Future Collaboration Opportunities in the field of Financial Planning**
- **Panel Discussion 1**
  - **Why Financial Planning Should Be Taught In Business Schools**
- **Panel Discussion 2**
  - **Key Skills Set For Future Career In Financial Services Sector**
- **New CFP Certificant Ceremony**
- **FPSB India Awards 2024**
- **Closing Remarks**

About The Conclave

The conclave focused on the growing importance of financial literacy, investment strategies, and the increasing role of **CERTIFIED FINANCIAL PLANNER (CFP®)** professionals in today's economy. It explored the evolving landscape of financial planning and the many challenges and opportunities for professionals in this field.

Through various panels, key topics such as the integration of financial education in schools and colleges, the impact of **technology on financial planning**, and the need for **personalized financial advice** were explored.

The conclave also emphasized the rising demand for skilled financial professionals and the importance of capacity building both in India and globally.

Celebrating WFPD 2024 with FPSB India's Vision For Financial Planning

Mr. Krishan Mishra, CEO, FPSB India, spoke of the remarkable surge in the number of CFP® professionals in the country. He emphasized that India has undergone a significant mind-shift in recent years, with more people discussing effectively managing their finances. This has led to improved career prospects for CFP professionals.

He also referred to CFP® professionals as 'Financial Doctors', helping individuals maintain healthy finances and enabling families to lead sustainable lives. He emphasized that this community of professionals is making a real impact on society, and the momentum toward this profession is growing positively.

While opportunities and demand are increasing, particularly with job opportunities in GIFT City, there is still a shortage of skilled financial planners to fill the gap.

To address this, FPSB India has also launched a new course, "Psychology in Practice - Essentials for the Financial Planners," to equip professionals with the necessary skills to meet these growing demands.

Mr. Krishan Mishra, CEO - FPSB India

Special Address

Dr. Dipesh Shah, Executive Director, IFSCA, GIFT City welcomed the CFP® professionals at the India Financial Planning Conclave and called it the ideal place to celebrate World Financial Planning Week.

He welcomed Shri Krishan Mishra, CEO of FPSB India, Shri Shashi Krishnan, Director of NISM, and other distinguished guests, and shared insights on the bright future of GIFT City. He shared the **IFSC's vision for GIFT City to create global opportunities for finance professionals, allowing them to work internationally while staying in India**. He emphasized that as India experiences extraordinary growth over the next 25 years, GIFT City will be pivotal in employing 1 million people and fostering innovation in financial technology.

GIFT City, which has already registered over 700+ IFSC entities, will provide a platform for qualified professionals, particularly CFP professionals, to drive these industries forward. He stressed that this growing financial hub is critical for India's development and offers significant opportunities for finance professionals to thrive without the need to move abroad.

**Dr. Dipesh Shah,
Executive Director, IFSCA, GIFT City**

Keynote Speech

Shri Sashi Krishnan, Director, NISM emphasized the importance of saving and investing wisely. He urged the CFP® professionals to offer advice based on real-world experiences and offer practical solutions. Mr. Krishnan also pointed out that financial planning was rarely discussed at family dinners in the past, but this has changed significantly over time. **He stressed that our lifestyle shapes investment attitudes and that financial advisors face** the challenge of giving the right advice tailored to individual needs.

He encouraged optimism about India's future while cautioning against the "trap of missing out" on opportunities. Finally, he emphasized the importance of carefully analyzing financial allocations.

Shri Sashi Krishnan, Director, NISM

Technical Session

IFSCA and FPSB India - Future Collaboration Opportunities in the field of Financial Planning

Dr. Pradeep Ramakrishnan, Executive Director, IFSCA, GIFT City

Dr. Pradeep Ramakrishnan, Executive Director of IFSCA, GIFT City, highlighted the value of international financial planning and fractional investments. He explained that **outbound funds allow individuals to invest abroad, benefiting from the company's growth as well as their own.** Taking risks can lead to rewards, and direct listings of Indian unlisted companies in IFSC are a new and exciting development. This will open up numerous investment opportunities, especially for those restricted by Indian government policies from investing in Indian companies but can invest in foreign firms.

Ramakrishnan also noted that India's population, once seen as a challenge, is now a global asset, with many Indians, including entrepreneurs, spread across the world. For those pursuing CFP® certification, there are ample opportunities, including obtaining an investment advisor license to serve NRIs, further enhancing career prospects in financial planning.

Panel Discussion 1

Moderator
Arun Thukral, CFP®, CPAC Chair, FPSB India

Panelists (From L-R)

- Dr. Palak Sheth, Project Director, Jio Institute
- Prof. Joshy Jacob, Faculty, IIM Ahmedabad
- Dr. Rahul Singh, Dean & Prof, Faculty of Management Sciences, Adani University
- Dr. K. Rangarajan, Director, IIFT Kolkata
- Ms. Aprajita Sharma, CFP®, Assistant Editor, Livemint

"Why Financial Planning should be taught in Business Schools?"

Dr. Palak Sheth,
Project Director, Jio Institute

He discussed the growing importance of financial literacy in education, emphasizing the need for educated individuals to pass on this knowledge.

Prof. Joshy Jacob,
Faculty, IIM Ahmedabad

Prof. Joshy outlined three key areas shaping the future of financial planning: the growing influence of data and technology, the transition to a sustainable economy, and the need for building financial capacity.

Arun Thukral,
CFP®, CPAC Chair, FPSB India

He emphasized the importance of being unapologetic about making money and encouraged people to have enough financial control to afford whatever they wished without hesitation, and thus seek professional guidance in planning the finances.

Dr. K. Rangarajan,
Director, IIFT Kolkata

He emphasized that students today are more aware, with access to digital resources that allow them to verify information. Also, the corporate sector increasingly demands digital, financial, and sustainable literacy from graduates.

Dr. Rahul Singh,
Dean & Prof, Faculty of Management Sciences, Adani University

He shared insights on how financial literacy is gaining traction through CBSE content and foundations funded by corporate and personal contributions. He stressed the need of financial literacy to prevent social crimes, with teachers and families playing a key role in imparting these life skills.

Ms. Aprajita Sharma,
CFP®, Assistant Editor, Livemint

Ms. Sharma shared her experiences in professional learning, including how financial literacy has been part of her work since her first job. While speaking she highlighted that personal finance courses are now being introduced in colleges, though teaching methods need to be improved for better understanding, especially after the NEP implementation.

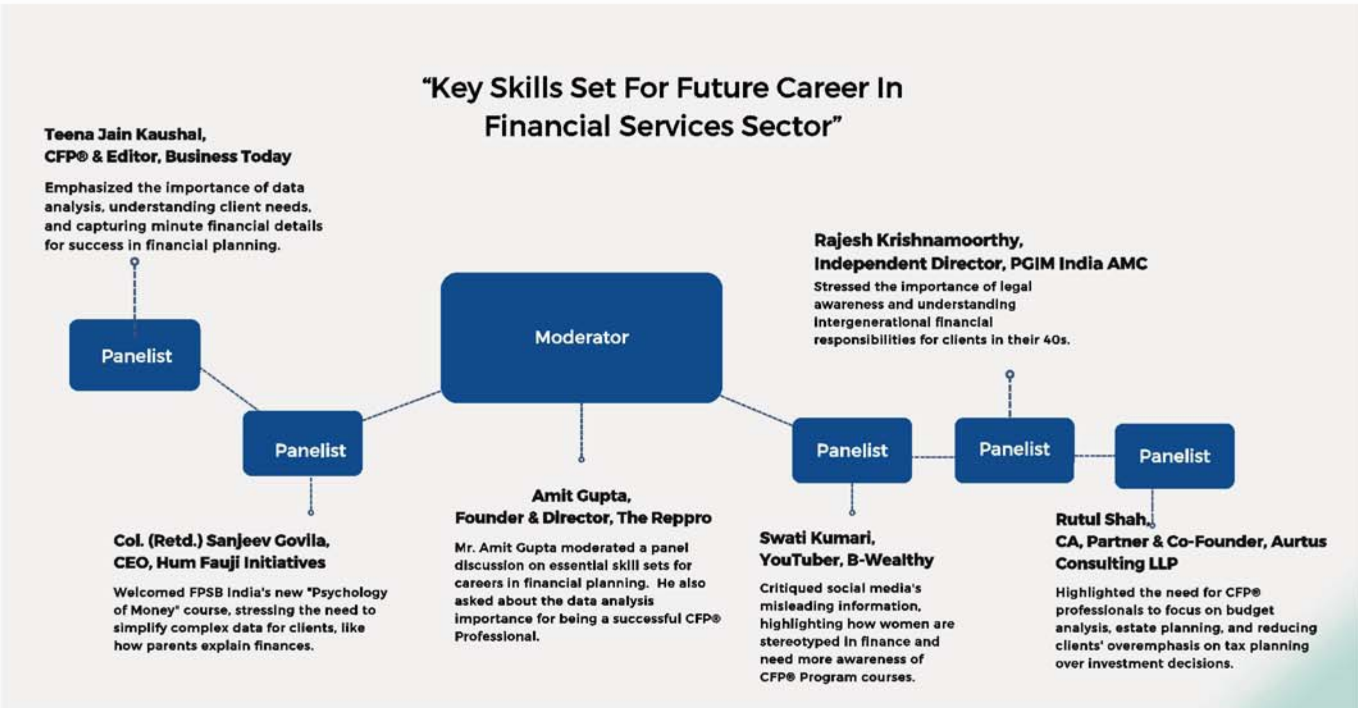
Panel Discussion 2

Moderator

Amit Gupta, Founder & Director, The Reppro

Panelists (From L-R)

- Teena Jain Kaushal, CFP® & Editor, Business Today
- Col. (Retd.) Sanjeev Govila, CEO, Hum Fauji Initiatives
- Swati Kumari, YouTuber, B-Wealthy
- Rajesh Krishnamoorthy, Independent Director, PGIM India AMC
- Rutul Shah, CA, Partner & Co-Founder, Aurtus Consulting LLP



New CFP® Certificant Ceremony

Special Address For CFP® certificants

Mr. Krishan Mishra CEO, FPSB India

Mr. Krishan Mishra, CEO of FPSB India, emphasized that earning the CFP® certification is a significant qualification. CFP® professionals are now part of FPSB India, a standard-setting body for financial planning that also conducts exams and certifies professionals. As consultants for today and tomorrow,

CFP professionals must listen carefully to their clients, ask the right questions, and analyze situations effectively. There is no single right or wrong answer in financial planning; it's about understanding the client's needs. With increasing demand for CFP professionals, they are key to helping people achieve a sustainable future. Believe in yourself

New CFP® Certificant Ceremony

- FPSB India hosts the New CFP Certificant Ceremony, to be held annually starting this year.
- FPSB India recognizes the incredible achievement of the newest CFP certificants. Student's dedication, hard work, and commitment to excellence have brought FPSB India to this proud moment—and we couldn't be more excited for the bright futures ahead of you!
- **100+ CFP Certificants** were recognized

FPSB India Awards 2024
Eminent Jury Members

Mr. Rajesh Krishnamoorthy
Independent Director
PGIM India AMC

Shri Sashi Krishnan
DIRECTOR NISM

Swati Kumari
BWealthy - Youtuber Zee Business | Star India | CNBC Awaaz

Mr. Swarup Mohanty
Vice Chairman & CEO Mirae Asset Investment Managers India Pvt. Ltd

Arun Thukral
CFP® CPAC Chair FPSB India

FPSB India Awards 2024

CFP® Professional Of The Year 2023- 2024 (Practicing)

Mr. Ravindran Lakshmanan
CFP® Founder, MD & CEO
Wealthmax Group Of Companies

CFP® Professional Of The Year 2023- 2024 (Working)

Mr. Aman Amit Shah CFP®
Products & Strategy Credence Family Office

CFP® Student Of The Year 2023- 2024

Dr. Manish Kagrecha
M.B.B.S, M.D.(Internal Medicine) Pushpak Hospital

FPSB India Awards 2024

CFP® Professionals Of The Year 2023- 2024 (Woman)

Ms. Renu Maheshwari CFP®
Co-Founder, Finzscholars
Wealth Management

Ms. Dilshad Billimoria CFP®
Founder & MD Dilzer
Consultants PVT LTD

FPSB India Awards 2024

Educator Of The Year
2023- 2024

Madhu Sinha CFP®
International College Of
Financial Planning (ICOFP)

Authorised Education Provider
Of The Year 2023-2024

M/S. FPA Edutech PVT. LTD

Special Award- Champion CFP
Educator of the year 2023-2024

Harminder Garg CFP®
Founder & Partner
Indian Institute For Financial
Certifications (IIFC)

Closing Remarks

Mr. Akshat Ganeriwala
Manager, Development Department, IFSCA

As the conclave drew to a close, there couldn't have been a better way to wrap up than with the thoughtful vote of thanks from Mr. Akshat Ganeriwala from IFSCA Team.

His words truly captured the spirit of the event, reflecting on the incredible insights shared and the exciting path ahead for GIFT City as it paves the way for a brighter future in global finance.

Thank You!

Looking forward to see you again...

FPSB INDIA

Our Shared Wisdom

Rethinking Historical Returns for Use in Long-term Portfolio Planning in India

Rajan Raju,
Director, Invespar Pte Ltd.

Long-term portfolio planning often relies on historical return averages to project future portfolio performance. However, when naive or overly optimistic, these projections can lead to significant shortfalls, jeopardising investors' financial security. In India's volatile market environment, planning strategies must evolve to address the realities of market behaviour, particularly the risks posed by volatility and drawdowns.

This article draws on the author's paper "Unbalanced Acts: Rethinking Naive Use of Historical Returns in Retirement Portfolio Strategies," available at https://ssrn.com/abstract_id=4814141. It explores the pitfalls of relying on short-term historical returns for long-term portfolio planning and highlights actionable strategies for creating robust, resilient long-term portfolios. By understanding concepts like volatility drag, geometric vs. arithmetic returns, and the impact of drawdowns, investors and financial planners can more confidently navigate uncertainties.

Arithmetic vs Geometric Returns: What's the Difference?

Investment returns are commonly summarised using averages, but the method chosen—arithmetic or geometric—can significantly alter outcomes, especially for long-term planning.

Arithmetic Returns are simple averages reflecting typical outcomes and are universally used in popular financial media. For example, if a portfolio returns 10% one year and -10% the next, the arithmetic average is 0% $\frac{(0.10+-0.10)}{2}$. Compounding is not factored in.

Geometric Returns: These reflect the compounded growth rate over time, offering a more realistic picture. Using the same example, the portfolio's geometric return is negative 1% (1+ 0.1)(1+ -0.1)-1 = 0.01) due to the effect of compounding over the two periods.

Using a real-world example will clarify the intuition. Starting with 2011 as the first year, the five consecutive annual total returns for the Nifty 100 TR Index are -24.93% (2011), +32.51% (2012), +7.89% (2013), +34.88% (2014), and -1.26% (2015).

To calculate the arithmetic mean, we take the simple average of the returns:

"Arithmetic Mean"= $\frac{-24.93+32.51+7.89+34.88-1.26}{5}$ =9.62%" pa".

This suggests an average annual return of 9.62%. However, this approach does not account for the compounding effects of volatility and negative returns over time. The geometric mean, which reflects the realised compounded growth rate, tells a different story. First, we calculate the cumulative return:

"Cumulative Return" =(1-0.2493)(1+0.3251)(1+0.0789)(1+0.3488)(10.0126) -1= 43.07%.

The geometric mean is then derived as:
"Geometric Mean"= $(1+0.4307)^{\frac{1}{5}}-1\approx 7.42\%$ pa

This is lower than the arithmetic mean due to the impact of volatility, particularly the significant drawdown in 2011.

To illustrate the long-term implications, consider an initial portfolio value of 10,00,000. Using the arithmetic mean of 9.62%, the projected portfolio value over 30 years is:

"Portfolio Value (Arithmetic)" $=10{,}00{,}000\times(1+0.0962)^{30}\approx 16{,}26{,}591$.

In contrast, using the geometric mean of 7.42%, the projected value is:

"Portfolio Value (Geometric)" $=10{,}00{,}000\times(1+0.0742)^{30}\approx 10{,}73{,}674$.

This results in a difference of 5,52,917, a stark overestimation by the arithmetic mean. Such discrepancies highlight why relying on arithmetic averages can mislead long-term planning, especially in volatile markets.

The geometric mean, which accounts for compounding and volatility, provides a more realistic and conservative estimate of future expected compounded returns. Understanding and using geometric returns is crucial for financial planners and investors to avoid overestimating portfolio growth over the long term.

When volatility enters the equation, the gap between arithmetic and geometric returns widens. Higher volatility amplifies this effect, introducing what is known as **volatility drag**.

For instance, with the Nifty 100 TR index, average annual arithmetic returns might appear promising, but geometric returns—adjusted for volatility—are consistently lower.

There is a pragmatic approximation that practitioners can use which accounts for the volatility drag in estimating expected compound (geometric) returns:

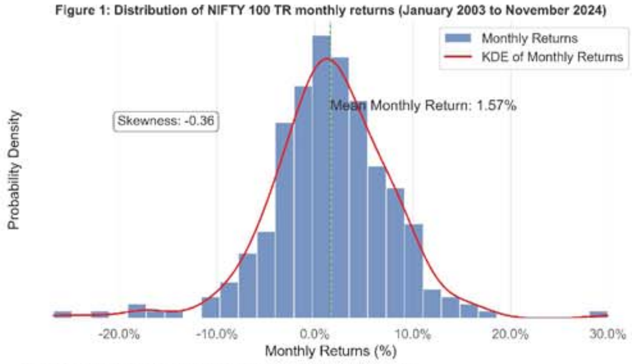
$$\text{Expected Geometric Return} \approx \text{Expected Arithmetic Return} - \frac{\text{Volatility}^2}{2}$$

This accounts for **volatility drag**, which reduces the compounded growth rate due to the variability of returns. For example, consider a portfolio with an arithmetic annual return of 15% and annual volatility of 20%. Applying the formula, the geometric return is approximately $15\% - \frac{(20\%)^2}{2} = 13\%$. While this may seem like a minor adjustment, its impact on long-term growth is significant. Over 30 years, an initial investment of 1,00,000 grows to approximately 66,21,177 using the arithmetic return but only to 39,11,590 with the geometric return—a difference of over 27,09,587.

This demonstrates how failing to account for volatility leads to overestimating portfolio growth. Investors and planners can make more realistic and reliable projections for long-term financial planning using this simple adjustment.

Figure 1 shows the distribution of monthly returns for the NIFTY 100 TR series from January 2003 to November 2024. The arithmetic average for annualised returns is 18.7%, and its full-period volatility is 28.9%. The geometric annualised mean is 13.8%. Applying the approximation, we estimate geometric returns as 14.5% - slightly higher than the realised geometric mean. With a difference of over 4% per annum, a practitioner will get two very different outcomes in estimates of future expected values using the historical arithmetic mean and the estimated geometric mean. Using arithmetic returns without accounting for volatility drag will overestimate future estimates of portfolio values.

Figure 1: Distribution of NIFTY 100 TR monthly returns (January 2003 to November 2024)



Source: Author's calculations, Nifty 100 TR data from Nifty Indices website

Volatility: The Double-Edged Sword

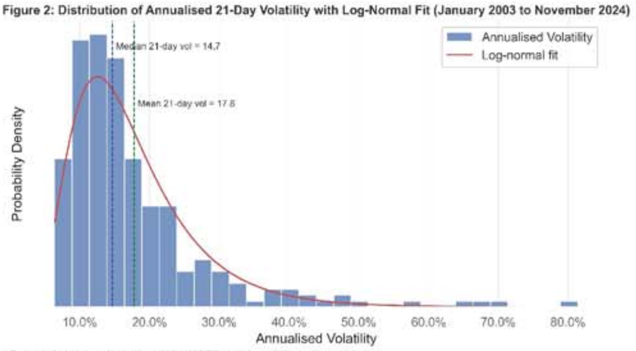
Why is there a difference between the realised historical geometric return and its estimate? Unlike the realised past, the future is inherently uncertain. Investors should rationally dislike uncertainty about risk (volatility) as it can lower risk-adjusted returns and the expected growth rate for a portfolio. The volatility of volatility measures this uncertainty related to risk.

To calculate the volatility of volatility, we calculate the standard deviation of daily returns within each month and then scale these by the square root of the number of trading days in a year (typically 252) to express the volatility in annualised terms. Using this calculated series of non-overlapping annualised volatilities, we then calculate the volatility of these volatilities, essentially measuring the standard deviation of the series obtained from the first step. This final measure, the volatility of volatility, reflects the variability in the risk estimates over time and provides a quantifiable measure of the uncertainty inherent in the financial markets.

Figure 2 shows the volatility distribution for all non-overlapping 21-day periods for the Nifty 100 TR series between January 2003 and November 2024. The distribution is positively skewed - median monthly volatility is considerably lower than mean monthly volatility. Note that the mean and median volatilities are also lower than the realised volatility. This skewness of the volatility of volatility leads to an underestimation of future volatility and, therefore, a reduced volatility drag. Practitioners must be mindful that using historical volatility in estimating expected future compound returns is an approximation, but using it is a significantly better approach than using arithmetic averages.

The Risk of Drawdowns

Figure 2: Distribution of Annualised 21-Day Volatility with Log-Normal Fit (January 2003 to November 2024)



Source: Author's calculations, Nifty 100 TR data from Nifty Indices website

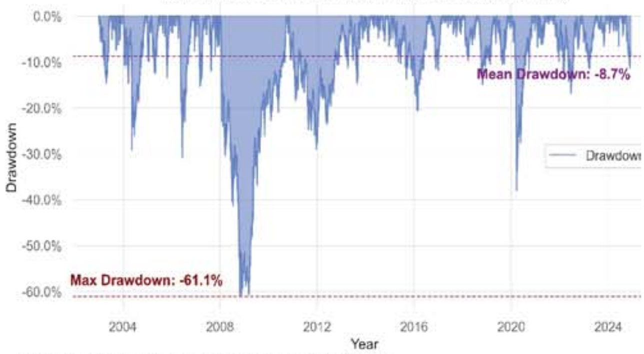
Volatility isn't the only risk—drawdowns, or the decline from a portfolio's peak value, can have far-reaching consequences for long-term portfolios. Unlike volatility, which measures fluctuations, drawdowns represent actual losses that can deplete portfolios.

Amongst several reasons, we highlight two reasons why drawdowns matter for long-term financial plans:

1. Sequence of Returns Risk: A significant drawdown early in the decumulation phase of long-term portfolios can severely impact a portfolio's ability to recover, especially when withdrawals continue during extended downturns. For example, a portfolio starting at 3.3 million with a planned annual withdrawal of 100,000 has a withdrawal rate of 3%. Cetris paribus, such a portfolio should last 30 years of regular withdrawals. But after a 30% drawdown, the withdrawal rate jumps to 4.3%, threatening the portfolio's long-term sustainability. This withdrawal rate reduces portfolio sustainability to less than 25 years.

2. Historical Evidence: Figure 3 shows the drawdowns in the NIFTY 100 TR Index between January 2003 and November 2024, with a maximum drawdown of 61% and a mean drawdown of 9%. Relying on averages without accounting for severe and potentially prolonged downturns could lead to devastating miscalculations, especially when withdrawals are regular and relatively inflexible.

Figure 3: NIFTY 100 TR Drawdown (January 2003 to November 2024)



Source: Author's calculations, Nifty 100 TR data from Nifty Indices website

Effective long-term planning must anticipate worst-case scenarios and build buffers or margins of safety. Strategies should incorporate these risks, emphasising resilience over excessive optimism. The findings here challenge the common practice of projecting future returns based solely on arithmetic averages. Adjusting for volatility and drawdowns leads to more realistic—and conservative—return expectations.

Recommendations for Investors and Planners

To address these challenges, investors and financial planners must adopt a more nuanced approach:

For Investors:

1. Set realistic expectations: Avoid overreliance on short-term historical averages. When projecting returns, factor in the volatility drag and potential drawdowns. Also, avoid behavioural biases such as anchoring, recency, and optimism.

2. Diversify strategically: Diversification across uncorrelated asset classes protects against severe market downturns. While absolute returns will be lower, Nobel Prize laureate Harry Markowitz reportedly said, "Diversification is the only free lunch" in investing.

3. Plan for contingencies: Build a financial cushion for worst-case scenarios. For instance, consider how a 10% drop in equity returns during retirement's first year could impact portfolio longevity.

For Financial Planners:

1. Educate clients: Address behavioural biases like recency and optimism biases, which can lead clients to overestimate future returns based on recent performance.

2. Incorporate simulations and scenario planning tools: Use simulations, scenario planning, or similar tools to illustrate the range of possible outcomes and help clients understand potential risks.

3. Prepare for drawdowns: Stress test against historical drawdowns to emphasise the importance of portfolio resilience and ensure clients can maintain their financial objectives even during periods of market drawdown.

Conclusion

Some elements of financial planning in volatile markets require a shift from simplistic assumptions to data-driven methods. By understanding the nuances of arithmetic vs. geometric returns, the impact of volatility, and the risks of drawdowns, both investors and financial planners can develop resilient long-term portfolios tailored to individual needs.

The key takeaway is simple: overestimating future returns can lead to catastrophic shortfalls, while conservative planning based on realistic assumptions offers a safer path to financial security. By embracing these principles, planners can help clients navigate future market uncertainties and achieve financial objectives with higher likelihood.

Rajan is a Director of Invespar Pte Ltd, a visiting faculty of the Indian Institute of Management, Ahmedabad, and his research is available on SSRN at https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=3354364. He is reachable at rajanraju@invespar.com and on Twitter at @rajanraju26.

Taxation of Investment Products: A Recap for Financial Planners

Joydeep Sen,
CFP

Tax planning per se is the domain of tax professionals like chartered accountants. Having said that, financial planners need to be aware of the basics of taxation of investment products, for a perspective on net-of-tax returns. To be noted, tax efficiency itself is not the criterion for investment decisions. Portfolio allocation decisions are to be taken on the basis of fundamentals i.e. investment objectives, risk appetite, time horizon, etc. With knowledge of taxation, the planner can guide the investor accordingly. Between two products of similar risk-return profile, one with tax efficiency can be preferred.

<u>Equity stocks</u>

Long term capital gains (LTCG) tax, over a holding period of more than one year, from listed equity stocks and equity oriented Mutual Funds (Mfs), is now 12.5%. Earlier, prior to 23 July 2024 when the final Union Budget was presented, it was 10%. The threshold for taxability of LTCG is now enhanced to Rs 1.25 lakh per financial year, from Rs 1 lakh per financial year earlier. For short term capital gains (STCG), the tax rate is now 20% from 15% earlier. Surcharge and cess are applicable to all base tax rates.

In equities, it is possible to do tax harvesting. As and when the price of the stock / NAV of the fund moves up, you can sell and book the gains and purchase the same share / MF Scheme. You can purchase back same day or within a reasonable period of time. Let's say the price / NAV as on your date of acquisition was Rs 100 and you would eventually sell it after 10 years when the price would be say Rs 200. At that point, you would pay tax on Rs 200 minus Rs 100 = Rs 100. You would pay tax in that financial year (as per then prevailing rules), on the gains more than the threshold amount.

Let assume currently, after the rally in equities, price has moved up to Rs 130. Today, if you sell the share at Rs 130 and purchase it again, as long as the gains i.e. Rs 130 minus Rs 100 = Rs 30 is within Rs 1.25 lakh in the financial year, it is tax free for you. How it helps you is, through this transaction, your cost of acquisition for tax purposes moves from Rs 100 to Rs 130, which will be relevant when you eventually sell it after another say 7 years at Rs 200. At that point, your gains will be Rs 200 minus Rs 130 = Rs 70 instead of Rs 100. Since equity investments are meant for long term horizon, you effectively stay invested.

Let's say you invested Rs 10 lakh in equity MFs more than 1 year ago and the portfolio value today is Rs 11 lakh. You can redeem the entire portfolio as the gains are within Rs 1.25 lakh in the financial year. If the market value of the portfolio today is say Rs 12 lakh, then for tax harvesting, you have to sell as much so that your gains are within Rs 1.25 lakh to avoid paying tax. You may have initially invested in the fund lump sum and exited on a particular date. However, you may have invested through a Systematic Investment Plan (SIP) and may withdraw through a Systematic Withdrawal Plan (SWP). In that case, the NAV of your earliest investment will be taken, which is called First In First Out (FIFO).

<u>Bonds</u>

In bonds, most of your returns come from the coupon or interest. This is unlike equities - in equities, dividend yield is low and most of your returns come from price appreciation. Bond interest was, and remains, taxable at your marginal slab rate (MSL). Your tax incidence is relatively lower on the capital gains component. For a listed bond, for a holding period of more than one year, if you sell the bond at a profit, the long term capital gains are taxable at 12.5% currently, which was 10% earlier. This is considerably lower than MSL, which for most investors, is 30% plus surcharge plus cess. Another change that has happened in the latest Finance Bill is that, capital gains from unlisted bonds is now taxable at MSL, irrespective of holding period.

Mutual Funds

Usual equity and debt funds

In equity MFs, taxation is as discussed earlier, in the context of taxation of equity stocks. LTCG is now taxable at 12.5% against 10% earlier, beyond Rs 1.25 lakh per financial year, and STCG is taxable at 20% now against 15% earlier.

Debt funds remain taxable at MSL. However, there is a nuance in one segment here. As per earlier rules, till 22 July 2024, if you had invested in a debt fund growth option till 31 March 2023 and redeemed after a holding period of three years, it was taxable at 20 percent after the benefit of indexation. However, in the latest Finance Bill, indexation has been withdrawn. Debt fund investments, made till 31 March 2023 - when you redeem after 23 July 2024, provided you have held for two years, will be taxable at 12.5% straight, without the benefit of indexation. Investments made in debt funds since 1 April 2023 are taxable at MSL any which way.

Fund of Funds (FoFs)

A Fund of Funds (FoFs) is a Mutual Fund product that invests in other funds. Usually it is multiple other funds, in some cases it a single (other) fund. The purpose is to get the features of other funds in one wrapper fund. You can do this at your end as well, by investing in pure-play equity funds or debt funds. However, when you are doing a portfolio adjustment at your end, there is a tax implication. When you are moving from one fund to another, it is a sale and purchase, with consequent tax impact as discussed earlier. When you sell and purchase equity stocks or bonds, there is a tax impact, as mentioned earlier. As against this, a Mutual Fund per se is a tax-free entity; the tax you pay is on your gains and pay-outs. Hence as long as your objectives and the mandate of the fund match, there is a reason to invest in a FoF.

Now there is a favourable change in your taxation of gains from FOFs. Till 22 July 2024, in the growth option of FoFs, the gains were taxable at your marginal slab rate (MSL), which for most investors, is 30 percent plus surcharge and cess. Now, post 23 July 2024, provided you hold it for a minimum of 2 years, it is taxable at 12.5% plus surcharge and cess.

Gold and Silver ETFs

Here as well, there has been a change in taxation in the latest union budget. Till 22 July 2024, the gains from gold ETFs were taxable at your marginal slab rate (MSL). Now, post 23 July 2024, provided you hold it for a minimum of 1 year, it is taxable at 12.5%. This makes it more tax efficient.

Hybrid Funds with equity 35% to 65%

Hybrid MFs with equity exposure in the range of 35% to 65% of portfolio had a different tax treatment, subsequent to the union budget and Finance Act of previous year. In this category of funds, till 22 July 2024, provided you held for three years, it was taxable at 20% after the benefit of indexation. Now, post the latest union budget and withdrawal of indexation, this category of funds is taxable at 12.5%, after a holding period of two years.

International Funds

In international feeder funds and international ETFs, there are limits imposed by regulators on the amount of money that can be accepted by the Mutual Fund industry. The limits are USD 7 billion for international funds and USD 1 billion for international ETFs, across the industry. Having said that, certain AMCs are accepting fresh money, against redemptions. As and when there are redemptions in an international fund, it implicitly opens up fresh limits.

Here, taxation is similar to Fund of Funds (FoFs). Provided you hold for two years, it is taxable at 12.5%.

REITs & InvITs

REITs and InvITs required a holding period of three years earlier, to be eligible for LTCG, which used to be at 10%. Now, after 23 July 2024, the holding period for all listed instruments is reduced to one year, for the LTCG rate of 12.5%. The lower holding period is a positive, from the taxation perspective.

Physical real estate and gold

With uniformity in holding period, it is now required to be held for two years, to be eligible for LTCG taxation. LTCG is now taxable at 12.5% straight, without indexation.

There is one exception this: for physical real estate purchased till 22 July 2024, the investor has a choice. For real estate purchased till 22 July 2024, tax may be paid either at 12.5% or at 20% after indexation. There is no indexation in gold, or in any investment for that matter, or in real estate purchased after 23 July 2024.

Portfolio Management Services

PMSs are known as pass-through structures. The securities are in your demat account. From the taxation perspective, you have purchased the securities yourself. That is, there is no separate recognition of a PMS from taxation perspective, like Mutual Funds.

Hence taxation will be as per the investment asset e.g. equity, bonds etc. covered earlier.

Alternative Investment Funds

In AIFs, there are three categories. Category I and II AIF funds are taxable as pass-through structures. It is conceptually similar to taxation of PMS i.e. you have purchased the securities yourself, not through an investment vehicle. In Category III AIFs, there is tax deduction at source (TDS) and net of TDS, it is tax free in the hands of the investor.

Tax rate is a function of the investment asset e.g. equity (listed / unlisted), bonds (listed / unlisted) etc. covered earlier. However, there is a nuance here. For TDS in Category III, AIFs usually assume the highest marginal slab rate, including highest surcharge cess. Investors in AIFs are HNIs, given that they are committing Rs 1 crore in one product. Having said that, all AIF investors may not be in the highest surcharge bracket. The surcharge brackets are 10% for annual income between Rs. 50 lakh to Rs. 1 crore, 15% for annual income between Rs. 1 crore to Rs. 2 crore and 25% for annual income exceeding Rs 2 crore.

Old (tax rates prior to surcharge and cess)			
Investment asset	**STCG**	**LTCG**	**Holding Period**
Listed equities	15%	10%	LTCG applicable after 12 months
Unlisted equities	*MSL	20% (with indexation)	LTCG applicable after 24 months
Foreign stocks not listed in India	MSL	20% (with indexation)	LTCG applicable after 24 months
REITs and INVITs	15%	10%	LTCG applicable after 36 months
Listed bonds, debentures	MSL	10%	LTCG applicable after 12 months
Unlisted bonds / debentures	MSL	20%	LTCG applicable after 36 months
Coupon (interest) on bonds	MSL		
Foreign bonds not listed in India	MSL	20%	LTCG applicable after 36 months
Real estate	MSL	20% (with indexation)	LTCG applicable after 24 months
Physical gold	MSL	20% (with indexation)	LTCG applicable after 36 months
Equity-oriented funds (including hybrid funds with more than 65% in equity)	15%	10%	LTCG applicable after 12 months
Debt-oriented funds (including hybrid funds with more than 65% in debt)	MSL		
Hybrid mutual funds with 35% to 65% in domestic equities	MSL	20% (with indexation)	LTCG applicable after 36 months
Other MFs (Fund of Funds, International unds / FOFs)	MSL		
Equity ETFs	MSL		
Gold ETFs	MSL		
Debt ETFs	MSL		

***MSL - Marginal Slab Rate**

New (tax rates prior to surcharge and cess)				Remarks
Investment asset	**STCG**	**LTCG**	**Holding Period**	
Listed equities	20%	12.50%	LTCG applicable after 12 months. Exemption increased from 1 lakh to 1.25 lakh.	There has been heartburn over the 2.5% point increase in LTCG
Unlisted equities	MSL	12.50%	LTCG applicable after 24 months	LTCG rate is now same as listed equity, only the holding period is different
Foreign stocks not listed in India	MSL	12.50%	LTCG applicable after 24 months	Listing abroad is treated as not listed in India
REITs and INVITs	20%	12.50%	LTCG applicable after 12 months	The reduction in holding period makes a big difference
Listed bonds, debentures	MSL	12.50%	LTCG applicable after 12 months	The extent of increase is same as LTCG in listed equities
Unlisted bonds / debentures			MSL	Now it is slab rate irrespective of holding period
Coupon (interest) on bonds			MSL	No change in tax on coupon
Foreign bonds not listed in India			MSL	Listing abroad is treated as not listed in India
Real estate	MSL	12.50%	LTCG applicable after 24 months	For real estate purchased till 22 July 2024, the option of 20% with indexation is available
Physical gold	MSL	12.50%	LTCG applicable after 12 months	Holding period for LTCG is lower now
Equity-oriented funds (including hybrid funds with more than 65% in equity)	20%	12.50%	LTCG applicable after 12 months. Exemption increased from 1 lakh to 1.25 lakh.	Same as listed equity stocks
Debt-oriented funds (including hybrid funds with more than 65% in debt)			MSL	No change
Hybrid mutual funds with 35% to 65% in domestic equities	MSL	12.50%	LTCG applicable after 24 months	Holding period is lower now
Other MFs (Fund of Funds, International Funds / FOFs)	MSL	12.50%	LTCG applicable after 24 months	It is a positive change as the benefit of LTCG is available now
Equity ETFs	MSL	12.50%	LTCG applicable after 12 months	Positive change
Gold ETFs	MSL	12.50%	LTCG applicable after 12 months	Positive change
Debt ETFs			MSL	No change

***MSL - Marginal Slab Rate**

Conclusion

Now there is uniformity in taxation rules: holding period is one year for all listed instruments and two years for all unlisted instruments / physical investments. Indexation has been removed, except for real estate purchased till 22 July 2024.

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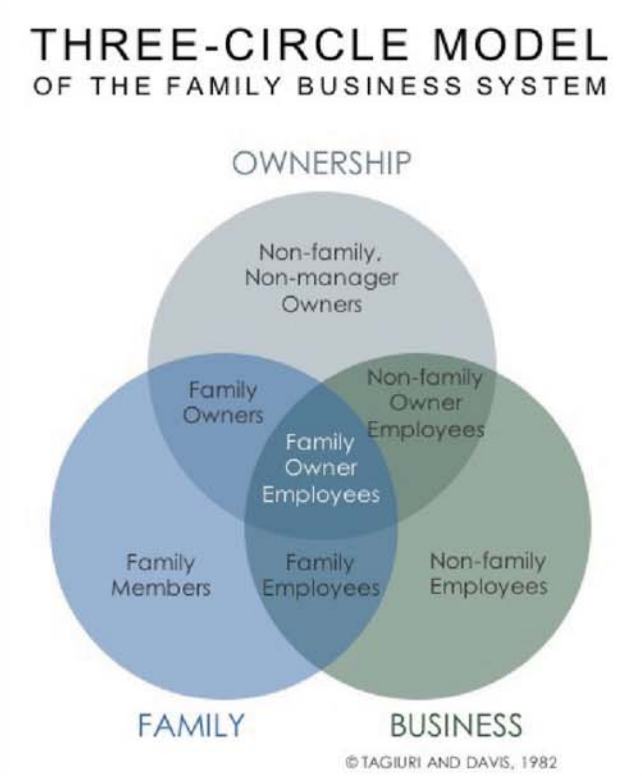
Family Businesses in India - The Role of Financial Planners

Naresh Pachisia,
CFP

The Role of Financial Planners for any family in India is well discussed. But, when it comes to financial planning in "Family Business", my experience is - it's more complex with more nuances, a broader scope and requires a deeper dive.

Family Business has three dimensions viz. the business, its ownership and the (entrepreneur's) family. The key objective of most Family Business is to grow the business while maintaining family harmony, sustainably. This looks simple but is complicated and needs deeper understanding of "Family Business" as a concept to undertake effective financial planning.



These three, partly overlapping dimensions of Business, Ownership and Family, each having its own nuances, create seven distinct categories of people in the Family Business System, five of which are part of the "Family", but with distinctly different positions, roles and responsibilities.

This becomes further complicated with the potential presence of multiple generations, spouses, siblings and in many cases, a confederation of cousins – each with distinct thoughts, philosophies, risk profile, needs, goals, etc., when it comes to personal finance. Given that "Family Business" is itself a mine field of paradoxes which need sensitive and careful navigation, such complex maze merit structural solutions. A financial planner needs to have a deeper insight and understanding of its nuances to be able to successfully find structural solutions in the financial planning process of a Family Business.

A Family Constitution or a similar document is a structural family business governance solution to navigate the divergent views of all stakeholders on various topics and arrive at a common path to sustainable business growth and/or family harmony. The process of making of such a document itself is quite insightful, first enabling all stakeholders to take a deep dive into each other's views and then to find a common ground to a structural solution. Thereafter the document becomes the guiding force for all stakeholders and set the policies and processes for everyone to follow.

A Financial Planner serving a Family Business will do well to have a nuanced understanding of a Family Constitution and its creation. This will enable the financial planner to find a similar structural solution for navigating all stakeholders through their diverse investment thoughts, philosophies, risk profiles, financial needs and goals, etc. Each stakeholder may share their thoughts which others can be sensitive about, and the common minimum could be the structural solution in the form of an "Investment Policy Document" which then becomes the guiding force for all stakeholders and set the policies and process for everyone to follow.

For larger Family Businesses with sizeable investments, this entire process may be scaled up further to the creation of a "Family Office". It could be a Single-Family Office, or a part of a Multi-Family Office service provider. To remain relevant and add value at this scale, financial planners need to upgrade themselves too in terms of broader knowledge and understanding of more products and service offerings.

Family Business have more nuances. Whilst salary earners and other professionals have a regular income generation with predictable cash flows for investments, family businesses are quite different. Income tends to be irregular, sometimes volatile, resulting in unpredictable cash flows and surplus generation for investments made by the business and the family, both of which need to be treated separately. Financial Planners can add great value by providing stability to the investment process.

Entrepreneurs, being natural risk takers, sometimes tend to pay little attention to or underscore the importance of risk management – particularly against the vagaries of nature. More so in India, given the inherent culture in the family business society. Financial Planners can play a significant role in guiding Family Businesses towards risk management.

A common mistake that family businesses, particularly MSMEs, make is treating the business capital and family wealth as one and not distinctly. In an earlier article in this journal, I have detailed the strategic need to have a Chinese Wall between the two because the time horizon of the two differ, meriting different asset allocation to optimise risk-rewards in respective investments. A Financial Planner can play an important role in bringing such discipline in a family business and also help manage the psychology and behaviour of all its stakeholders to help them avoid avoidable mistakes and guide them towards sustainable prosperity and harmony.

The role of a Financial Planner in Family Business in India is, therefore, as important as in any other family, if not more. However, Financial Planners will do well to prepare themselves well to be able to do so successfully.

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Buckle and Hide

Rajesh Krishnamoorthy,
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You guessed it right. I owe the title to Robert Louis Stevenson and the famous book Dr. Jekyll and Mr. Hyde. To bring back memories of this unforgettable book during our school days, and reflect on it as present-day adults, we notice how well we are introduced to the duplicity of human nature! There is also a key turning point in the story where one night Dr. Jekyll turns into Mr. Hyde involuntarily! An uncontrollable situation even though there was control until that night using the serum!

Please be forewarned, this read is more about questions than answers.

So, what does Jekyll have to do with buckle and what does Hyde have to do with hide? There is good reason for me to indulge you in a few minutes of inquiry into our human nature and how it plays out in client behavior and in our behavior too! There is a Dunning-Kruger effect that comes into play very often and yes, it is on purpose that out of the blue, I have digressed from simple English and decided to startle you by naming a psychological study!

Let us start with the measly buckle (or is that not?)! In the last month, I have traveled a lot across India, and it involved one good long 2000 km drive as well. As you travel such long distances, you cannot help but notice certain patterns. And these stick to your mind and at some point, your system 2 thinking starts off! All four of us seated in the car knew driving, all of us are habituated to wearing the seat belt too. However, there were many occasions where the beep would come up on the dashboard urging someone in the car to wear the seatbelt. The act was not on purpose but determined by the forgetfulness of going through the seat belt drill. Which means, despite 2-3 decades of driving, you can still have moments such as these that require someone or something to show you the mirror or do ding or a ring-ring or beep-beep and tell you, buckle up buddy! Brought up the question, wouldn't even a seasoned client need continuous support of a professional advisor?

It doesn't stop here. As my eyes wandered across other vehicles, be it rural or urban, metro city or suburb, I saw a definitive trend. 7-8 of 10 bikers don't fasten their helmet buckle! System 1 said, lousy, lazy folks, don't care for their lives! System 2 makes me write this piece. I asked myself, what biases, behavioral and or cognitive, contribute to such behavior? Can these be linked to situations that we experience on a regular basis with clients in the context of financial planning? Is this to do with only biases or could personality types determine such behaviour - behavioral inconsistencies?

Illusion of safety, Illusion of Protection or False sense of security - How often do we see this play out! The covid mask on the chin, the illegal car seat belt clip that silences the beep, the unfastened helmet on the rider's head. Does that remind us of insurance policies with low mortality cover and high market to market investments? What else can we pull out from our client experiences and interactions to help them come out of this illusion?

To ourselves, can we ask the question, do I have such illusions with my practice? Say, because I believe strongly that Gold does well when war breaks out, I am thrusting that on my client asset allocations, would that give me a false sense of security that my client portfolios will weather this storm?

The comfort-safety tradeoff is at play here. The comfort of not having the irritating buckle rubbing against my chin, the cool wind fully on my face vs the tradeoff that should I fall, the helmet could as well roll away without caring for me! Does the rider consciously think about this trade off? If not, can I instill that thinking? How can I do

that in the context of my clients and my peer group?
Optimism bias - Is the Hyde in me hiding behind optimism bias? Just as much as my economy has done so well, and it shows so much promise for the future too, I shall remain bullish in recommending asset allocation strategies unknowingly agreeing to the optimism bias even my clients have? How will I objectively review the goals and asset allocations removing the optimism bias? Do I need to challenge the optimism or is it good for my client's situation? (side note - not all biases are bad)! All this certainly not without harnessing the helmet! That is non-negotiable.

Cognitive dissonance - The usual excuses are, it is a short ride, why buckle up? I am riding so slow, even if I fall, I will make sure I use my hand to press the helmet on to my head and protect myself! I am very good with my riding skills. So, reflexes will save me from anything unfortunate. Helmet may not even come into play!

Sounds familiar? Do similarities come up particularly in investment and tax planning conversations with clients?

When we do 90% of something and we just decide to let go of completing the remaining 10% (which may also be so crucial for the success or effectiveness of the 90% that you have already done), we often underestimate that 90% can be as good having done 0% because of the incompleteness of the activity. In our risk management and audit committees, we bring up something called "minimal compliance behavior"! We alert everyone around that the approach of minimal compliance will merely lead to a checklist compliance rather than being able to truly demonstrate compliance with the law. These could also manifest in client behavior when we are constantly nudging them to stick to budgets drawn in their financial plan. Control on expenditure, in particular, cannot be on the basis of minimal compliance! Excuses often will be, unexpected one time spend led to breaching spending limits! (the truth may be otherwise...)

While this is subject to a lot of criticism, I believe it is these criticisms and pushbacks that refine a study. The Peltzman Effect is an economic theory that suggests that when safety measures are implemented, people may compensate for the increased safety by engaging in riskier behavior. This can lead to a reduction in the overall effectiveness of the safety measures. The impact therefore in our case is double -

Do I have a helmet on my head? Yes
Could I therefore display the Peltzman effect? Ride faster than usual, for example. - Yes, likely

Given that the helmet on my head isn't harnessed, isn't it going to impact me harder should I have an accident? - Yes
Having looked at the above, time to come back to the Dunning-Kruger effect!

The Dunning-Kruger effect is a cognitive bias where people with limited knowledge or ability in a specific area greatly overestimate their own knowledge or ability in that domain. It leads to a situation called the double-curse where they not only perform poorly but also fail to realize their incompetence. The ability to recognize their own limitations is lacking.

You might be interested to note that this has the opposite effect for experts. Interestingly, highly skilled individuals may sometimes underestimate their abilities, assuming that tasks are easy for everyone. Which points to the question - am I expecting my client to understand what I say, act according to my advice and stay the course - all so rosy - because I think it is so easy to understand what I have communicated to my client?

Some of the solutions I heard when I bounced this effect with financial planning practitioners are as follows (and probably, we could have some peer sharing later - what more can we do?):
Being patient with clients - Tell myself that clients may genuinely believe they are more knowledgeable than they are.

Being more humble: I will recognize my own limitations and be open to learning from others, thereby motivating my clients to also follow a similar approach - in effect helping me to provide my services effectively towards my clients.

Seeking feedback: Actively seeking constructive criticism to improve our skills and knowledge from peer groups and seniors in the industry, using well-wishers as sounding boards.

Promoting continuous learning: Encourage a growth mindset and lifelong learning, nudging self and peers to seek.

Time to unhide, and yes, buckle up!

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Our CHANGING MARKET PLACE

GIFT City as an Enabler for Globalization of Indian Financial Services

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The Indian financial services sector, characterized by its robustness and rapid growth, has become one of the most significant drivers of the country's economic expansion (IBEF Report, 2024). Over the years, Indian financial institutions have evolved, incorporating global best practices, digital innovation, and increased regulatory frameworks.

With India's economy leading on the global stage, the next natural step is the internationalization of its financial services. This process, however, is intricate and requires both strategic policy decisions and infrastructural support.

One significant development in this context is the establishment of the Gujarat International Finance Tec-City (GIFT City) in Gandhinagar, which is playing a vital role in bridging India's financial services with global markets.

This article explores how Indian financial services are expanding beyond country's boundaries, the challenges and opportunities involved, and how GIFT City acts as a critical catalyst in this process. It also discusses the steps required to ensure a seamless integration of Indian financial services with the global financial ecosystem.

Indian Financial Services: A Growing Global Footprint
India's financial services industry is vast, encompassing banking, insurance, asset management, investment banking, and more. Traditionally focused on domestic markets, Indian financial institutions are increasingly setting their sights on international markets as India's global influence expands. The country's growing middle class, rising GDP, digital infrastructure, and innovation-friendly environment make it an attractive hub for financial services that can cater to both domestic and international clients (IBEF Report, 2024). Global Economic Integration, Growing MNCs, Tech Advancements, Regulatory Reforms etc. are few of the factors which will drive the globalization of financial services of India. These are discussed in the following section.

Factors Driving the Internationalization of Indian Financial Services

a) Global Economic Integration
Economic globalization has created interlinked financial markets where cross-border transactions, investments, and financial services are more common than ever. India's increasing participation in global trade, investment, and capital markets has necessitated a stronger presence of Indian financial institutions abroad.

b) Growing Indian Multinational Corporations (MNCs)
The rise of Indian multinationals in industries such as information technology, pharmaceuticals, and manufacturing has driven the demand for cross-border banking and financial services. Indian companies need global banking solutions, asset management, and insurance services to manage their overseas operations and growth.

c) Technological Advancements
The rise of fintech and digital banking solutions has made it easier for financial institutions to offer their services across borders. Technologies such as blockchain, AI, and cloud computing have revolutionized the financial services industry, providing Indian financial institutions with tools to expand globally while offering secure, efficient, and scalable services.

d) Regulatory Reforms
Over the years, India has liberalized its financial markets, allowed foreign investments and enabled Indian

institutions to expand overseas. The Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), and other regulators have played an instrumental role in creating a more conducive environment for international financial operations.

e) Global Indian Diaspora

The significant population of the Indian diaspora, especially in regions like North America, the Middle East, and Europe, creates a demand for financial services that cater to their specific needs. From remittance services to wealth management, Indian financial institutions are well-positioned to serve this segment.

While there are clear opportunities for Indian financial institutions to expand internationally, there are also several challenges that must be addressed to ensure success. The following section lists key challenges and their impact on globalizing Indian financial services.

Challenges in Taking Indian Financial Services Global

I. Regulatory Barriers

Different countries have their own stringent regulatory frameworks governing financial institutions. Indian banks and financial service providers must navigate complex compliance requirements, which vary widely from one jurisdiction to another.

ii. Operational Risks

Expanding internationally exposes Indian financial institutions to operational risks, including currency fluctuations, political instability, and unfamiliar market dynamics. Managing these risks requires deep local knowledge and strong governance structures.

iii. Competition

Indian financial services face intense competition from established global financial institutions, especially in mature markets like Europe and the United States. These competitors often have decades of experience, local expertise, and established client bases.

iv. Talent and Expertise

Expanding internationally requires talent with expertise in global finance, international regulations, and cross-border market dynamics. Indian financial institutions may need to invest in upskilling their workforce or hiring internationally to manage global operations effectively.

v. Currency Risk and Volatility

Currency fluctuations can impact profitability for Indian financial services expanding internationally. Managing foreign exchange risk is crucial for ensuring stable returns in volatile currency markets.

Role GIFT City can Play in Internationalizing Indian Financial Services

Gujarat International Finance Tec-City (GIFT City) is India's first operational smart city and International Financial Services Centre (IFSC). Located in Gandhinagar, GIFT City aims to position India as a global financial hub by offering a platform for international financial services, akin to global financial centres like London, Dubai, and Singapore.

Key Features and Offerings of GIFT City:

International Financial Services Centre (IFSC)

The establishment of an IFSC in GIFT City allows Indian and global financial institutions to conduct offshore financial transactions in foreign currencies. The IFSC provides a regulatory environment like that of leading financial hubs, offering banking, insurance, asset management, and capital market services to international clients.

Regulatory Ease and Tax Benefits

GIFT City operates under a liberalized regulatory regime, offering lower tax rates, easier compliance norms, and operational flexibilities. For example, businesses in GIFT City benefit from tax exemptions on dividends, capital gains, and interest income for non-residents. The regulatory framework is designed to make it easier for financial institutions to offer cross-border services.

World-Class Infrastructure

GIFT City is equipped with cutting-edge infrastructure, including high-speed internet, integrated transportation, and energy-efficient buildings. The city's design supports the seamless functioning of financial services, making it an attractive destination for global financial institutions looking to set up operations in India.

FinTech Hub

GIFT City has emerged as a hub for fintech companies, providing a conducive environment for startups and established companies to collaborate, innovate, and develop solutions for global markets. This ecosystem is critical for driving India's digital financial services and promoting their international expansion.

Global Partnerships

GIFT City has forged partnerships with global financial centers, facilitating cross-border cooperation and enabling Indian financial institutions to access international markets. It also offers a platform for foreign banks, insurance companies, and asset managers to enter India and serve both domestic and international clients.

Capital Market Opportunities

GIFT City hosts international exchanges that allow trading in a range of financial products, including derivatives, commodities, and foreign currency. This positions GIFT City as a key player in international capital markets, offering Indian companies and investors access to global financial products.

Insurance and Reinsurance

The IFSC at GIFT City allows insurance companies to conduct international insurance and reinsurance activities. This is particularly significant for the growth of India's insurance sector, which can now participate more actively in global risk management and underwriting activities.

Strategic Importance of GIFT City for India's Financial Globalization

GIFT City enables Indian financial institutions to compete on a global scale by providing them with the regulatory framework, infrastructure, and resources necessary to offer international financial services. The tax incentives give Indian firms a competitive edge when serving global clients. Further, by establishing itself as a global financial hub, GIFT City can attract foreign banks, insurance companies, asset managers, and fintech firms to set up operations in India. This influx of international players will not only boost the local economy but also enhance India's integration into global financial markets.

Also, the internationalization of financial services through GIFT City has the potential to generate significant economic benefits for India, including increased foreign direct investment (FDI), job creation, and enhanced access to global capital. The city's growth will also promote the development of surrounding areas, contributing to regional economic development. It also provides a platform for India to play a more prominent role in global finance, allowing the country to influence global financial policies, contribute to international financial stability, and shape the future of cross-border financial services.

The Way Ahead

The internationalization of Indian financial services is an inevitable and necessary step in India's economic journey. With its growing economic stature, India could become a global financial hub, providing services to markets around the world. However, this requires overcoming several challenges, including regulatory barriers, competition, and operational risks. The role of GIFT City can't be ignored in this transformation. By offering a world-class platform for international financial services, it bridges the gap between Indian financial institutions and global markets. The strategic advantages of GIFT City, including its regulatory framework, tax benefits, infrastructure, and global partnerships, make it a cornerstone for India's financial globalization.

In conclusion, taking Indian financial services global is not just about expanding market reach; it is about positioning India as a key player in the global financial system. GIFT City, with its ambitious vision and strategic offerings, will be instrumental in realizing this goal, ensuring that Indian financial services thrive on the global stage while contributing to India's long-term economic growth.

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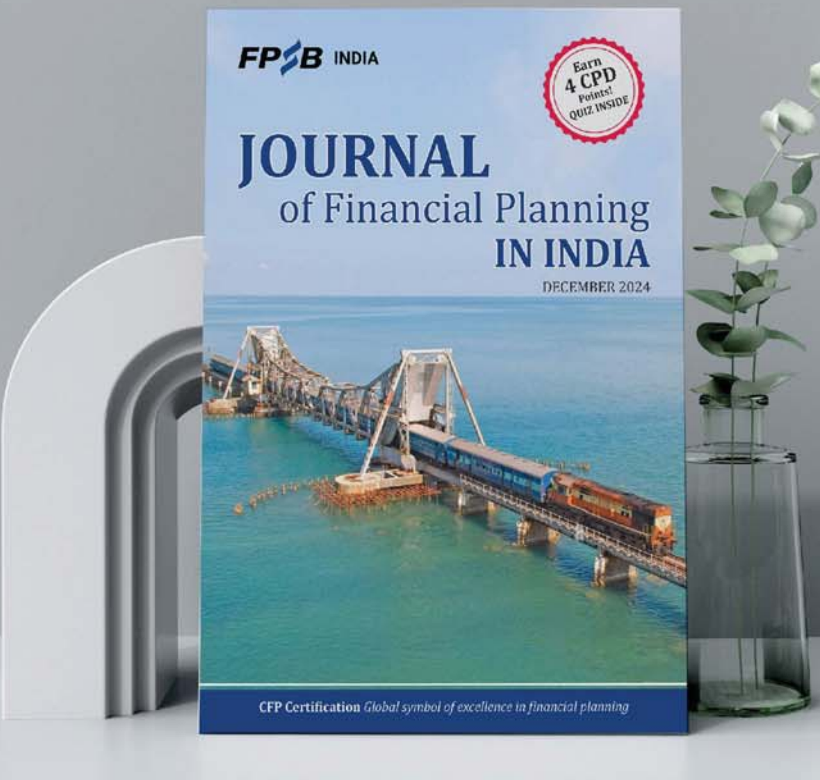
CPD Quiz for Journal of Financial Planning in India (December 2024 Edition)

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 MyFPSBLearning portal. Once the Quiz is submitted, CPD points earned shall be reflected directly in the LMS portal of the candidate.



To improve your score in this Quiz, you will be able to take the CPD Quiz up to two times.

Good Luck!

Rethinking Historical Returns for Use in Long-term Portfolio Planning in India

1. Based on his research and analysis, the author cautions investors and planners about the Volatility Drag ------ which implies that failing to account for Volatility will lead them to:

a. higher arithmetic returns
b. inappropriate asset mix
c. overestimating portfolio growth
d. buying funds based on recent performance

Taxation of Investment Products: A Recap for Financial Planners

2. Effective the Union Budget of July 2024, the capital gains derived from the growth option in Fund of Funds (FOFs), held for a period of 2 years and above, shall be taxed at ______

a. the marginal slab rate
b. 12.5% plus surcharge and cess
c. 15% plus surcharge and cess
d. 20% plus surcharge and cess

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Buckle and Hide

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

GIFT City as an Enabler for Globalization of Indian Financial Services

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

Family Businesses in India - The Role of Financial Planners

5. In the experience of the author, many family businesses make the mistake of _______.

a. not drafting a Family Constitution or a similar document

b. not creating a Family Office

c. underscoring the importance of risk management

d. treating the business capital and family wealth as one and not distinctly

End of the Quiz

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