Abstract

Education on personal financial planning, financial security, financial independence, financial freedom, etc is very essential. Also, there are various financial instruments available in the market for the consumers to choose leading them to financial freedom. But, there is one particular tool called as Life insurance that is vital for a long term financial planning. Life insurance is the only tool that empowers the family to achieve their financial goals even if the bread winner of the family expires or if he loses his job due to accident or permanent disability or affected by a critical illness. Life insurance is the only instrument that talks about survival benefit (living long) and death benefit (living short). It covers both the risk in living longer and the risk in living shorter. This paper unveils the process of financial planning and it also assesses the awareness level on personal financial planning, perception on life insurance and the associated knowledge of the public in the City of Mumbai. It was found that the awareness level is low on personal financial planning. Most of the respondents felt that life insurance is essential for everyone. But, their motive behind investment in life insurance is predominantly tax savings and investment. Life insurance has three main benefits, Life cover, Investments and Tax savings. The awareness on personal financial planning and life insurance needs to be provided properly so that the public will benefit and even the companies will benefit with the increase in insurance penetration.


1 Introduction

Though the concepts of personal financial planning and life insurance are very old, they are still relevant and important. The basics of personal financial planning needs to be included in the curriculum at the school level itself. One who cannot manage his personal finance cannot manage
finance at a family level or at a higher level in the corporate. Even today, there are many people who are unable to manage their finance. Because of that there are many people who commit suicide, do not repay their loans, abscond, attempts to steal etc. All these are indications of absence of proper personal financial planning. Improper personal financial planning or absence of personal financial planning not only affect the person, but also affects the entire family.

According to Ashu Dutt (Personal Finance, PP1, Penguin Books), Money can’t buy happiness. But, the lack of it can put a lot of misery. It has also wisely been said that “People who fail to plan are the people who are planning to fail”. Most of the people don’t plan their future. But, well planned life would be fruitful. If a person has undergone a financial planning process and taken necessary actions towards his/her financial goal, then he could be called as financially free or financially independent. Financial freedom describes a well-planned lifestyle free of debt. It’s a state of freedom where the person has planned in advance the financial goals of his life, where he would be in need of money and had taken necessary actions to achieve it.

If a person is financially free, he is free from his worries. The financial goals of him/her or his/her family could be achieved even if the person being dead. Life insurance is the only financial instrument, which ensures that even with the absence of a person, the needs or the goals of that person or person’s family or family members are achieved. According to Stephanie R, an important part of financial planning is identifying and managing the potential risks that can impact once finances. A good financial plan should cover various risks and uncertainties that might hamper the financial independence of a person. According to Frank Malinka (2003), ‘Life insurance of course is probably the most familiar form of insurance and still plays an important role in protecting family dependants from possible financial hardships’. Hence, Life insurance is the right instrument for financial freedom or independence.

Life insurance by nature is a long-term contract between the insurer and the insured. The insured has legal obligation to pay the premium and the insurer has an obligation to pay the sum assured on an unfortunate premature death or on maturity with benefits, money backs and annuities.

The primary research provides valuable information about the perception of life insurance products, the knowledge of life insurance, the awareness on long-term savings and financial planning, consumer understanding on impact of inflation on the financial planning, the knowledge and the interest towards share market and the knowledge about the financial instruments available in the financial markets.

2 Literature Cited

As per the business dictionary website, the term financial independence is defined as an individual or family that can provide for, from its own resources at least two or three major expense categories. To achieve this financial independence without depending on the sources like banks, money lenders etc, financial planning is essential. According to Jack R Kapoor, Dlabay and Hughes (Personal Finance, PP4, 8th Ed), “Personal Financial Planning is the process of managing once money to achieve economic satisfaction”. Without a goal, planning would be superficial. According to the website investorwords.com, ‘The process of setting goals, developing strategies, and outlining tasks and schedules to accomplish the goals is called Planning. Hence, financial planning is the process of setting financial goals, understanding the present financial status, developing strategies, outlining tasks and schedules to accomplish those financial goals and monitor the progress. To go through a financial
planning process, an individual has to be clear about his/her long-term needs. Hence, the need analysis step is the foremost process.

The term ‘Long-term’, usually denotes a period of more than 10–15 years. These long-term needs could be ascertained thro’ the need analysis process. After the need analysis process, based on his/her unique needs, the financial equivalent of each and every need has to be found out. For instance, a person may have a goal of buying a new home. Now, this materialistic goal has to be converted into financial form with a time frame. These financial numbers are the long-term financial goals of an individual. Financial goals may take different forms like to control expenses, to meet retirement needs, buying a home, child education, child marriage, reducing tax payment etc. Financial goals should be defined as specifically as possible and focus on the results the investor wants to attain (Gitman, Joehnk, Bertisch, Personal financial planning plus, P13, Harcourt Brace Custom Publication).

While arriving at the financial goal, it is also essential to be cautious about the inflation. Inflation is of vital concern to financial planning (Gitman, Joehnk, Bertisch, Personal financial planning plus, P23, Harcourt Brace Custom Publication). Financial goal has to be adjusted for inflation to estimate and represent the value of the material 10-15 years from now.

The inflation adjusted numbers are the true financial goals of an individual. Financial planning has to be made for these true financial goals of an individual. These goals though they are of long-term in nature, all the goals may not be of the same time frame. One goal may be of 10 year period and the other may be of 15 years. There would be priority in reaching the goals as well. A financial planner or a financial adviser would follow these steps to assist a customer in his/her financial planning process. The present financial status that is the present savings, present financial situations needs to be considered to identify the gap in financial requirement to achieve the financial goal. Thus, Financial planning is a step by step process of planning to reach a financial goal by analyzing a person’s needs and ascertaining his/her financial goals. According to Frank Malinka (2003), ‘Insurance should play a crucial role in the risk management of once life and financial portfolio’.

Also, before making a decision on the financial instrument to be used to achieve the financial goal, it is essential to understand the nature of the instrument, for instance the rate of return. The time frame associated with the financial goal of a person, his age, his present investments & savings and the knowledge on various products that are available determines the instrument to be used. But, how far a common person in Mumbai is aware of this long-term financial planning is unknown. Only a financially technical person can do this kind of financial planning in a professional manner. It is quite possible that a common man may not be aware of the impact of inflation on his long-term goals.

It is also possible that common man may not be aware of various long-term financial instruments that are available in the market, which would assist him/her in reaching his/her financial goals at right time and hence would result him/her financial independence. According to K S Ranjani and Anjali (2011) almost of 50 percent of their respondents were aware of financial planning but are not expertise.

**3 Objective**

The following are some of the objectives of this research:

1. To find out the level of awareness of long-term financial planning in Mumbai.
2. To identify level of awareness of various financial instruments available in the market.
3. To assess how and where do people invest their money?
4. To understand the level of awareness of the effect of inflation of the financial goals,
5. To study the perception of Life Insurance

4 Research Design
A primary research was conducted to analyze the various objectives mentioned earlier. The target customers were the common investors in Mumbai from middle class with the monthly investment capacity of Rs 5000 - 15000. Random sampling technique was followed. The sample size was decided at 100 due to time constraint. A questionnaire was designed and the primary research was conducted by direct interview. The data collected was analyzed and presented to arrive at some real facts and figures.

5 Data Analysis

5.1 Awareness of the Personal Financial Planning
The concept of personal financial planning and its steps are not clearly understood by the people. Many of the respondents just inferred something related just from the name. But, the concept is not understood and it is also not being used by them.

5.2 Investment portfolio of People in Mumbai
There are many avenues available for the investors to invest their hard earned money. But, where are they investing their money, what is the balance they maintain with various financial instruments and their knowledge about various financial instruments are some of the issues which needed answers. The investment patterns keep changing with the change in the market and needs of the customers. But, long-term investments cannot be switched frequently. It also depends on the liquidity associated with it.
It has been found that people invest more in insurance. But, the main reason for their investment in insurance is for saving tax. People still have preference for investing their money in Bank deposits, Government securities, Postal savings, etc. With the bullish ride of the BSE SENSEX and NIFTY, it is surprising to see lesser investment in stocks. These were the financial instruments used by people, when the research was conducted. This pattern might change based on the risks and returns associated with these instruments.

5.3 Awareness of the effect of Inflation

Due to inflation, the value of money goes on decreasing day by day. Also, the inflation would have an effect on the savings as stated earlier. While saving for a long-term goal, the inflation would definitely affect the financial goal. But, a normal person doesn’t think about the inflation or don’t take inflation into consideration while deciding on his/her long-term financial goals.
The research shows that 87% of people are aware of the effect of the inflation on their financial goals. But, during personal interview it was found that they were ignorant on the level of variation that inflation would create on their financial goals. Because of this ignorance, the financial goals are not being adjusted for inflation, before commencing the savings.

5.4 Perception of Life Insurance

Life Insurance is a legal contract between a person who is insured and the insurer, the company. Here, the insured agrees to pay the premiums regularly and the insurer agrees to pay the sum assured on maturity of the policy or in the event of premature death of the insured whichever is earlier. This has been the traditional practice for years. But, today with the changing customer needs and increased competition more and more innovative products are being introduced in the market. These insurance have a life cover part, an investment or savings part and tax benefit is also available. Also, this is the only instrument that would take a person to financial freedom. Traditionally, people bought insurance for life cover or for tax planning. Even today people go for insurance for saving tax. This is known to everyone in the insurance field. But, how far the communication of the above mentioned three benefits with insurance have reached the customers is unknown.

(Source: Primary Research Data)

The graph clearly shows that the communication of the above three benefits have reached only 12.5% of the people. Many people in Mumbai are unaware of these three benefits an insurance product can deliver.

5.5 Awareness of Various types of Life Insurance plans

With the increased competition and changing customer needs, the companies have introduced various flexible plans. Especially the Unit-Linked Insurance plans (ULIPs) have a unique property of investing the customer’s money in share market. They are also more flexible and also are being accepted by the elite people as an investment plan, which has a life cover instead of considering it as an insurance plan with investment option. Second is the money back plan. These type of plans, doesn’t block the customer’s money for a longer period. Rather, the company pays a portion of the sum assured after some fixed period of time. Usually the companies pays out for every five years, till the end of the policy term which would be 20 years.
The graph shows that the awareness in case of the money back is very high. But, in the case of ULIPs it is only around 40%. These ULIP plans are giving huge returns to the customers. The major fact is that it also includes a life cover. But, people are not aware of such an innovative product, which is widely available in the market.

5.6 Investing in Shares

With the bullish ride of the share markets (when the research was conducted) and the huge returns that the market generates have raised the interest in people to make their future investments in share markets. Hence, the Mutual funds have also shown a huge increase in their sales. Even the ULIP plans from insurance companies have registered huge sales, as they have provided good returns.
Around 75% percent of the people interviewed have shown interest in investing in shares. People are very much eager to know more about the ways of investing in shares and mutual funds. This shows that they are not aware of the various means of investing in share markets. They were also interested to attend seminars on share markets and their performance.

5.7 The need of Life Insurance

Life insurance is essential for everyone. As there is no guarantee for the lives and as the future is highly uncertain, it is essential for everyone. But, people don’t like to think about the negative aspect of life. People expect everything to be positive. But, life has not been smoother always. The mindset of the people has been that the life would be smoother always. It might appear very smooth in some rural areas, but in the fast moving lane in a city like Mumbai, it is obvious that everyone has to have an insurance cover to protect their family from life threatening uncertainties.

![Need for Insurance](image)

(Source: Primary Research Data)

It is found out that around 87% of the people surveyed have mentioned that life insurance is necessary for all the people in the family. The rest 13% have mentioned that it is not necessary for all. One reason is that many people don’t like to take a cover for their child. But, Life insurance is necessary even for a child. Innovative products are available, so that it would benefit the child in the future. The other reason is that some of the Muslims and Christians don’t believe in Insurance. This might also be due to ignorance. They are interested in Investments, but not in Insurance.

6 Findings

The collected data has been compiled and analyzed in various angles. The personal interaction with many of the people resulted in new insights. The following are some of the findings of this primary research work:

1) The awareness level of the financial planning process is less. The respondents are investing in various savings plans and investments plans. But, it was found that the awareness on financial planning process is less. 82% of the respondents do not have a clear understanding of the concept and they are also not using it.
2) It is found that 93% of people interviewed invest in life insurance. But, the main reason for their investment in insurance is by for Tax saving and not for financial security or financial independence. People still have preference for investing their money in Bank deposits, Government securities, Postal savings, etc. With the bullish ride of the BSE SENSEX and NIFTY, it is surprising to see lesser investment in stocks.

3) The awareness level of money back policy is very high almost 98% of the sample interviewed are aware of money back policies and 85% of the respondents are aware of pension plans. The awareness level on ULIPs at 40% needs to be attended. Also, it was found that 75% of the respondents are interested to invest in shares. So the interest is there but the increase in the awareness on ULIP needs to be increased. The awareness levels on term plans, whole life plans and endowment plans are also low.

4) The research shows that 87% of people are aware of the effect of the inflation on their financial goals. But, during personal interview it was found that they were ignorant on the level of variation that inflation would create on their financial goals. Of course this is a technical part and the awareness level is less

5) 18.75% of the respondents still believe that life insurance has only death benefit. According to them, life insurance is only profitable only if the person insured dies. 18.75% of the respondents believe that investment in life insurance is only for tax saving. They are aware only about the tax savings. 25% of the respondents believe that the life insurance is a savings for the future. They are not really bothered about the tax benefits and the life cover. Only 12.5% of the respondents are aware of the all the three benefits of life insurance. Also, 87% of the respondents believe that life insurance is essential and cannot be neglected.

7 Conclusion

Financial planning is a highly professional way of planning once personal finance. Most of the people in Mumbai are not aware of this process so as to achieve their ‘Financial freedom’. People are also not aware that Life insurance is the only financial instrument that could lead to financial independence. Because of these lack of awareness, there is a wide opportunity available in Mumbai for the financial institutions especially the Life insurance companies and banks to educate the consumers on the process of personal financial planning and financial freedom and to explain them how life insurance could accomplish financial freedom. According to a report on financial planners in the growing economy like India by IIPM, ‘there exists a potential growth in the wealth management industry which represents huge prospects of financial advisors in the growing economy like India’. This not only improves the level of awareness on personal financial planning, it also benefits thousands of families, improvement in financial literacy, and reduction in non-performing assets (NPA).

8 References


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