



A Promise

Nayan Bhowmick

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Life is unpredictable-we never know when things might overturn and take on an entirely different path. This is what happened on that fateful evening of 2nd June 2023 after three trains collided in a horrifying accident in Balasore district of Orissa killing over 292 people and injuring about 900 people.

As the news of this tragedy flashed across television screens, condolences started pouring from the world.

Canadian Prime Minister Justin Trudeau tweeted, “The images and reports of the train crash in Odisha, India break my heart. I’m sending my deepest condolences to those who lost loved ones, and I’m keeping the injured in my thoughts. At this difficult time, Canadians are standing with the people of India.”

Nepal Prime Minister Pushpa Kamal Dahal stated that it was saddening to know about the “loss of dozens of lives in a train accident in Odisha” and extended his condolences.

Indian cricketer Virat Kohli was also saddened by this tragic incident. In his tweet, he wished a speedy recovery to the injured.

“Saddened to hear about the tragic train accident in Odisha. My thoughts and prayers go out to the families who lost their loved ones and wishing a speedy recovery to the injured.”

Many more such messages came from different dignitaries all over the world. We on behalf of “Life-A Promise” team extend our sincerest condolences to the victims of this tragic accident.

It is the eternal truth that as human beings we sympathize, express our feelings, and stand by the side of the afflicted individuals in any tragic situation. But what pains me a lot is the abysmally low number of the families of the affected passengers who claimed life insurance. According to different media reports it has come to our knowledge that Life Insurance Corporation of India has settled the death claims of 16 persons, who lost their lives in the Balasore train tragedy.

While the total Sum Assured of the death claims reported by the families of the victims is 24.7 lakhs, the net claim paid including accident benefits with respect to the 16 policies is 48 lakhs. LIC said all 16 death claims reported so far, have been settled on the same day of reporting.

We know a family runs with two supports- emotional support and financial support. Out of 292 deaths reported so far, only 16 families of the deceased claimed for settlement of life insurance policies. We do not know whether the remaining 276 victims were insured or not. It has been reported that 900 persons were critically injured, but we do not know whether any of them has become permanently disabled or not. Who will give financial support to them? It is not possible for the government to support all victims’ families throughout their lives. What will happen to their dreams, their families’ dreams, their children’s dreams?

I leave it to you, our esteemed readers to think over.



Nayan Bhowmick

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Recruiter of Insurance Advisers.
Senior Business Associates, LIC of India, Shillong

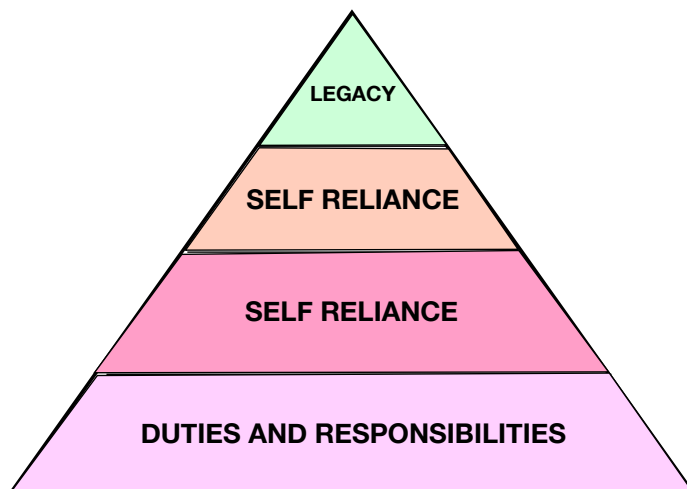
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Financial priorities one of the four sides of the Financial Pyramid

We have seen the Financial Pyramid structure in our previous issues. The principle of Financial Pyramid plays a vital role in the science of Financial Planning and Wealth Management. Out of the four sides in the pyramid, one side is about Financial Priorities. Since the resources are limited and mostly human wants are unlimited, it is wise to prioritise the allocation of money towards those wants and needs. If the priorities are not identified in advance then the money will be consumed on the first come first serve basis, leaving a shortfall for more important needs which may occur at a later part of the life. This might also force a person to borrow money at big rates of interest to fund them, as those are mostly not negotiable goals. You can see the picture of this side of the pyramid named as Financial Priorities:



THE FIRST PRIORITY:

The priority pyramid starts with “Duties and Responsibilities”

We all know that animals and birds love their children and family and are emotionally attached to them. So do humans. But what differentiates the animals in relation to their families and humans in relation to their families is the aspect of “Responsibilities”. Humans carry immense responsibilities like getting the children educated, setup a good career prospect for them, arrange for their marriage, take care of the necessities of the elders in family and so on.

The monetary requirement to meet the duties and responsibilities

can be divided into two major classifications:

- 1) That are on-going which require a regular cash flow to meet.
- 2) That are major responsibilities which require lump-sum monies to meet.

Both these needs have to be met with in all the circumstances. If the person is alive and earning, then through his income or with earmarked assets. **Even if the person happens to die, his responsibilities do not die.** They get fulfilled only when they are met with at the right time.

When companies run out of money, they close. But when families run out of money they live and they suffer. As a responsible person, it does not augur well to leave the beloved family to fend the odds of life. An event predictable or unpredictable can not take away their dreams/ goals. Goals and dreams are mostly unconditional and are also time-bound.

EXAMPLES OF THE TWO TYPES OF MONETARY REQUIREMENTS

ONGOING REQUIRING REGULAR CASH FLOW OF MONEY	MAJOR RESPONSIBILITIES REQUIRING LUMP SUM MONIES
FOOD/CLOTHES	CHILD BIRTH
HOUSE RENT/MAINTENANCE	CAPITATION FEES/DONATIONS FOR PROFESSIONAL/ PG EDUCATION
ELECTRIC/ENERGY BILLS	GRAND AUSPICIOUS MARRIAGE OF CHILDREN
SCHOOL FEES/BOOKS/BAGS/ UNIFORMS/ EDUCATIONAL TOURS/EXHIBITIONS/EXTRA TUITIONS	OTHER CEREMONIES LIKE UPANAYANAM, SASHTIABDHAPPOORTHI, SEEMANDHAM, Etc.,
COACHING CLASSES FOR ARTS/ SPORTS/ HOBBIES	
GYMS/ENTERTAINMENT AVENUES/TEMPLES AND WORSHIPS	INITIAL CAPITAL FUND FOR CHILDREN STARTING BUSINESSES/ FURTHER CAPITAL REQUIRED
DOMESTIC MEDICAL EXPENSES	MARGIN MONEY FOR BIG LOANS LIKE HOUSING LOAN



THE SECOND PRIORITY:

The second level of the Priority Pyramid is: Self Reliance.

When the children grow up, start earning, become independent, get married and settle down in their lives, a major portion of the duties and responsibilities towards the family would have got fulfilled. But at this stage the earning capacity of the client would have come down substantially. Particularly in terms of the physical abilities. There are also employment conditions which force-exits people at a specified age (example: 60years of age). The opportunities to get employed again at that age are also limited. Even if a person is engaged in running his own business, it is still advisable to provide for alternate source of income. So that at advance ages he will not be compelled to take the stress of managing the business well to produce income to support himself, his spouse and other dependents.

Most of the times people do not realise this need till the come closer to their ages of retirement. Initially their focus will be on taking care of their family requirements. Since family requirements are elastic, they consume all the money that is available then and there. Even after spending all the money earned on the family (sometimes even borrowed money), it still leaves a feeling of inadequacy because we constantly compare ourselves with more affordable persons around. With technology developing rapidly many household products become obsolete soon forcing to buy the latest. All these factors result in overconsumption of the income leaving very little scope of providing for the post retirement income.

It is very much important to live a happy, peaceful and healthy life at the senior ages. It is equal in importance compared to the pre- retirement age. Living together with the whole family, the children, grand children, great grand children is the best that anyone can ask for from God in return for all the hard work put in during the younger days. But living together is different from dependent on them for living. The best of those years can be gained by living together while being self reliant financially.

The financial planners should therefore engage the client's attention to this need simultaneously while providing for their duties and responsibilities. Even if it can be distributed at 20% for self reliance need versus 80% towards younger days duties and responsibilities, it is better than using 100% of the income for fulfilling duties and responsibilities and hoping to catchup with the retirement needs after the children settle down in their lives. It is too big a risk to be taken. We have covered in detail in the previous issues of inscriptions about this aspect.

The provisions for Self Reliance also will contain two major requirements 1) The ongoing requiring regular cash flow of monies and 2) Major necessities requiring lump sum monies to meet.

THE THIRD PRIORITY

The third stage in the priority pyramid is "AMBITIONS"

During the working life and earning period when the earning capacity is at the peak and the opportunities around seem to be everlasting, people find a big pull towards providing for bigger things in life. People also compare themselves with others and try to match their life style (possessions) even it amounts to borrowing money to secure them. I have come across many clients who while talking about financial plan and the products talk about the Return on Investments and often comment that it is too low, but when it comes to borrowing they don't even look at the Rate of Interest that they have to pay on the amount they are going to spend on a big car or a gadget.

People often mixup with an ambitious goal with duties and responsibilities. For example a client feels buying a top-end brand car is his duty towards his family. They will be very happy and proud. In the process takes more loan to fund that buy. Whereas he still has a gap in his Protection needs (Insurance) Savings needs (for major responsibilities) and Self Reliant life (Retirement). A bigger house, a big car, a holiday on a luxury cruise are all examples.

It is absolutely necessary to consider such ambitions in a financial plan. Only that the priority given to be given to funding them have to be carefully decided. It can not be done at the cost of first stage or the second stage of the priority pyramid.

THE FOURTH PRIORITY:

The fourth stage in the Priority Pyramid is "Legacy".

When a person leaves this world after having a fulfilled life, he would like to leave assets in legacy to his children/grand children to other beloved relations.

This aspect has to be considered in his Financial Plan. But in terms of priority it will be allowed the fourth space. When we have fulfilled our duties and responsibilities we have done our best to the children and other dependents, whatever more we are going to leave behind is only an extra to that.

An example of the misplaced priority is when people opt for Return of Cash option in selecting annuity policies for themselves. If they would have opted for Life annuity they would have got a higher annuity amount which at their old age can be very valuable. That little extra, would have given more dignity. As far as children are concerned, they have been already provided with the best in terms of education and settling down support. Any extra cash receipt always brings happiness. But the trade-off between more dignity and the surprise happiness of this legacy is an incorrect stand.

Same is the case with accumulating more real estates with a notion of leaving behind for the next generations. I acknowledge that it is a good gesture. But if the 1st, 2nd and the 3rd stages are not yet provided for adequately, still focussing on the 4th stage in the pyramid can end up as a "Hyperopic" situation in life.



Predicting financial future-making informed decisions



Nayan Bhowmick
Qualified Practitioner in
Financial Planning and Analysis

Is weather forecasting essential?

Weather warnings are important because they are used to protect life and property. Forecasts based on temperature and precipitation are important to agriculture, and therefore traders within commodity markets. Temperature forecasts are used by utility companies to estimate demand over coming days.

Can we change bad weather?

Bad weather cannot be changed. But if we are fully prepared for bad weather then the adverse effects of bad weather can be minimized or nullified.

How does forecast of good weather can help us?

Good weather cannot be advanced. But if we are fully prepared for good weather, then the advantages of good weather can be multiplied. Just as weather forecasting can bring multiple benefits, so also financial forecasting is required and in fact is essential for families as well as for corporates. Predicting financial outcomes of investments/business risks makes us better prepared for our future financial goals.

In the context of financial forecasting, let us draw our attention of a section known as Section 6 MWP act. But before that it is essential to understand that as an individual investor or as a corporate, the four very important supports that are required for financial forecasting. These are:

- 1) A professional – a professional gives scientific estimations but others will do guess work.
- 2) Appropriate tools.
- 3) Historical data.
- 4) Objectives

There are 4 primary objectives of financial forecasting

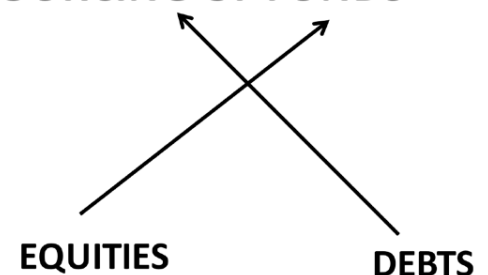
- 1) Provide adequate cash flow for the need to fulfil at minimum level.
- 2) Protect the source of funds.
- 3) Design systems and procedures to ensure correct legacy.
- 4) Optimize the use of funds to earn a good return on it.

If promoters are starting business (company) or trying to grow an existing company, all certainly will need money. This money can come from generally two different sources,

- 1) Debt Funding - debt means money borrowed from lenders.
- 2) Equity Funding- company can sell a portion of the company to investors in return for cash. Equity Funding includes shares (Equity/Preference Shares).

Balance Sheet

ASSETS = SOURCING OF FUNDS





Let us take an example of a businessman who secured a good opportunity in a contract like Project M. He won the project amidst tough competition. To execute the contract, he needs 10 crores. The businessman invests 2 crores from his business, borrows 5 crores from a bank and the balance 3 crores from private lending firms at a higher interest rate.

(Here equity is 2 crores and debt is 8 crores). The project M will have to be executed within 12 months and he will get profit 3 crores on successful execution of project M. Return on investment is 30%. He pledges his factory, land, his building, his own house and jewelries to get 8 crores loan from bank and from other lenders. Anticipating profits from this project, he has taken the risk on investment. But by mortgaging most of the assets he passes the risk to his beloved family members and also on risk of borrowings. Risk taking is in the DNA of a businessman. (Ambition in business is not wrong. Businessman should have the ability to take calculative risk. But passing the risk to family members is wrong.) His wife and children become the party to the risk. The dreams and future of his family members now depend on the successful execution of project M.

Human capacities are unlimited. A businessman will put all his capacity and skill tenaciously even if any problem occurs midway in the business and get revert to the right track to get the future profit from the business. But who can foretell the lifespan of a person? People will work according to their will, but people live or die according to their destiny. Let us imagine the hypothetical situation that the businessman meets with sudden death. Now the family members have to repay the loan of 8 crores or they have to forgo the assets like their home, factory, jewelries, land etc.

In order to avoid this kind of crisis, we need to create a firewall in between the business loan and family assets, family responsibilities.

Let us take an example of another small medium business entrepreneur. He has a family asset (shown in Fig.1 as blue square).

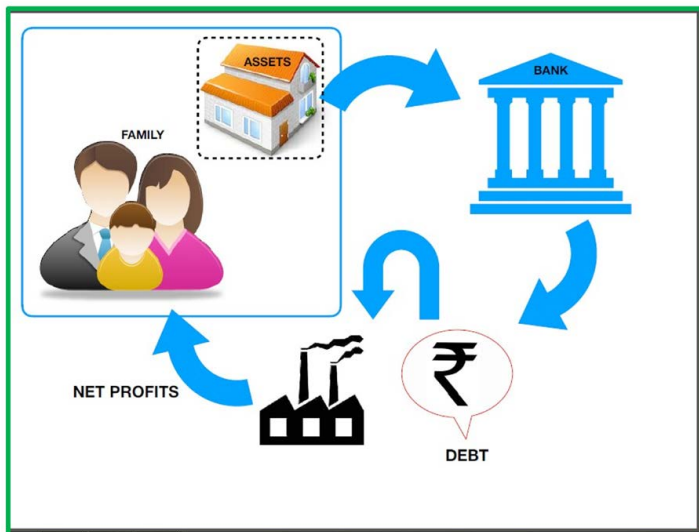


Fig.1

The entrepreneur needs money to start his business and bank is also ready to finance by way of loan, in return for some security. Accordingly, the said businessman pledges the documents of his family assets in favour of bank to get loan. He could have sold

the assets to start the business but the family lives in the house (asset). The businessman keeps the asset with them for their use and only the documents of the assets are pledged to bank. Bank has sanctioned loan; the businessman starts his business by using the loan amount to his factory and earns profits. The net profits come to the family and the cycle starts continuing. He starts paying the loan amount to bank and afterward by paying full debt amount releases his documents from bank. Business is a continuous process. He will apply for further loan to revamp his business. Loan amount will start escalating.

Now, if the businessman dies before he is able to pay off the loan, the following possible scenarios can emerge:

- 1) Take over of the business by family members-spouse or adult children.
- 2) Due to loss of the key person, the company or the business will incur losses, profits will shrink, loan amount will start increasing, company may go for liquidation.
- 3) Ultimately bank will seize the assets which were mortgaged in favour of bank and the family will be in big trouble.

What is the solution for this uncertainty? If this type of bad weather comes, what is the financial solution? Forecasting helps people to prepare for both good and bad weather. In this situation the businessman died with the huge liabilities of loan for his family members. As financial advisors, we can help the businessman and his family by introducing a proper life insurance policy in between business loan and family assets which would be pledged to bank. In the case of sudden death of the businessman, the life insurance's claim amount will save the family by repaying the loan amount from the death claim (Fig.2).

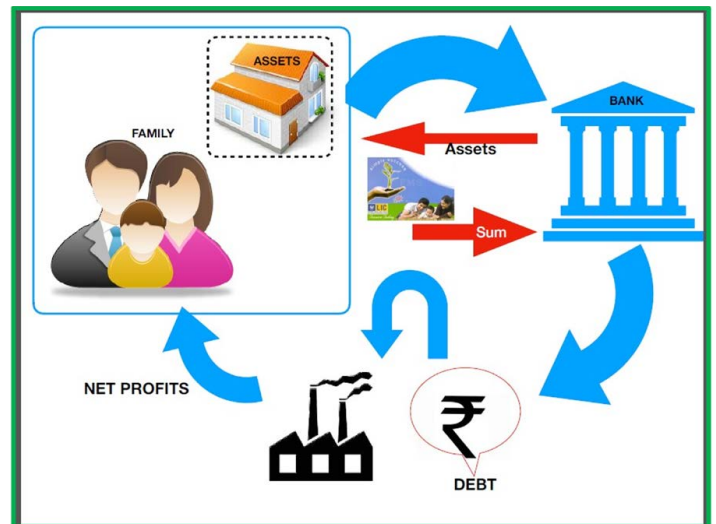


Fig.2

Otherwise, the family will be in trouble by losing the business as well as the family asset. In Fig.2, the life insurance policy is shown as an asset and placed in between bank and family. But if we can bring the life insurance policy inside the blue square as a family asset, then it will create a firewall for the beloved family which is our important responsibility. By introducing a life insurance policy under MWP act, we can protect our family from any bad weather, that is from disastrous situations.

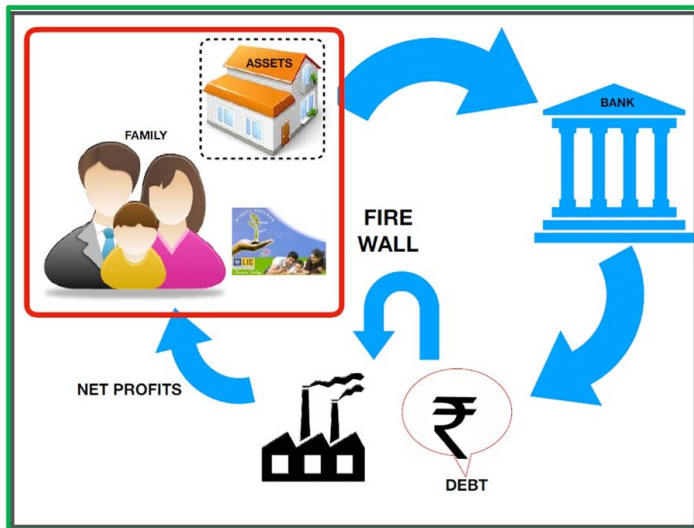


Fig.3

Section 6 of MWP act defines that,

“A policy of insurance effected by any married man on his own life, and expressed on the face of it to be for the benefit of his wife, or of his wife and children, or any of them, shall ensure and be deemed to be a trust for the benefit of his wife, or of his wife and children, or any of them, according to the interest so expressed, and shall not, so long as any object of the trust remains, be subject to the control of the husband, or to his creditors, or form part of his estate.”

A policy of insurance: Meaning that no other type of asset is covered under this provision.

Married man on his own life: The policy of insurance should be availed by a married man, and the risk cover should be on his own life. Meaning that policies effected on the life of children or others cannot be covered under this provision.

Expressed on the face of it: It refers to the policy document. The policy document should carry the endorsement to this effect. Agreements made by other arrangements are not covered under this provision.

Beneficiaries can be his wife, wife and children or any of them: Meaning that he can wish to pass the benefit to specific people in this class. For example, the beneficiary can be defined as wife and the first daughter or wife and second daughter. This provision is made to ensure that the policy serves only to those beneficiaries and he has the right to exclude, if he so wants to, any person amongst his children from the benefiting from this policy.

Deemed to be trust: This means that all the protections normally available for a trust and the funds held by a trust will be available for policies effected under the act, but the formalities which have to be observed in case of trust, like registration of the trust, audit of the accounts of the trust, etc., need not be observed here. A simple person without any legal qualifications, can also ensure the benefits are secured easily.

According to the interest expressed: This means that he can even prescribe ratios for sharing or even effect contingent conditions by which the benefits will flow to the beneficiaries.

Not be subject to the control of the husband or to his creditors or form a part of his estate: This is the very essence of this act. This

helps husband to provide adequately for his family. A businessman who avails loans and facilities from banks and other institutions is undertaking a risk, expecting growth in business. While doing so he pledges his assets to the bank to avail that facility. While he can certainly repay the loan in time and safeguard his assets, the issue becomes critical if he happens to die before the obligation is cleared. The bank after auctioning the pledged assets, can seek to attach his personal assets to recover the loan and the interests thereof. Where as this policy effected under MWP act can NOT be so attached. The policy monies will not form a part of his estate. This is not just for businessmen, but for anyone who wants to protect their family and ensure that monies do not get into wrong hands even within the relatives, who may scheme against, which we have seen happening in many instances. Since the policy benefits are not subject to control of the husband also, any pressure brought onto him, or even by coercion these monies cannot be taken away by wrong people. The very purpose of an availing a life insurance policy under MWP act is to ensure that the rights of the wife and the children be protected and the variations in the business performance of the husband need not affect the family adversely.

1) When a person avails loan to expand his business, or to make good a shortfall in capital, he is taking a business risk. He is confident of making enough profits in a period of time and repay the loans with interests due from out of those profits. He is certainly capable of fulfilling this commitment, even against the odds of the business, due to his business acumen. His death before fulfilling this commitment will bring down the value of the assets held in the business and also put his personal properties and assets under stake. The people who have lent the money will pursue all options to recover their dues.

However, a policy effected under MWP act will be beyond their reach even and protect the rights of the wife and the children.

- 2) Even under pressure from his peers or investors in his business or from his other relatives, he will not be able to dilute the rights of his wife and children under this policy.
- 3) After the death of the life assured, even other legal heirs cannot stake any claim on these policy monies, not just as a share for being his heirs, but not even to set off against any common losses incurred by them jointly.
- 4) It is not just that businessmen need to avail this provision, the difficulties mentioned above can be met by other professionals and salaried personnels also. For example, indemnifications or damages due to acts of omission, or negligence or acts of accident by a professional or employee can initiate recovery from his wealth to cover up. Even in such circumstances, the policy effected under MWP act can protect the rights of the wife and children.
- 5) People who stand as sureties, guarantors or people who operate under power of attorney can also protect their families using this MWP act.

Life insurance policies under MWP act will protect the family responsibilities and also through the proper life insurance policies and placing it in between right places we can protect the sources of fund.

Through financial forecasting we can minimize or nullify the adverse effects of bad weather and we can multiply the beneficial effects of good weather.

Happy planning and forecasting!



Wangaal Lama
VIII (Eight)

COLOURS UNLEASHED

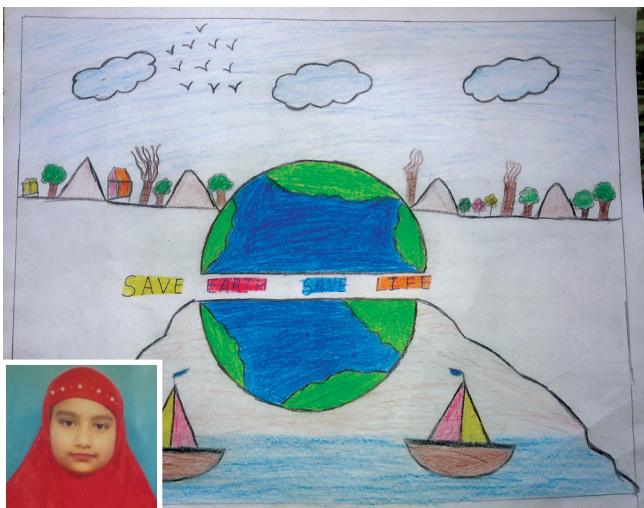
We organized a Sit and Draw Competition at the Shillong Cantonment Board area, and Some of the Winning Participants and their Drawings.



Taresh Gurung
I (One)



Yashika Baghdas
VI (Six)



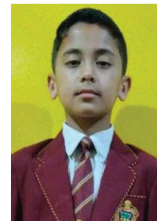
Samiyah Inaya Qureshi
VIII (Eight)



Sailesh Kr. Sah
II (Two)



Ankita Kr Singh
III (Three)



Yash Baghdas
VI (Six)



Aayan Gurung
VII (Seven)



Wangen Lama
XI (Eleven)