INGENIOUS

Issue: 9 | In-house magazine of FCFP members | May 2024 - Jul 2024

From the Secretary

Dear Readers,

We are pleased to present our 9th quarterly "Ingenious Magazine" for May 24 to July 24 by the alumni of Foundation Course in Financial Planning (FCFP) 1st & 2nd Batch from Gopast Centre for Learning Pvt. Ltd., under the able guidance of our Guru Shri Gopinath Radhakrishnan Sir. It comprises of write ups on financial products and latest news articles related to economy, finance and insurance industry based on our research.

We are thankful, grateful and blessed for your support till date and wish the same support from you all ahead too.

Wishing you all a happy reading.
Thanking you & Regards,

On behalf of the Organizing committee of Alumni FCFP 2022 & 2023

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... the Progression

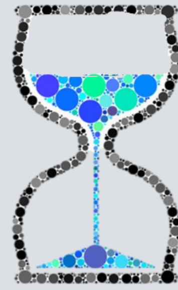
R. Gopinath

WEALTH MANAGEMENT Part-2

Can profit maximisation be a purpose of wealth management? Watch this video.

You can understand the concept related to the timing of profit, the time value of money, the quality of assets in terms of a certainty and uncertainty. This video of 30 minutes will explain the profit maximisation cannot be a purpose. It can be a route, for Money is not a need. Money is only a resource that can fulfil a need when the purpose is not properly defined.

Wealth management reduces to chasing a moving target.



- Grace period is like a Safety Net. If you miss paying your premium on time, you have a little extra time, usually 30 days from each premium due date for yearly or half-yearly or quarterly premiums and 15 days for monthly premiums to pay it without losing your coverage.
- During this time, your policy stays active, If Life Assured dies during the grace period Still death benefit will be paid to Nominee after deducting unpaid Premium.
- The grace period will also apply to rider premiums which are payable along with premium for base policy.
- The policy holder can pay the premium during the grace period, without any **Interest or Penalty.**
- If the premium is not paid before the expiry of the days of grace, the Policy lapses. Paying an insurance premium after the grace period is called Revival.
- If the Life Assured commits suicide within 12 months from the revival date, the higher of 80% of the total premiums paid or the surrender value at the date of death will be paid. No other claims amount will be considered.
- The insurance company can accept the revival on the original terms, accept it with revised terms, or reject it. The policy revival is only effective after the Insurance company approves it.
- Make sure to pay your premium on time to keep your Policy Active.

K.M.S. Sriram

A firm mind is able to see through the problems and spot hidden opportunities; A fickle mind spots problems, exaggerates it and arrests us into inaction.-rg

J. Dwarakanath
Chennai

Japan has slipped into recession, becoming the 4th-largest economy, behind the US, China and now Germany.

After government data showed it fell behind Germany's size in 2023, Japan has slid to the world's fourth-largest economy. Also, the UK economy has fallen into recession. Japan has slipped into recession, becoming the 4th-largest economy, behind the US, China and now Germany.

According to Cabinet Office data on real GDP, the Japanese economy contracted at an annual rate of 0.4% from October to December but expanded 1.9% for the entire year of 2023. It fell 2.9% from July to September. Two-quarters of shrinkage indicates that the economy is in a technical recession.

Ramnivas Mundada, Director of Companies and Economic Research at GlobalData, a leading data and analytics company, says, ""Regardless of challenges, on the positive side, the Japanese stock market continues its upward trend, fuelled by strong corporate earnings and manufacturing sector profits. The Nikkei 225 breached the 38,000 mark for the first time since 1990 on February 13, 2024, and outperformed Wall Street with a 13% gain in the first six weeks of 2024."

Japan had the second-largest economy until 2010 when it was surpassed by China. Last year, Japan's nominal GDP was USD 4.2 trillion, while Germany's was USD 4.4 trillion (or USD 4.5 trillion, depending on the currency translation).

The data show how the Japanese economy has increasingly lost competitiveness and productivity, while the population is shrinking as Japanese people age and have fewer children. Immigration is one possibility for addressing Japan's labor deficit, but the country has been highly unaccepting of foreign labor, except for temporary stays, leading to accusations of discrimination and a lack of variety.

Because nominal GDP is measured in dollars, a lower Japanese yen played a significant role in the country's slip to fourth position. However, experts believe Japan's relative weakness is due to a declining population as well as lacking productivity and competitiveness.

Real GDP is a measure of the worth of a country's goods and services. The yearly rate represents what would have occurred if the quarterly rate had lasted a year.

Japan has long been seen as "an economic miracle," emerging from the ashes of WWII to become the world's second-largest economy after the United States. This continued until the 1970s and 1980s. However, for the majority of the past 30 years, the economy has developed only marginally, primarily languishing in the doldrums since the bursting of its financial bubble in 1990.

The Japanese and German economies are driven by robust small and medium-sized firms with high productivity.

Germany, like Japan in the 1960s-1980s, surged ahead for the majority of this century, dominating global markets for high-end products such as luxury vehicles and industrial gear, selling so much to the rest of the world that exports accounted for half of its GDP. However, its economy, which was among the worst performers in the world last year, dropped by 0.3% in the fourth quarter.

After Japan, Britain's economy entered a recession in the second half of 2023, presenting a difficult backdrop for Prime Minister Rishi Sunak, who has promised to boost growth ahead of the projected 2024 election.

The Office for National Statistics (ONS) reported that gross domestic product (GDP) declined by a worse-than-expected 0.3% in the three months to December, after falling by 0.1% between July and September.

The ONS reported that economic output declined by 0.1% in monthly terms in December, following a 0.2% increase in November. According to the ONS, the manufacturing, construction, and wholesale sectors contributed the most to the fall in GDP.

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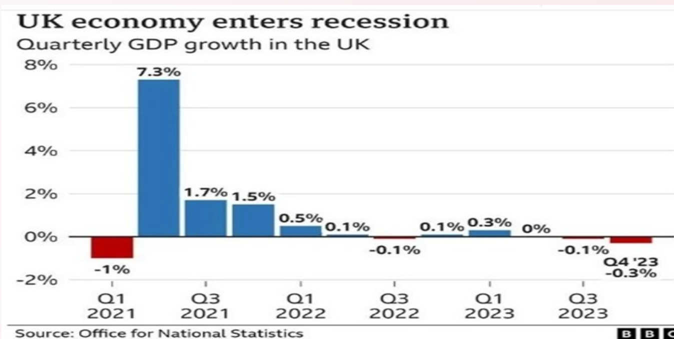


According to the ONS, the fourth-quarter GDP decrease was the largest since the first quarter of 2021. Britain's economy has remained stagnant for nearly two years. The Bank of England expects it to pick up somewhat in 2024.

The UK economy fell into recession during the final three months of 2023, according to official figures

However, the Bank of England has since suggested that the downturn might already be over.

Prime Minister Rishi Sunak said growing the economy was one of his five key priorities.

How do you measure the health of the economy?

The Office for National Statistics (ONS) publishes figures for the UK's Gross Domestic Product (GDP). This is the value of all the goods and services the UK produces.

In normal times, a country's economy grows, GDP rises, and average incomes rise as a result.

But sometimes the economy shrinks, GDP falls, and that's a sign that the economy is doing badly, which could hit people's pockets.

What is GDP and how does it affect me?

What is a recession?

The UK is in recession if GDP falls for two successive three-month periods - known as quarters.

The latest ONS figures confirm that the economy shrank 0.3% between October and December 2023.

That followed a 0.1% fall between July and September and means the economy went into recession at the end of 2023

Across 2023 as a whole, the UK economy grew by 0.1%.

The government has never publicly said what measure should be used to assess the prime minister's pledge to "grow the economy", despite repeated requests.

In private briefings, journalists were told it would be met if the economy was bigger in the fourth quarter of 2023 than in the previous quarter. The ONS figures show that it was not.

Faisal Islam: Should we care that the UK is in recession?

Is Rishi Sunak keeping his five key promises?

When was the last UK recession and how long did it last?

The last UK recession was in 2020, at the height of the coronavirus pandemic. It only lasted for six months, although the 20.4% fall in GDP recorded between April and June 2020 was the largest on record. The previous recession started in 2008 as a result of the global financial crisis, and went on for five quarters, or 15 months.

What happens in a recession and how does it affect me?

Economic growth can mean more jobs are available and companies can pay more to employees and shareholders. Higher wages and larger profits also generate money for the government through taxes.

It can choose to spend more on things like benefits and public services, or cut tax rates.

When the economy shrinks and a country goes into recession, these things can go into reverse.

Some people might lose their jobs, and unemployment could rise. Graduates and school leavers could find it difficult to get their first job.

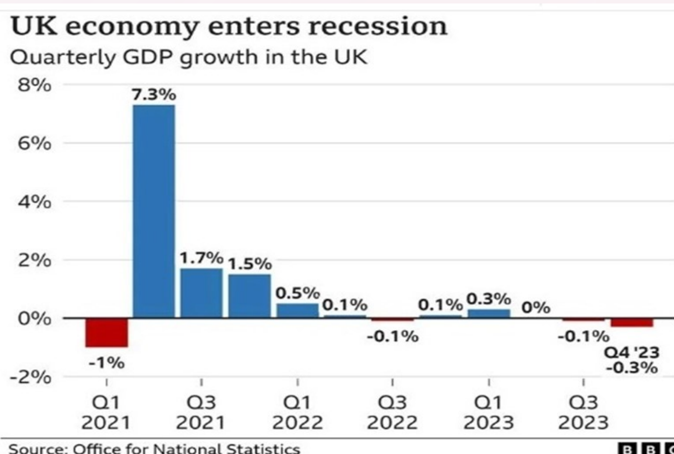
Others may find it harder to be promoted, or to get big enough pay rises to keep pace with price increases.

However, the pain of a recession is typically not felt equally across society, and inequality can increase. Benefit recipients and those on fixed incomes are particularly likely to struggle, especially if the government decides to spend less on public services.

How can you get out of a recession?

In a recession, the Bank of England - which is independent of government - typically cuts interest rates. This makes it cheaper for businesses and households to borrow money which can boost spending and economic growth. However, prices have been rising very quickly in the UK, and the Bank put interest rates up to tackle that inflation.

After 14 rate increases, the Bank has held interest rates at 5.25% four times in a row.



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When the economy is struggling to grow at the same time as there is high inflation, there can be a situation called "stagflation". This can be very difficult to solve, because the two issues require different solutions. However in February 2024, Bank of England governor Andrew Bailey told MPs that there were "distinct signs of an upturn" in the economy and the latest recession may already be over.

How does the UK's economy compare with other countries?

The UK has been one of the weaker members of the G7 group of the world's largest economies.

The US economy grew by 3.3% in the fourth quarter of 2023, which was much better than expected.

That put the US at 2.5% over 2023 as a whole, the best performance of all other advanced economies. It is also expected to outperform the rest of the G7 in 2024.

In October 2023, the International Monetary Fund (IMF) predicted that the UK would grow by just 0.6% in 2024.

Compiled by J. Dwarakanath
Source : Financial Express

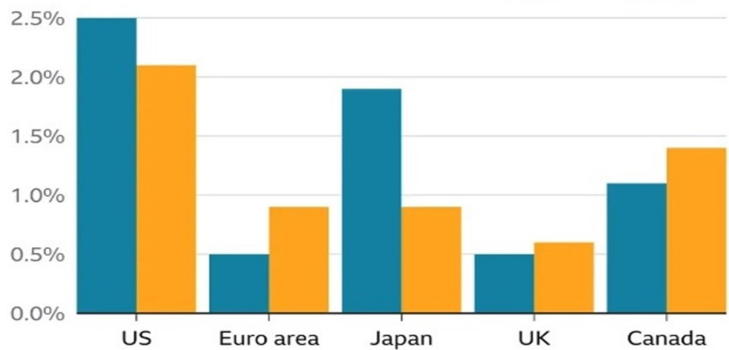
https://www.financialexpress.com/business/investing-abroad-why-japanese-economy-slip-behind-germany-to-become-the-worlds-fourth-largest-economy-3395414/

Japan and the UK officially enter a recession

Immigration is one possibility for addressing Japan's labor deficit, but the country has been highly unaccepting of foreign labor.

Written by **Sunil Dhawan**
February 16, 2024 09:09 IST

Growth projections by IMF
Annual percentage change in real GDP for **2023** and **2024**

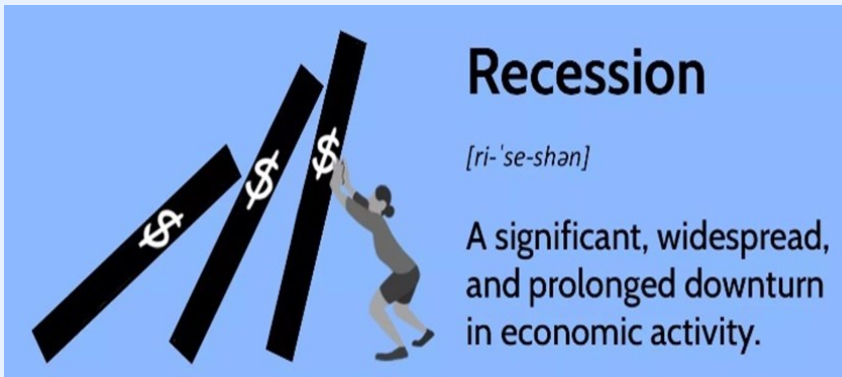


Note: Annual percentage change is estimated for 2023 and projected for 2024
Source: IMF

The independent Office for Budget Responsibility (OBR) expects the UK economy to grow by 0.7% in 2024, but that is less than half of its earlier prediction of 1.8% growth.

What is a Recession?

Source (Investopedia / Laura Porter)



A recession is a significant, widespread, and prolonged downturn in economic activity. A common rule of thumb is that two consecutive quarters of negative gross domestic product (GDP) growth mean recession, although more complex formulas are also used.

Economists at the National Bureau of Economic Research (NBER) measure recessions by looking at nonfarm payrolls, industrial production, and retail sales, among other indicators, going far beyond the simpler (although not as accurate) two quarters of negative GDP measure.1

However, the NBER also says there is “no fixed rule about what measures contribute information to the process or how they are weighted in our decisions.”

KEY TAKEAWAYS

A recession is a significant, pervasive, and persistent decline in economic activity.

Economists measure a recession's length from the prior expansion's peak to the downturn's trough.

Recessions may last as little as a few months, but the economy may not recover to its former peak for years.

An inverted yield curve has predicted the last 10 recessions, although some predicted recessions never materialized.

Unemployment often remains high well into an economic recovery, so the early stages of a rebound can feel like a continuing recession for many.

Nations use fiscal and monetary policies to limit the risks of a recession.

A downturn must be deep, pervasive, and lasting to qualify as a recession by the NBER's definition, but these calls come after the fact: It is not a clear formula to identify a recession as soon as one begins. (https://www.nber.org/)

This is only the tip of the iceberg. The fear of technical recession looms over several parts of the world.

Source: (Samrat Sharma New Delhi,UPDATED: Feb 20, 2024 17:33 IST Posted By: Ashutosh Acharya }

In Short

- UK, Japan slipped into technical recessions during the September-December quarter of 2023.
- At least 14 countries witnessed a shrinking GDP during the July-September quarter.
- Six countries reported GDP contraction for first time in December quarter.

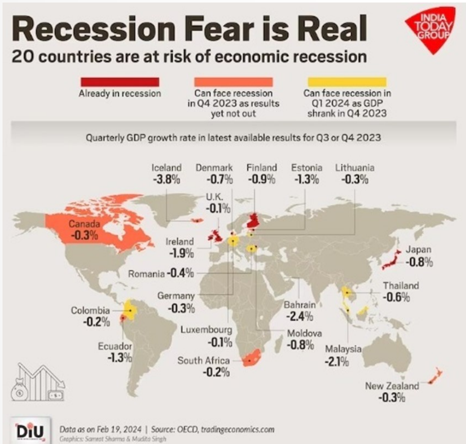
Japan and the United Kingdom slipped into technical recessions (at least two successive quarters of GDP contraction) during the September-December quarter of 2023. Recessions in these two countries made headlines due to their large economies. However, this is only the tip of the iceberg. The fear of technical recession looms over several parts of the world.

FOUR COUNTRIES UNDER TECHNICAL RECESSION SO FAR

Along with the UK and Japan, Ireland and Finland also went into technical recessions in the fourth quarter. Ireland registered a quarter-on-quarter GDP contraction of 0.7 per cent and 1.9 per cent in Q3 and Q4 respectively. On the other hand, Finland’s GDP shrank by 0.4 per cent and 0.9 per cent in the same periods.

MANY COUNTRIES AT RISK OF SLIPPING INTO RECESSION IN Q4

With the fourth quarter GDP results of several countries yet to be released, one can’t be certain if the above-mentioned four countries alone will face recession. At least 14 countries witnessed a shrinking GDP during the July-September quarter. The 10 other countries — Denmark, Luxembourg, Moldova, Estonia, Ecuador, Bahrain, Iceland, South Africa, Canada, and New Zealand — are still at risk of slipping into recession. Denmark, Luxembourg, Moldova, and Estonia were already in recession by the third quarter.



GDP growth accelerates to 8.4% in Q3, estimate for FY24 pegged at 7.6%

India's Gross Domestic Product (GDP) growth surged to a six-quarter high of 8.4% in October-December, pushing up the growth rate for 2023-24 to 7.6% as against the earlier estimate of 7.3%, data for third quarter GDP and second advance estimates for 2023-24 released by the National Statistical Office (NSO) on Thursday showed.

Even as agricultural growth is expected to remain subdued at 0.7%, FY24 GDP is seen gaining from a low base effect, and an over 8% growth in manufacturing, mining and financial services.

In the third quarter of the current financial year, among sectors, manufacturing posted the highest growth rate in double digits at 11.6%, while the construction sector grew 9.5%. Agriculture recorded a contraction of 0.8% in October-December.

Private final consumption expenditure, an indicator of consumption demand, rose by 3.5% year-on-year in October-December, while government final consumption expenditure decreased by 3.2%. Gross fixed capital formation, an indicator of investment, grew by 10.6% during the third quarter.

The 8%-plus GDP print for Q3 came as a surprise as many economists had expected growth to slow down to about 6.5% from the previous quarters. The Reserve Bank of India's projection for growth in Q3 was also pegged at 6.5%.

There were several revisions in the GDP data released on Thursday. The GDP growth for financial year 2022-23 was revised down to 7% from 7.2%, adding to the favorable base effect for the 2023-24 calculations.

Narendra Modi @narendramodi · Follow

Robust 8.4% GDP growth in Q3 2023-24 shows the strength of Indian economy and its potential. Our efforts will continue to bring fast economic growth which shall help 140 crore Indians lead a better life and create a Viksit Bharat!

6:43 PM · Feb 29, 2024

94K Reply Share

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In a post on X, Prime Minister Narendra Modi said the "robust growth shows the strength of Indian economy and its potential."

For the second quarter of July-September, the GDP growth estimate was revised up to 8.1% from 7.6%, while that for the first quarter of April-June was revised to 8.2% from 7.8%, the NSO data showed. This came on the back of a downward revision in FY23 quarterly growth rates to 5.5% in July-September (earlier 6.2%) and 12.8% in April-June (earlier 13.1%). For October-December 2022-23, growth rates were revised down to 4.3% from 4.5%.

Commenting on the GDP data, Prime Minister Narendra Modi said in a post on 'X': "Robust 8.4% GDP growth in Q3 2023-24 shows the strength of Indian economy and its potential. Our efforts will continue to bring fast economic growth which shall help 140 crore Indians lead a better life and create a Viksit Bharat."

Chief Economic Advisor V Anantha Nageswaran said the GDP numbers are "strong" and good momentum in economic activities is likely to continue in the fourth quarter. "So the actual performance of the economy has continued to defy expectations and do better than what many had projected, underscoring the fact that a structural transformation of the economy is indeed underway, both in terms of physical infrastructure and digital infrastructure as well as inclusion agenda, boosting the purchasing power of Indian households," Nageswaran said.

Prospects of healthy rabi harvesting, and expectations of the fading away of El Nino and the forecast of a normal monsoon, are expected to support a better-than-normal kharif sowing, he added.

"Most of the GDP growth has come about through robust non-agricultural growth on the supply side and substantial investment growth on the demand side. The main negative news on the demand side is the slowdown in consumption expenditure growth which has clocked now only 3% for both private and government final consumption expenditure," D K Srivastava, Chief Policy Advisor, EY India, said.

Economists pointed out the divergence between the GDP and the Gross Value Added (GVA) growth rates on account of a sharp rise in net taxes, which are estimated to have grown by 32% in Q3 FY24 in real terms. GDP is Gross Value Added or GVA plus product taxes minus subsidies. GVA, which reflects national income from the output side, is expected to grow at sub-7% with estimated 6.9% in FY24 as against 6.7% last fiscal (earlier estimate was 7.0%). This compares with GDP of 7.6% in FY24 as against 7.0% in previous fiscal.

With a 7.6% GDP growth estimated for FY24, back-of-the-envelope calculations show that the fourth quarter of January-March is estimated to post a growth rate of 5.9%. The average GDP growth for the first three quarters of FY24 is 8.2%.

"The divergence between GDP and GVA is due to net taxes less subsidies which jumped by 32% year-on-year, boosting GDP growth. The increase is due to a sharp decline in subsidy expenditure," IDFC First Bank's economist, Gaura Sen Gupta, said in a note.

Apart from the downward revision in GDP growth for the previous financial year, the other factor that seems to have contributed to the Q3 GDP growth is non-pass through of lower input cost by the industrial sector as, despite modest volume growth, much higher value-added growth has been recorded in the industrial sector, economists said.

"This volume and value added disconnect of the industrial sector is also playing out in the higher wedge between GVA and GDP growth as the difference between the two is net taxes. Non-pass through of lower input cost has resulted in higher corporate profitability and higher payment of taxes," India Ratings' Principal Economist Sunil Kumar Sinha and Senior Analyst Paras Jasrai said in a note.

Economists said going forward, the most critical aspect to watch out for will be a broad-based improvement in consumption growth and private investments. "The upward revisions in data for the full-year FY24 pose a potential downside risk to our existing FY25 forecast of 6.7%," CareEdge said in a note.

Compiled by J.Dwarakanath from Source : https://indianexpress.com/article/business/india-gdp-economy-govt-data-9188473/
*Written by **Aanchal Magazine** New Delhi | Updated: March 1, 2024 01:15 IST*

List of AWF Qualifiers

Ankur SHAH

Bharathi SRINIVASAN

Ajay Kumar TYAGI

Ashok G SUTTAR

Keshav H AGARWALLA

Suresh Kumar ARORA

Amit Uttam SARANG

Umesh PANCHWAG

Inderpal S. BINDRA

List of AWF Qualifiers

Savita PILLAI

Nishith JOSHI

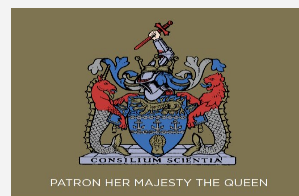
Dwarakanath JAGANATHAN

Vikas ARORA

Anand GARG

K. ARUMUGASAMY

List of AWF Qualifiers Before Joining FCFP



Hemant Kumar AGRAWALLA

M. SATYANARAYAN

Tapogopal MOITRA

COVER STORY

BINDRA Inderpal Singh
Delhi

The market regulator Insurance Regulatory And Development Authority of India (IRDAI), through the Gazette of India on 20-Mar-2024, have notified the latest regulations named **"Insurance Regulatory and Development Authority of India (Insurance Products) Regulations, 2024"** in effect since 01-Apr-2024.

These regulations apply to all the three categories of insurance such as **Life**, **General** and **Health**.

The objectives of these regulations are as follows:

- Respond swiftly to market needs
- Enhance innovation
- Improve insurance penetration
- Protect policyholders' interests
- Ensure good governance
- Foster sound management practices

In the year 2006, the authority had withdrawn (de-notified) the insurance tariffs (premiums and/or premium ratings) provided by the then Tariff Advisory Committee (TAC). This had made the Indian insurance market enter into the world of open pricing market also known as de-tariff regime. Apart form the premiums, the terms, conditions, clauses, warranties, policy and endorsement wordings applicable to some class of business such as Fire, Engineering, Motor, WC etc. were continued to be followed.

Before we move ahead, let us know another very important change, that was also notified on the same date. The regulator de-notified their earlier regulation of 2006, where in it was mandatory to follow the wordings of policies as per TAC. Now, what does this mean for us? These regulations make the Indian Insurance Industry totally open in terms of premium pricing and policy terms, conditions, warranties, wording etc.

Since the insurance companies are now free to write their own terms, hence it is important for the regulator to download the guidelines to all the insurers; which they have done through this regulation.

With these changes all the insurance companies are now required to form "Product Management Committee (PMC)", which shall be a Board constituted committee within the insurer with functions as per these regulations.

The chapter-II of the regulations talks of Principles of product development, pricing and design. The highlights of which are as follows:

- **Principles of Product Development and Pricing:**
  - Evolving risk coverage needs
  - Transparency
  - Basic insurance principles
  - Fair pricing
  - Reflecting risk factors
  - Providing value for money
- **Micro-insurance Products:**
  - Categorized by Competent Authority
  - Provisions specified
  - Targeting underprivileged sections of society
- **Product Management and Governance:**
  - Board-approved policies
  - Product Management Committee (PMC)
  - Oversee product design, compliance, and performance evaluation
  - Stringent control mechanisms
  - Periodic reviews
- **Powers and Guidelines:**
  - IRDAI holds authority to issue circulars, guidelines, and directions
  - Ensure effective implementation
  - Withdraw products not in policyholders' interest or industry's benefit
  - Provisions for clarifications and guidelines to address interpretation issues

As stated above this regulation is applicable to Life, General an Health insurances. All the products will have to follow the applicable provisions set out in the schedules.

The **Schedule-I** provides guidelines related to **Life** Insurance products and gives details regarding definitions of the products, product structure, all types of charges such as allocation, surrender, withdrawal, switching, FMC etc. for ULIP's. Apart from ULIP guidelines for Index linked funds, non—linked, pension and annuity products.

The **Schedule-II** provides provisions to **General** Insurance products. For the first time the risks have been classified such as large risk, retail risk, etc. All large risks would be underwritten with prior approval of the Risk Management Committee of the insurer.

The **Schedule-III** is relevant to Health Insurance products. There are some very dynamic changes done, we would discuss them in detail below.

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Pre-Existing Disease (PED) - the waiting period for this condition has been brought down form 48 months earlier to now 36 months. Although we have many insurance products, where the PED waiting was already between 12 to 36 months, but with the new regulation now, no insurer can impose a waiting of more than 36 months. This also means that such products which had waiting of 48 months will now be brought down to 36 month. This is a very welcome move by the regulator, protecting the interest of the policy holders.

Pricing - the regulator has asked the insurers to reward the policy holders for early entry, continued renewals, favourable claims, habits etc.

Many cases of non-disclosure are seen in the industry. The insurers do not pay for any claims where in any material fact was hidden and not disclosed at the time of buying a new policy or while porting from one insurer to another. The policies were also cancelled mid-term along with forfeiting the premium paid.

In the interest of the policy holders, in the year 2021, the regulator had notified a new term called moratorium period. Any insurer could not deny any claim on the grounds of non-disclosure, in case the policy (new or ported) had served 96 months. Now this period has been brought down from 96 to 60 months. I have quoted the same below from the gazette.

"**Moratorium (applicable for health insurance policies issued by general and health insurers):**
After completion of sixty continuous months of coverage (including portability and migration) in health insurance policy, no policy and claim shall be contestable by the insurer on grounds of non-disclosure, misrepresentation, except on grounds of established fraud. This period of sixty continuous months is called as moratorium period. The moratorium would be applicable for the sums insured of the first policy. Wherever, the sum insured is enhanced, completion of sixty continuous months would be applicable from the date of enhancement of sums insured only on the enhanced limits."

Many think that post moratorium any company cannot deny a claim; hence people try to non disclose their major ailments and buy new policy or port their policy from one insurer to another with better and higher sum insured product. This practice is not ethical as the insurance is a contract of utmost good faith. In addition to trust, we must always adhere to high ethical, moral and professional standards and never encourage this. We must not forget, that claims can be denied on the grounds of established frauds. In case any purposeful and intentional non disclosure turns out to be a fraud, then this may become is very risk for the policy holder, at later years.

Renewal - no health insurance can be denied renewal on the grounds of claims made, except for benefit policies. Loadings on premium would also not apply on renewal on the basis of any claims experience. Any fresh medical or underwriting would also not be done if there is no enhancement of sum insured.

Now let us look at this regulation along with denotification of tariff products. As mentioned earlier this means, that the insurance companies are now free to design products with their own wordings, terms and warranties. The insurers getting the free hand and having their in house **PMC**, would work hard in developing and creating products with inspirations from insurance markets of the developed nations. Therefore, we must now be prepared to welcome new age customer centric products, with new features and coverages. This would also mark as beginning of new era of open market, and higher competition among the insurers.

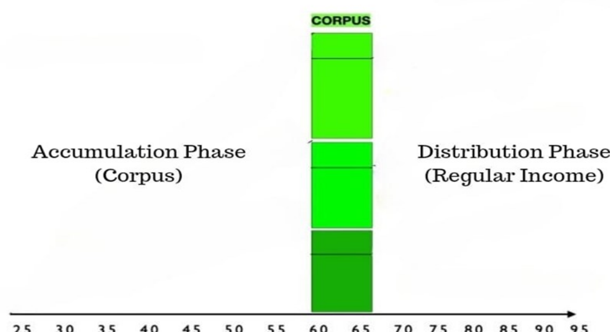
Takeaway for the Insurance Agents - Needless to mention that this era would require, more dedication and higher level of professionalism form the insurance agents/ advisors because, every insurer would launch attractive products. These products will also come with policy wordings and terms, applicable for each product and plan individually. This would require complete knowledge of every product, to render correct information and comparison to customers.

Continuous **P**rofessional **D**evelopment and regular learning is the key to success. So be ready to welcome the new products and embrace the change.

Author
BINDRA Inderpal Singh
Award In Financial Planning CII, UK
FCFP, QPFPA, MCAFP—Go Past
Licentiate, Insurance Institute of India

Dear readers,
In Part 1 we Saw the importance of regular income which is passive & guaranteed. In part 2 we explored diff ways of generating regular income post-retirement. In this part 3 we will understand exactly how should we do retirement planning.

Retirement Planning:

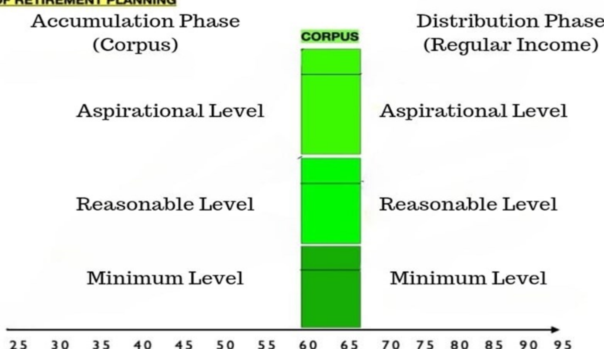


As you can see in the picture retirement planning has 2 phases:

1. Accumulation Phase
2. Distribution Phase

Accumulation phase is the time when a person saves money for his retirement. During this time, he is accumulating the corpus.

Distribution phase is when he is consuming the corpus by converting it into a (regular income) cash flow.



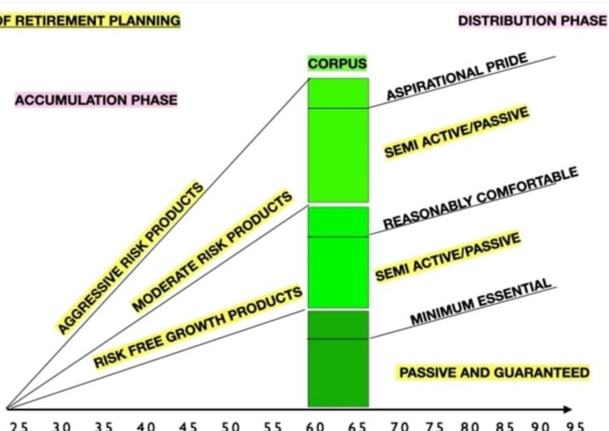
The life style requirements post retirement can be classified into 3 levels:

1. **Minimum level** - the barest minimum that this person can live within the means provided for *(say 50% to 60% of used to level)*
2. **Reasonably comfortable -** little less than the pre-retirement level, letting go of whatever can be let go *(say 75%to 80% of the used to level) and;*
3. **Aspiration level**—the life that a person would be fantasizing about *(say 150% of the used to level)*

We need to keep these 3 levels in mind in accumulation phase to decide the asset class for savings to achieve desired corpus.

We need to keep in mind these 3 levels in distribution phase as well to decide the type of regular income.

The picture below will explain the scientific principles one need to adopt during both the accumulation and distribution phases.



Case Study (saving only 5% of income for retirement)

Name: Mr. ABC
Present Age: 25
Retirement Age: 60
Present annual Income: Rs 12,00,000
Increment every year: 10%
Safe rate of return: 6%

Retirement Corpus: find out the final corpus amount if this person saves every year just the 5% of his income to create a retirement corpus

Contd...

Mr ABC savings @ 5% of salary for Retirement				
Sr No	Year	Age	Salary	Savings @ 5%
1	2023	25	12,00,000	60,000
2	2024	26	13,20,000	66,000
3	2025	27	14,52,000	72,600
4	2026	28	15,97,200	79,860
5	2027	29	17,56,920	87,846
6	2028	30	19,32,612	96,631
7	2029	31	21,25,873	1,06,294
8	2030	32	23,38,461	1,16,923
9	2031	33	25,72,307	1,28,615
10	2032	34	28,29,537	1,41,477
11	2033	35	31,12,491	1,55,625
12	2034	36	34,23,740	1,71,187
13	2035	37	37,66,114	1,88,306
14	2036	38	41,42,725	2,07,136
15	2037	39	45,56,998	2,27,850
16	2038	40	50,12,698	2,50,635
17	2039	41	55,13,968	2,75,698
18	2040	42	60,65,364	3,03,268
19	2041	43	66,71,901	3,33,595
20	2042	44	73,39,091	3,66,955
21	2043	45	80,73,000	4,03,650
22	2044	46	88,80,300	4,44,015
23	2045	47	97,68,330	4,88,416
24	2046	48	1,07,45,163	5,37,258
25	2047	49	1,18,19,679	5,90,984
26	2048	50	1,30,01,647	6,50,082
27	2049	51	1,43,01,812	7,15,091
28	2050	52	1,57,31,993	7,86,600
29	2051	53	1,73,05,192	8,65,260
30	2052	54	1,90,35,712	9,51,786
31	2053	55	2,09,39,283	10,46,964
32	2054	56	2,30,33,211	11,51,661
33	2055	57	2,53,36,532	12,66,827
34	2056	58	2,78,70,185	13,93,509
35	2057	59	3,06,57,204	15,32,860
36	2058	60	3,37,22,924	16,86,146

In above table last column shows amount available every year for the savings. Now we want to calculate what corpus will be available if he/she saves this different amount every year @ 6%. For that we need to first find our NPV @ 6% of the last column.

fx =NPV(6%,E2:E37)
F
NPV @ 6% of savings from Age 25 to 60
INR 4,191,369

fx =FV(6%,37,0,-F2,1)
G
NFV @ 6% of savings from Age 25 to 60
INR 36,197,031

The NPV of all the savings from age 25 to 60 comes to 41,91,369. Now we need to find out its future value at 37th year @ 6%. Need to be careful. Because NPV is always calculated on beginning mode, calculate NFV at end mode.

Yes the correct answer is Rs 3.62 Crore. A person age 25 saved only 5% of his annual income for retirement corpus he created a corpus of Rs 3.62 crore.

Can we not even save 5% of our annual income for retirement?

In the next issue we will do a sample case study with calculations to determine:

1. Exact Corpus required
2. Monthly savings required to achieve that corpus at all 3 levels (minimum, reasonable & aspirational)
3. Target ROI & asset class suggestion to save for all these 3 levels.

SOURCE: SHRI GOPINATH SIR'S TEACHINGS

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Unlocking Financial Freedom

a road map for Women's life time income success

Dr. David F. Babbel is a Professor of Insurance and Finance at the Wharton School, University of Pennsylvania, and a Senior Advisor to CRA International, an economics consulting firm. In his research paper on lifetime income for women, Dr. Babbel mentioned an experience involving a couple. Allow me to share Dr. Babbel's account here.

At a large sporting event in Philadelphia on December 2007, a chance encounter with an engaging couple sparked a conversation that delved into the intricacies of financial planning and retirement. The woman, who had dedicated her life to raising eight children in a blended family dynamic, found herself thrust into the workforce for the first time at the age of 66.

As the conversation unfolded, it became evident that the couple's financial stability had been upended by the transition from a defined benefit pension plan to a defined contribution 401(k) plan (in India it is NPS). Instead of the expected steady income stream, they were faced with a lump sum and the responsibility of managing their own retirement funds.

The man, having retired from a successful career, opted for a cash settlement and entrusted their savings to a promising venture managed by a family member. Unfortunately, the venture failed within two years, leaving the couple with nothing but debt and uncertainty.

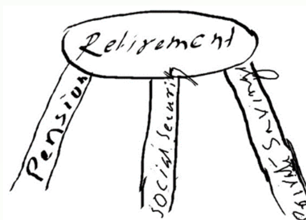
With the husband's health deteriorating and their savings depleted, the woman had no choice but to seek employment in her later years. Despite her age and the challenging economic climate, she embarked on a journey to become a real estate agent, hoping to secure their financial future amidst the crashing housing market.

Now facing the reality of working well into her 80s to support herself and her ailing husband, the woman's resilience shines through as she confronts the harsh realities of unforeseen circumstances and financial misfortune.

Through this tale of unexpected twists and turns, one is reminded of the importance of careful financial planning and the need to prepare for the uncertainties that life may throw our way.

Today, pensions are rare; social security does not cover basic living expenses; responsibility 100 percent on us. Retirement stool comprises three legs:-

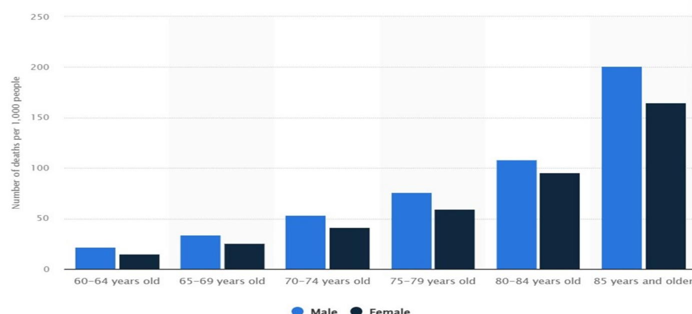
1. Pensions (rare)
2. Social Security (uncertain)
3. Personal savings (NPS, bank accounts) – this is what most people rely on to get them through retirement. Is it enough?



Life insurance and annuities are particularly relevant to women due to their longer average life expectancy compared to men. Moreover, women often marry men older than themselves, further extending their potential lifespan beyond that of their spouse. Consequently, women are more likely to outlive their husbands.

As a result, many women find themselves as the beneficiaries of life insurance policies, with statistics indicating that 70% or more of beneficiaries of life insurance policies are female. This places a significant emphasis on the financial stability of women who rely on life insurance payouts following the passing of their spouse.

Number of Deaths Among Aging Population in India in 2020, by Gender and Age Group (Per 1000 people)



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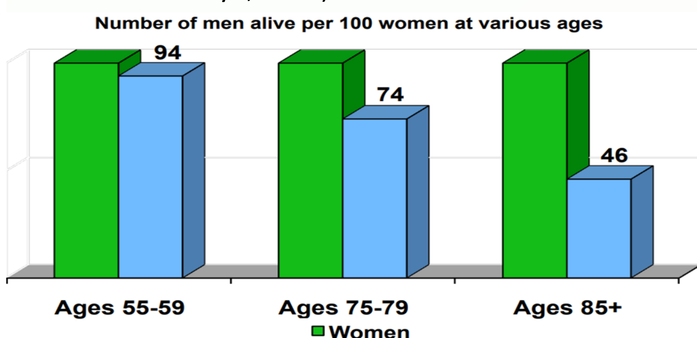
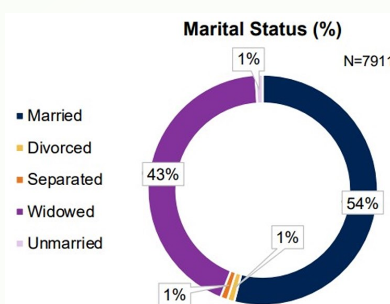
There are research and findings that underscore the importance of women to take financially prudent steps

- Older women are 50% more likely than older men to live in poverty (Bureau of Labor Statistics).
- Poverty rate for people above age 75 is 33% higher than that of people age 65-74. (Bureau of Labor Statistics).
- Approximately 44% of the elderly will ultimately require nursing home care (Spillman and Lubitz, 2002).
- Roughly 75% of the residents of nursing homes are women (Spillman and Lubitz, 2002).
- The majority of the residents in nursing homes are widowed, functionally dependent females (Spillman and Lubitz, 2002).
- About 72% or the residents required help in managing money (Spillman and Lubitz, 2002).
- Women generally have much longer stayed than men in nursing homes (Spillman and Lubitz, 2002). One reason for this is that women are generally younger than their husbands and provide compassionate home care for them in their declining years, delaying the time before which they need to be cared for in a nursing home. Less than 10% of women, on the other hand, have a companion by the time their health declines, and so they seek institutional care at an earlier stage of their declining health. Ironically, in many cases the couple's financial reserves have already been expended on the husband's care, leaving little for the woman.
- The increasing share of retirees forgoing annuities raises the prospect of retired workers depleting their assets so that they have no resources beyond Social Security and higher poverty rates among widows. If annuities were one of the options under retirement savings plans, it could help avoid this outcome (Johnson, Uccello and Goldwyn, 2003).



With the guidance of Institute for Social and Economic Change, Bangalore, United Nations Population Fund, New Delhi, Institute of Economic Growth, Delhi, Tata Institute of Social Sciences, Mumbai a study was

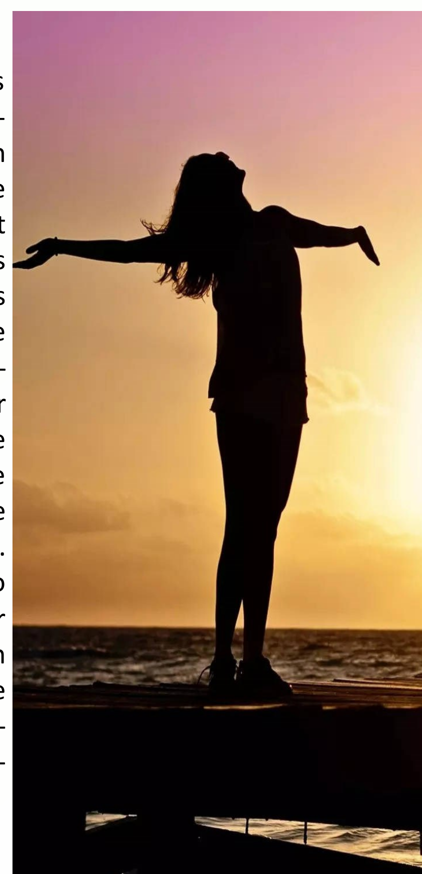


done on older women in India. A paper was published as Older Women in India: Economic, Social and Health Concern.

It reveals that Income insecurity is a significant source of vulnerability among older women. More than four out of five women have either no personal income at all or very little income. Economic dependency among older women is therefore high. One-third of older women do not own any assets, although more widowed women own assets compared to married women. Only a third of widowed women receive social pension. Poverty drives over ten percent of older women to work, largely in informal sectors with low wages, no retirement or post-work benefits. The accentuated economic vulnerability and poverty of older widowed women is found across all survey states.

As per Longitudinal Ageing Study in India (LISA) conducted in 2021, the country's older population is said to be the world's second largest with nearly 140 million people being ages 60 and above. A recent study conducted by LISA for the welfare of older women, they collected sample data from a total of 7911 older women participants from across the country (greater than or equal to 60 years age). Looking at the marital status of the respondents, it is seen that a little over half of the respondents (54%) are married. Significant respondents are widowed.

Financial Storm



Five forces are converging upon Indian today in what some have called the Perfect Storm and it is about to engulf us from all sides. The situation is particularly precarious for women and there isn't anything we can do to stop these converging forces. The best we can do is to organize our own finances in such a way that we can provide for ourselves and our families.

Contd...

1. The Central Government has introduced the Defined Contribution based Pension System known as the National Pension System (NPS) replacing the system of Defined Benefit Pension with effect from January 01, 2004 vide the Ministry of Finance (Department of Economic Affairs) notification No 5/7/2003 PR dated 22/12/2003.
2. Around 53% of all of the salaried workforce does not have any social security benefits in India, according to the Periodic Labour Force Survey Annual Report 2021-22. It is just 1.9% of the poorest 20% quintile of India's workforce has access to any benefits.
3. "Indira Gandhi National Old Age Pension Scheme (IGNOAPS)" is one of the five sub-schemes of the National Social Assistance Programme (NSAP). Under IGNOAPS, citizens living Below Poverty Line and 60 years or above in age are eligible to apply. A monthly pension of ₹ 200 up to 79 years and ₹ 500 thereafter.
4. India will age rapidly in the coming decades. By 2050, the share of the elderly in India's total population can reach more than 20 per cent, according to the India Ageing Report 2023 released on September 27, 2023 by the International Institute for Population Sciences and the United Nations Population Fund.
   The number of elderly will also be higher in pro portion to the number of children aged 0-14 years. The number of working age people in the age group of 15-59 years will decrease. Also, women will live longer than men, due to which the number of older women will be more than older men.
5. According to the report, in India, a man aged 60 years can live another 18.3 years, while women can live 19 years. Apart from this, it also depends on the different life expectancy of the states. In Kerala and Himachal Pradesh, women can be up to 4 years more than men.

Coming back to our original discussion about Lifetime Income and Women there are three broad approaches that individuals generally take (knowingly or unknowingly) when deploying their accumulated assets as they enter their retirement years. Each approach has variations:

Approach 1: Annuitize a substantial portion of their accumulated wealth.

Approach 2: Invest primarily in fixed income instruments such as bonds, money market funds, etc.

Approach 3: Invest primarily in stocks, bonds, and mutual funds

The first approach mentioned here involves securing a desired pattern of income throughout one's lifetime by investing in an appropriate mix of annuities. Let's break down the key points:

1. Investing in Annuities for Lifetime Income Security:

⇒ In this approach, retirees aim to secure a consistent pattern of income throughout their lifetime by purchasing annuities. An annuity is a financial product that provides regular payments to the holder for a specified period, often until death.

⇒ By investing in annuities, retirees can ensure a steady stream of income regardless of how long they live. This eliminates the risk of outliving their savings, as the annuity payments continue until the end of life.

⇒ It is essential to choose an appropriate mix of annuities to meet individual financial needs and goals. This may involve selecting between fixed annuities (providing a guaranteed income) and market linked annuities (with payments linked to investment performance).

2. Emergency Fund and Additional Investments:

⇒ Retirees following this approach should also set aside funds for emergencies to cover unexpected expenses that may arise during retirement. This ensures financial stability and reduces reliance on the annuity income for unplanned costs.

⇒ After securing income through annuities and establishing an emergency fund, retirees may choose to invest any remaining funds in stocks, bonds, or other investments to potentially generate additional income or growth.

3. No Reduction in Heirs' Inheritance:

⇒ One significant advantage of this approach is that the amounts received by heirs are not reduced if the retiree lives longer than expected. Unlike other approaches where heirs may receive less if the retiree outlives their assets, the annuity payments continue until the retiree's death, providing a consistent inheritance for heirs.

⇒ Overall, this approach provides retirees with a reliable source of income throughout retirement, mitigating the risk of outliving savings and ensuring financial security for both the retiree and their heirs.

⇒ The second approach mentioned here involves variations in how retirees can structure their income during retirement. Let's break down each variation:

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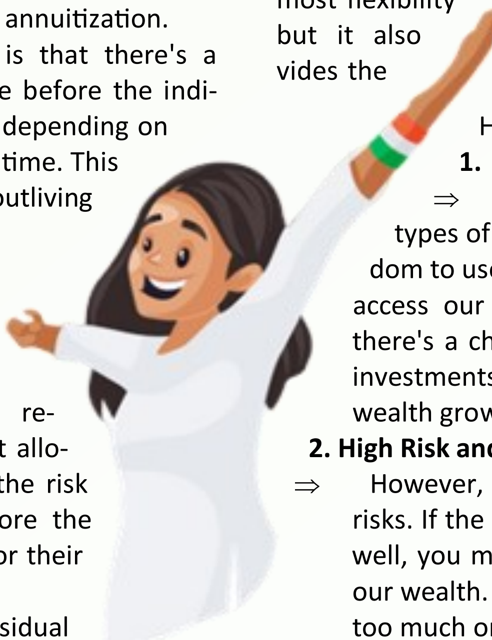
Variation 1: Creating a Desired Pattern of Income with the help of Skillful Investment advisor:

⇒ In this variation, retirees aim to generate a consistent pattern of income throughout their lifetime, similar to what they might achieve through annuitization (a process of converting a sum of money into a series of periodic payments). However, achieving this level of income security through investments typically requires 25% to 40% more capital compared to annuitization.

⇒ The risk with this approach is that there's a chance the income may expire before the individual passes away, especially depending on how interest rates evolve over time. This means there's a possibility of outliving the income stream.

⇒ Additionally, retirees need to set aside funds for emergencies and may want to give money away while still alive, which further increases the required capital. If retirees don't allocate enough funds, they run the risk of depleting their assets before the end of their life, leaving less for their heirs.

⇒ The heirs become the residual claimants in this scenario, meaning they receive whatever remains after the retiree's expenses and potential financial emergencies. The longer the retiree lives and requires financial support, the less will be left for the heirs.



Variation 2: Investing in Fixed Income Instruments with Reduced Monthly Consumption:

⇒ In this variation, retirees can invest in a portfolio of fixed income instruments that are expertly designed to mimic the income stream they would have received through annuitization. However, they choose to consume 25% to 40% less each month compared to what they would have received through annuitization.

⇒ By reducing monthly consumption, retirees aim to stretch their assets further and mitigate the risk of running out of money prematurely. However, there's still a risk of failure if unexpected expenses arise, or if interest rates move unfavorably during the retiree's lifetime.

⇒ Again, the heirs become the residual claimants, bearing the financial risks associated with the retiree's chosen strategy. They may receive less if the retiree's assets are depleted sooner than expected.

Both variations involve trade-offs between income security, desired lifestyle, and the potential needs of heirs. Retirees must carefully consider their financial goals, risk tolerance, and longevity expectations when deciding which approach to adopt. Additionally, consulting with a skilled investment advisor can help retirees navigate these complexities and make informed decisions tailored to their individual circumstances.

The third approach to retirement involves putting all of our wealth into stocks, bonds, mutual funds, or similar investments. This approach offers the most flexibility and potential for high returns, but it also carries the highest risk and provides the least financial security.

Here's a breakdown of the key points:

1. **Flexibility and Potential Returns:**

⇒ By investing all our money in these types of investments, we have the most freedom to use our funds as we wish. We can easily access our money whenever we need it, and there's a chance of earning high returns on our investments, which could lead to substantial wealth growth over time.

2. High Risk and Less Security:

⇒ However, this approach comes with significant risks. If the stock or bond markets don't perform well, you might end up losing a large portion of our wealth. There's also the temptation to spend too much or be approached by others who know you have money available, potentially leading to financial troubles.

⇒ If our investments don't perform as expected, we might run out of money during retirement and have to rely solely on Social Security, help from relatives, or even charity to make ends meet.

3. Flawed Logic About Risk-Taking:

⇒ Some people have been attracted to this approach because they believe that women, who generally live longer than men, need to take more financial risk to accumulate enough wealth for retirement.

⇒ However, recent studies have questioned this idea. They suggest that when there's uncertainty about future investment returns, as there often is, it's actually wiser for retirees to have fewer investments in stocks and take on less risk.

⇒ These studies also indicate that many investors, including professional money managers, often don't perform as well as the stock market itself, despite advice to take on more risk.

In simpler terms, the third approach involves investing everything in the hope of high returns, but it's the riskiest option and could leave you in a difficult financial situation if things don't go as planned.

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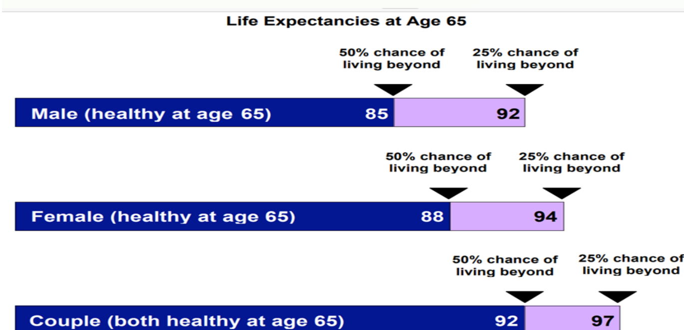
Longevity Risk and women:

People are living longer than ever before. The average 60-year-old male will live to age 78, while the average 60-year female will live to 82. But what is the problem with averages is that they have nothing to do with how long any one individual will live. Half of the reader of this article will live longer than their gender's average life expectancy. Life expectancy is not an average at all. It is simply a mid-point. Half of all 60-year-old men will die prior to age 78. What about the other half? But whole other half will remain alive beyond age 78. Half of the 60-year-old female will die prior to age 82, but half of them will alive beyond 82 ages. Therefore, averages are not indicator of how long our retirement will last rather we must prepare well to operate under the notion that we very well may live long past our gender's average age of death.



Source: Annuity 2000 Mortality Table, appeared in Scott DeMonte and Lawrence Petron, "income Annuities Improve Portfolio Outcomes in Retirement," Financial Research Corporation report,2010.

Risk Tolerance:

There is a body of recent research indicating a consistent trend: males tend to exhibit a higher tolerance for risk compared to females. These findings stem from various methodologies, including observed behaviors, experimental setups, and survey responses. Yao and Hanna (2005) succinctly summarize the main conclusions:

⇒ Men are less inclined than women to opt for annuitizing their wealth upon retirement, all else being equal.

⇒ Males demonstrate a greater inclination towards placing their investments in riskier assets.

⇒ Married women, who typically outlive their spouses by approximately six years, may face the repercussions of these choices unless they actively participate in financial decision-making.

⇒ Besides gender, other factors influencing an individual's risk tolerance include wealth, income, financial literacy, knowledge, race, and proximity to retirement.

⇒ Analysis of risk tolerance distribution indicates that, even when controlling for demographic and economic variables, unmarried males exhibit the highest propensity for assuming high financial risk, followed by married males, and then unmarried females. Married females exhibit the lowest likelihood of embracing high-risk financial strategies.

⇒ These differences in risk tolerance are statistically significant. Unmarried males are 1.4 times more likely than married males to embrace high financial risk, and twice as likely as unmarried females in similar circumstances. Similarly, married males are 1.7 times more inclined towards high financial risk compared to married females of comparable profiles.

⇒ Women demonstrate a higher tendency than men to invest in risk-averse securities like bank certificates of deposit (CDs) and US Treasury securities, indicating a lower risk tolerance among women (Embrey and Fox, 1997).

⇒ Single women exhibit a lower inclination towards investing in stocks and a higher preference for bonds compared to married females, married males, and single males (Christiansen et al., 2006).

⇒ Men are more inclined to allocate their assets predominantly to stocks, suggesting a greater appetite for financial risk (Sundén and Surette, 1998).

Why Do Lifetime Income Annuities Yield So Much?

Let us imagine that we take out a home loan of ₹10,00,000 at an interest rate of 6% per year, compounded monthly, to buy a house. With a traditional mortgage, we would make monthly payments that cover both the interest on the loan and a portion of the principal (the original amount borrowed).

Now, let us compare this to an annuity. Instead of borrowing money, I invest ₹10,00,000 into an annuity. The annuity pays me back a fixed amount each month for a certain period, typically for the rest of my life. Each monthly payment I receive from the annuity includes both interests earned on my investment and a portion of the original amount I invested.

Here's the key difference: with the mortgage, I am paying money out each month to cover both interest and principal. But with the annuity, I am receiving money each month that includes interest earned on my investment and a return of a portion of my original investment.

Because of this return of principal, the monthly payments I receive from the annuity are typically higher than what I could earn from other low-risk investments like fixed deposits, bonds, or money market funds. In fact, over time, the payments from an annuity can even exceed what I might earn from riskier investments like stocks.

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So, in simple terms, annuities provide a steady stream of income that includes both interest and a return of our initial investment, making them a reliable option for generating income in retirement.

Conclusion

Although the views expressed in this article are personal, they echo sentiments shared by leading economists worldwide regarding the significance of lifetime income annuities in retirement planning. With the widespread disappearance of defined benefit pensions, the choice to annuitize has become increasingly crucial.

Despite this acknowledgment, lifetime income annuities are often overlooked in the investment options available for retirement plans, both during the accumulation phase leading up to retirement and in the subsequent decumulation phase. ***Instead, retirement plan menus typically feature a plethora of mutual fund offerings that may not adequately address the primary risk of retirement: the possibility of outliving one's assets.***

As a result, individuals seeking investments that can provide a steady stream of income throughout retirement may need to proactively explore options offered by life insurance companies. This may involve some diligent searching, but it's a vital step in ensuring financial security during one's later years.

As we plan for retirement in India, let's cherish the third leg of our financial stool. It's not just about hoarding wealth; it's about embracing financial freedom. Retirement marks the beginning of a life unshackled by monetary worries, where every rupee is a stepping stone to our dreams and self-actualization. Let's weave our plans with care, for in the tapestry of retirement lies the promise of a life truly lived. Happy hunting for the right solution!

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Data Centre

Latest Policy Rates (Source RBI website) as at 01:30 pm on 16-May-2024							
Policy Rates		**Reserve Ratios**		**Exchange Rates**		**Lending / Deposit Rates**	
Policy Repo Rate	6.50%	CRR	4.50 %	INR/ 1 USD	83.050	Base Rate	9.10% - 10.25%
Standing Deposit Facility Rate	6.25%	SLR	18.00 %	INR/ 1 GBP	105.861	MCLR (Overnight)	8.00% - 8.60%
Marginal Standing Facility Rate	6.75%			INR/ 1 EUR	90.834	Savings Deposit Rate	2.70% - 3.00%
Bank Rate	6.75%			INR/ 100 JPY	54.150	Term Deposit Rate > 1 Year	6.50% - 7.25%
Fixed Reverse Repo Rate	3.35%						

Money Market 17-May-2024	
Call Rates	%-%*
* as on previous day	
Government Securities Market	
7.18% GS 2033	7.0399% #
7.26% GS 2033	7.0856% #
7.37% GS 2028	7.0784% #
7.06% GS 2028	7.0851% #
7.33% GS 2026	7.0634% #
6.69% GS 2026	7.0612% #
91 day T-bills	6.0612%*
182 day T-bills	7.0847%*
364 day T-bills	7.0797%*
* cut-off at the last auction	
# as on end of previous working day	
Capital Market	
S&P BSE Sensex	73663.72 *
Nifty 50	22403.85*
* as on previous day (16-05-2024)	

GDP (US$ million) by country				
Sr. No.	Country/Territory	UN Region	IMF	
			Estimate	Year
	World	—	109,529,216	2024
1	United States	Americas	28,781,083	2024
2	China	Asia	18,532,633	2024
3	Germany	Europe	4,591,100	2024
4	Japan	Asia	4,110,452	2024
5	India	Asia	3,937,011	2024
6	United Kingdom	Europe	3,495,261	2024
7	France	Europe	3,130,014	2024
8	Brazil	Americas	2,331,391	2024
9	Italy	Europe	2,328,028	2024
10	Canada	Americas	2,242,182	2024
11	Russia	Europe	2,056,844	2024
12	Mexico	Americas	2,017,025	2024
13	Australia	Oceania	1,790,348	2024
14	South Korea	Asia	1,760,947	2024
15	Spain	Europe	1,647,114	2024

Latest Small Savings Schemes Rates 01-Apr-2024 to 30-Jun-2024		
Instrument	Rates %	Compounding Frequency
Savings Deposit	4.00	Annually
1 Year Time Deposit	6.90	Quarterly
2 Year Time Deposit	7.00	Quarterly
3 Year Time Deposit	7.10	Quarterly
5 Year Time Deposit	7.50	Quarterly
5 Year Recurring Deposit	6.70	Quarterly
Senior Citizen Savings Scheme	8.20	Quarterly & paid
Monthly Income Account	7.40	Monthly & paid
National Savings Certificate	7.70	Annually
Public Provident Fund	7.10	Annually
Kisan Vikas Patra (Matures in 115 months)	7.50	Annually
Sukanya Samriddhi	8.20	Annually

Inflation 4.83% Apr 2024,
GDP Annual Growth Rate 8.4% Dec 2023
IIP 4.90% Mar 2024
10 Year Gsec 7.08% 17.05.2024

US Fed Rate 5.50% (as on May-2024)
10 Year US Bond yield 4.38% (as on 17-May-2024)
US Inflation 3.40% (as on Apr-24)
US GDP Annual Growth Rate 3.00% (as on Mar-24)

Source: Tradingecnomics.com

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