Knowledge Sharing Series

Why A Personal Financial Planning Advisor?

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Why a Personal Financial Planning (PFP) Advisor?

Frequently Asked Questions (FAQ)

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**Disclaimer: This is only a knowledge sharing document.
Consult your financial advisor for specific needs.**

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Who can offer financial planning services in India?

Registered Investment Advisor (RIA) is an individual or a body corporate registered with the Securities and Exchange Board of India (SEBI). In India only RIAs can provide personal financial advisory services. RIAs posses the necessary qualifications, certification and experience to provide the financial advisory services.

How is an RIA regulated?

An RIA is governed by the code of conduct and ethical standards of SEBI.

How does an RIA charge for services?

An RIA charges a fixed fee for the services. This could be a one-time fee and / or recurring yearly or periodical fee for providing ongoing support.

The fee paid by the client is the only income that an RIA gains from the services provided.

Is it worth paying a fee for RIA's services?

In most cases, the fee paid is recovered in the first year itself through the following:

- avoiding wrong investments with hidden charges
- purchasing financial products through the right channel that reduces / eliminates intermediary costs
- discontinuing existing sub-optimal investments

But my insurance agent provides advice free of cost!

The income of an insurance agent accrues from the commission he or she earns from the policy taken by you. The commission is paid by the insurance company and not the investor. Where do you think the loyalty of an insurance agent lies, with the investor or the insurance company?

Moreover, there is a tendency to recommend those products where the commission is high. Of course, there are exception to this rule.

Explain with an example, how RIA's advice can save me money?

Sure. Anyone reading this document can already save money by following the advice in this example, even though he / she did not engage the services of an RIA!

Mr. X is a salaried employee and has a basic salary of Rs 50,000 p.m. He contributes the mandatory 12% of his basic salary to his employer's provident fund (EPF) or Rs. 6,000 p.m. As per law he can contribute voluntarily a total amount equal to 100% of his basic salary to EPF. So, if he desires so, he can contribute another Rs. 44,000 p.m. to his EPF.

Like many salaried employee, Mr. X too has a public provident fund (PPF), to which he contributes Rs. 6,000 p.m., same as what he contributes to his EPF every month. PPF is a 15 year tenure account.

The interest rate on EPF currently is 8.55% p.a. and PPF, 7.60% p.a. Thus, the PPF rate is lower by 0.95% p.a. and this difference between EPF and PPF interest rates is expected to continue in future too.

By the end of 15th year, Mr. X would have contributed Rs. 10.80 lakhs to his PPF account (Rs. 6,000 x 180 months). The 0.95% lower interest rate in PPF, as compared to EPF, would have cost him ~ Rs 161 K in the form of lower interest earnings.

Assuming an inflation of 6%, the present value of Rs 162 K (15 years hence) would be worth ~ Rs. 68 K now. In all probability, an RIA would have charged a one-time fee lower than this and would have advised Mr. X to contribute this additional amount to his EPF instead of PPF as almost all other features, including tax benefits, are the same between these two products.

So, this one single advice would have made the services of the RIA free to Mr. X. All other advice relating to insurance, financial goals planning, retirement planning, tools to monitor investment performance, tools to monitor expenses etc., would have come free!

Can the RIA sell any financial products to the client?

The RIA cannot sell any financial product to their clients and make any commission or incentive income from such sales. Even if he recommend any other individual or body corporate for such sale of financial products

and if he gain in any way from such sales, he should declare the conflict of interest to the client.

Who can be a client?

Any individual or a family looking for expert guidance on personal financial planning to achieve their short, medium and long term financial goals, can be a client.

What is the process followed?

The personal financial planning process involves the following steps:

1. Understanding the current life stage and financial status of the client (including the insurance / protection needs), and, the financial goals.
2. Assessing the risk profile of the client.

3. Reviewing the existing investment and assessing if they are the optimal solutions for the needs of the client.

4. Recommending the optimal investment plan for each of the financial goals taking into account the risk appetite and the nature of the goal.
5. Recommend adequate and suitable insurance coverage for various risks.
6. Provide simple tools that makes financial discipline easier to follow, including expense budgeting tools.

What is the deliverable at the end of the process?

A Lifetime Financial Plan will be given as a detailed report. Along with the report, simple tools may be provided that facilitates ongoing monitoring of the investment portfolio.

How long does this report remain relevant and valid?

As long as there are no major changes in the life stages, financial goals and income levels, the report remains valid. Therefore it is called "Lifetime Financial Plan".

Role and Responsibilities of an RIA

1. To act in a fiduciary capacity with the Client. This means the RIA should have only the interest of the Client in mind.
2. From (1) it automatically follow that the RIA should not get, either directly or indirectly, any benefit from the investment decisions of the Client. Therefore, the only income for the RIA should be the fee paid by the Client for the services. This will ensure there is no conflict of interest.
3. The RIA should obtain in writing, and, clearly understand the current financial and life status of the Client. This is the starting point.

4. The RIA should also get a clear statement of the financial goals of the Client.
5. The review of existing investments and an assessment of their suitability to the financial goals of the Client will be part of the responsibility of the RIA.
6. The RIA should also make an assessment of the risk profile of the Client. However, it should be understood that such assessment are always subjective and provides only a broad indication.
7. Assessment of life and health insurance needs will form part of the responsibility of the RIA.
8. All investments recommended by the RIA must be goal based.
9. The RIA should clearly state the risk factors applicable generally to all financial investments.
10. The RIA should make reasonable assumptions, including but not limited to, inflation, post tax rate of return on investment and expected currency movements in future. The currency exchange rate movements are very significant in case of goals that involves spending in a foreign currency. Overseas education would be a classic example.
11. The RIA should provide simple tools for ongoing monitoring of the performance of the investments.
12. The RIA should never guarantee the rate of return or capital protection of any investment nor the future accuracy of the reasonable assumptions made. During the planning process, the Client has the right to override the assumptions of the RIA.
13. Wherever multiple investment options are possible the pros and cons should be highlighted by the RIA to the Client.
14. All information required from the Client must be obtained in a template or in any other manner in writing to avoid ambiguity.
15. The financial plan should be provided in a detailed written report.

16. All interactions between the Client and the RIA, that have a bearing on the planning process, should be in writing.

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