P: ISSN No. 0976-8602 RNI No.UPENG/2012/4262 VOL.-8, ISSUE-2 (Part-1) April 2019

E: ISSN No. 2349-9443 Asian Resonance

An Exploratory Study on Financial Planning Failure in India: Investor and Planner's Perspective

Arshad Hasan Jafri
Research Scholar,
Department of Commerce,
Aligarh Muslim University,
Aligarh, Uttar Pradesh, India

Abstract

This paper primarily probes the factors that are responsible for financial planning failure and who is responsible for it. The study of behavior of investors and the planners or advisors is being done so as to cover the problems of blame-game and losses and to arrive at a conclusion. Indian market transformed from nothing to the force to reckon with but the financial planning and investment advisory has been pathetic because of dearth of good financial planners and lack of knowledge in investors. This research will help the investors, financial planners and the regulator to understand the dynamics of the market and the remedial action thus to be taken.More than 150 investors including High Net-worth Individuals and retail investors have been interviewed and their financial plans have been reviewed in terms of product that they choose, their holding period, their knowledge of the product and their return expectations for different products. Around 100 advisors including Independent Financial Advisors, Certified Financial Planners, and wealth managers of banks have been consulted on how they prefer to sell financial products to their clients. The relationship between the client and the planner has been established and defined so as to implement a successful financial plan. Some suggestions have been given at the end to the regulators, planners and the clients.

Keywords: Financial Planning, Advisor, Investments, Wealth Managers, Regulator, Mutual Fund, Insurance, IFA.

Introduction

Many people turn to financial planners and advisors for essential advice on how to manage their money and plan their future, but not all who use those titles are qualified to offer advice and time has come to get it changed.When a financial planning of a person fails due to one reason or the other, the customer puts all the blame on the advisor and start talking negatively about the stock market. This results in the negativity being spread to the other probable investors who seek investor's advice or his views on that. Now, a developing economy like India with more than 100 lakh Crore of banking deposit and 24 lakh Crore of mutual fund Assets under Management cannot afford to live with that. The lack of knowledge, expertise and commitment for the client from advisory end and almost no knowledge from the client's end, all hell break loose and the ultimate loser is the client and in broader sense overall economy.

Financial planning is a very old concept and it's been in done since the start of the civilization in one way or the other. A person with good know how of the financial products give advice to the people on how to maximize their wealth so as to achieve their long-term and short term financial goals. In India, financial planning is still confined to three or four products namely real estate, physical gold, FD/RD of banks, post office products, PPF etc.

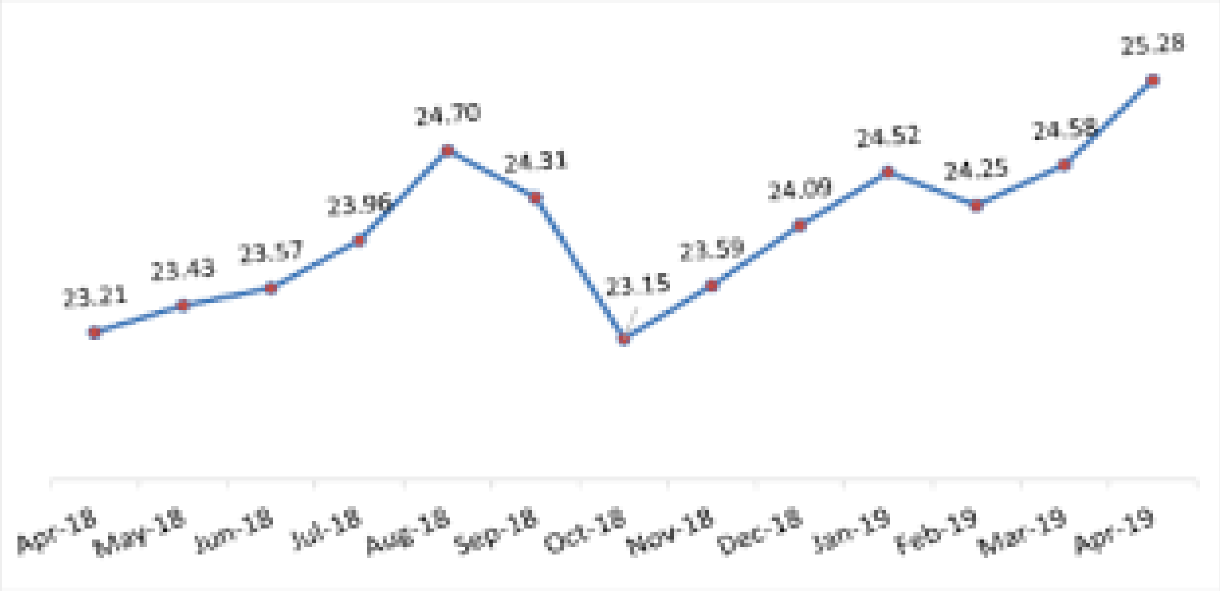

Figure 1: Growth of Indian Mutual Fund Industry

Source- AMFI India

With the introduction of mutual funds it has also been added to the advisory list. Mutual funds in fact are one of the best ways to achieve long term and short term financial goals paving the way to financial planning through mutual fund that not in the purview of this study but it will be mentioned going forward. The figure below shows the growth of AUM of mutual funds in FY 2018-19.

The number of people getting their financial planning done with the help of an advisor or a planner has been increasing rapidly because of its importance and sophisticated products involved.As on September 2019, the MF industry has 1.95 crore unique investors with PAN and 4.72 lakh investors without PAN.

Table 1: AUM by Geography - Consolidated data for MF Industry in 2019

Classification	Sr. No.	Locations	Percentage of
Top 5	1	MUMBAI	36.53
	2	DELHI	13.69
	3	BENGALURU	5.18
	4	PUNE	4.4
	5	KOLKATA	4.08
Next 10	1	CHENNAI	3.33
	2	AHMEDABAD	3.13
	3	HYDERABAD	1.67
	4	VADODARA	0.74
	5	JAIPUR	0.63
	6	SURAT	0.6
	7	LUCKNOW	0.57
	8	KANPUR	0.46
	9	NAGPUR	0.46
	10	UDAIPUR	0.42

Source – AMFI India

As is evident from the above chart that more than 75% of the investors come from the Top 15 cities of India and more than 60% from top 5 cities only which means there is a lot of potential in the rest of the India and also the current level is very pathetic regarding the knowhow of the financial products.

To improve this situation there is need to have a proper awareness program, good financial planners and a proper financial planning of the investor.

Financial Planning

Financial Planning is the process of meeting one's life goals through the proper management of finances. Life goals can include saving for child's marriage, buying a house, saving for child's higher education or retirement.

Financial Planner

A Financial Planner use Financial Planning process to help individuals figure out how to meet their life goals. The Planner envisages broader view of the financial situation and recommends suitable financial plan. The Planner can look at all needs including budgeting and saving, taxes, investments, insurance and retirement planning. The Planner may also work on a single financial issue but within the context of overall situation. So a planner is different from agents or other financial advisors who may specifically target a particular financial goal.

Financial planning as a concept in India is very naïve and hence is very unprofessional from the planner and the client's perspective. There is a sense of cluelessness as far as both the planner and the client are concerned. The planner is not someone who is planner in the real sense but a person with a certificate from NISM and an AMFI registration number given to agents. So an agent is actually doing a financial planning in India. Now as far as clients are concerned they too are unaware of anything like that and are being served by these agents. So when the market is going up and the returns are high everyone start taking exposure into the stock market and actually making loses due to forces of greed and fear pertaining to the stock market. The financial planning standard board of India conducts a Certified Financial planner (CFP) examination but there are very less CFPs in India.

Reasons for the Failure of Financial plan

Instead of a financial plan, wealth managers sit with clients to discuss their objectives and construct a customized investment mandate. Typically, clients start with smaller values. On an average, they seek advice from multiple wealth management firms.

So what actually happened was that the client is not pursuing his long-term or short-term financial goals but he is trying to manage his wealth by investing in equities with the hope to generate returns in a year or two. In some cases the horizon is lesser than a year. When the market falls, it creates panic and small investors tend to sell their holdings because of the fear of further fall. Similarly when the market is up, euphoria prevails and people tend to buy even at higher valuations with the expectations that will market will go up further. In the stock market, the greater fool theory applies when many investors make a questionable investment, with the assumption that they will be able to sell it later to "a greater fool". [4]

The Human Behavior behind the Failed Financial Plan

Ponzi scheme, affinity fraud, misrepresentation scam, unrealistic returns, churning etc. are some of the tricks used by some advisors to fool the client.Promising or even guaranteeing higher than market returns from an investment is a common trick of the agents posing as financial planner. They also go for frequent churning of the client's money so as to generate good brokerage.

This is one of the most asked questions during our troubled times. Although everyone is able to find the particular person or a situation to blame for, still deep down in the bottom of their heart they know that it is their action or inaction that led to this situation. As the time passes anger over others transforms into regret. This is the basic form of human behavior and it comes and goes for whole of the life. Knowing one's wrongs is different than acknowledging them. However it would be great if investors are able to acknowledge good decision as good and bad one as a bad. In no real terms people use to follow this simple philosophy. The reason behind it is very simple; every human being is unique and thinks differently. One will interpret the message differently depending on his understanding and communication. So at the end of the day things become more complicated than what basically is being intercepted initially. To overcome these types of complications one has to understand, acknowledge and adopt this notion that everyone is different. A very important thing to understand is that one must not overpower others by their logics on them. This type of situation creates problem and nuisance. To avoid these problems we need to reverse the process. Investor must be a good listener first and try to understand what is being communicated and what the nittygritties of that communication are? This process will help to understand the person with whom we are interacting with. This will also result in developing of some form of personal relationship. This relationship will convey investor's way of thinking on advisor with logic. So to initiate any type of transactions the investor has to first start with listening and understanding and then ensuring that the correct communication has been made. Using the opinion of the third party will always help. But in taking the third party opinion the investor must ensure that the person or the organization is relevant and neutral.

The start of Client-Planner Relationship

Client or investor must not act in haste. He must take time to think about or "sleep on" a financial decision. An attempt to rush investor to buy a product should be a red flag. If there's a good opportunity today, it won't go away tomorrow. The investor must not afraid to walk away if an offer doesn't seem right.

The problem starts in the beginning. If investor is planning to venture into newer ideas whether it is business investment or philosophy, the investor must ensure that he has the proper understanding of it. Regular up gradation is required before taking action on expert advice. When we get sick we go to doctor and whatever he gives us we take it. We will never counter check it. This results in thousands of cases in which doctors are involved in looting patients. Off lately it became a trend. So is the case with the religion. Whatever the religious Guru preaches we take it as the panacea of every problem.

Now coming back to financial planning, advisors and agents sell products of higher brokerages to the clients. So to avoid these types of problems and getting the things done with full confidence the investor need to get him upgraded.

Finding right doctor, right financial planner or guru is important but his credibility must be in continuous check without offending. This is one of the most difficult tasks of the process but still one has to apply his sense. The honest and knowledgeable person with expertise in execution will be harder to find or may be very expensive or busy or whatsoever. But still an investor has to have a right person before starting. Although relying on the planner in totality is not advisable but he matters. In financial planning process investors tend to look for their banker to take care of them who in turn out of pressure to achieve their targets may sell wrong products with higher brokerage that are not required. It is recommended that a Certified Financial Planner who is working on his own and charging the fees will be better than a banker who may or may not charge a fee but chances of wrong selling are very high. Also financial planning is a continuous process, one need to have someone who is easily accessible and is not transferable. This will result in the informed decision making process.

Even if the decision went terribly wrong after such a hard work and study the investor tend to become hyper again without understanding that the decision that he took at that point of time was well researched and one of the best decisions. A sudden downside in the stock market may take away your earlier gains or even you end up making losses. The blame directly goes to the advisor that he is responsible for the investor's loss but in reality he also did the analysis of the stock or mutual fund scheme before buying. Another classical example is that of a preacher who through his speeches and advice made people to give charity to a particular institution which turned out to be a fraud organization. Now the onus is on the guru. This is human behavior, it will always happen when things get wrong but when we look back and get settled the understanding of the fact that the right decision went wrong because of the certain factors that cannot be controlled, one feel satisfied from inside. Whether or not we acknowledge it for one reason or the other but we now know that it was destined to happen.

The following things must be looked out in Preference

1. Competence or Knowledge
2. Confidence
3. Your level of Trust and comfort with Financial Planner
4. Frankness

Review of Literature

The specific research on how to deal with the financial planning failure and choosing a financial plannerin India is not there yet but many researchers have done research on the potential of Indian markets, behavior of investors, demographical role, scope of financial planners in India etc.

Karve and Deogharkar (2015) have said in their study that the investment decisions are more based on the willingness to take the risk rather than the ability to take risk. According to them the reasons for not undertaking financial planning are:

1. Will start financial planning later.
2. Waiting to have money to do financial planning.
3. Lack of knowledge.
4. Misguide earlier under name of financial planning.
5. Believing financial planning is only for rich.
6. No priority given to personal finance management.
7. No clear or specified financial goals.
8. Relying on lousy advisors.

Warren et al. (1990) and Rajarajan (2000) predict individual investment choices (e.g., stocks, bonds, real estate) based on lifestyle and demographic attributes. These investors see rewards as contingent upon their own behavior

Schmidt &Sevak, (2006) analyzed that difference on the basis of Age in Investment pattern is new avenue for research. Earlier studies conclude that women invest their asset portfolios more conservatively than their male counterparts. Women's investment has historically been lower than men's for several reasons, including Social and various demographic concerns. However the differences continue to be significant even after controlling for individual Characteristics.

Agarwal, Sumit, SouphalaChomsisengphet, ChunlinLiu, and Nicholas Souleles, 2010 have evaluated the financial literacy of a select group of residents in India that participate in an on-line investment service provided by Yogi Financial Advisory Services. The findings on financial literacy are further related to self-reported information on respondents 'otherinvestment activity. They found that the participants are generally financially literate based on their responses to the survey questions. It was found that a number of relationships between literacy and socioeconomic variables; notably: the probability of getting all the survey questions correct is higher for male respondents, and generally increases with education level and the aggressiveness of the investor.

The IIPM, New Delhi report 2007 says that there exist potential growths in the wealth management industry, which represents huge prospects of financial advisors in the growing economy like India and concluded that substantiates both financial and marketing feasibility for the prospects of financial advisors in the Indian market.

Rekha Bahadur (2015) concluded that financial literacy is the ultimate pillar of a strong financial system. Financial literacy and financial education should be on the agendas of educators, businesses, government agencies; policy makers, NGOs and the issues should be dealt with policy reforms at the national level. Thus, it is important to achieve highest possible financial literacy in the country as its benefits are not restricted to an individual or family, but to the society and the macro economy as a whole.

Objectives

1. To study and analyze the reasons of financial planning failure of individuals.
2. To study the financial planning strategy adopted by the planners leading to its failure.
3. To study the factors responsible for low level of financial awareness andthe availability of very few financialplanners in India.

Hypotheses

1. $H_0 1$ - There is no significant relationship between the planner's advice and the failure.

   $H_1 1$ - There is a significant relationship between the planner's advice and the failure.

2. $H_0 2$ - There is no significant relationship between the expected and the actual returns so as to perceive it as a success or a failure.
   $H_1 2$ - There is a significant relationship between the expected and the actual returns so as to perceive it as a success or a failure.
3. $H_0 3$ – There is no significant relationship between the know-how of the investor and the investment decisions taken.
   $H_1 3$ - There is a significant relationship between the know-how of the investor and the investment decisions taken.
4. $H_0 4$ – There is no significant relationship between the know-how of the planner and the success of the investment decisions.
   $H_1 4$ - There is a significant relationship between the know-how of the planner and the success of the investment decisions.

Research Methodology

The present paper is concerned with the financial planning failure in India and is thus confined to investors with certain level of exposure to the financial products and the entities and individuals involved in financial planning.

The data of first set of individuals with failed financial plans was obtained by requesting the IFAs and the bankers to help identify them. Since most of the individuals get their financial planning done through bankers and IFAs it was not a very difficult task.

The list of more than 158 investors have been prepared along with their personal details and the calling has been done to them so as to get their time to discuss about what went wrong with them. Emails were sent to the clients who were very busy and inaccessible.

Most of the interviews conducted were one to one with the following questions being asked.

1. What do you know about financial planning?
2. How do you found your financial planner?
3. Whether you are able to differentiate between a planner, agent, wealth manager and an investment advisor?
4. Which product you bought after consulting with the advisor and whether you paid a fee to your planner?
5. What is your understanding of those products including risk, holding period and level of returns?
6. What went wrong with the choice of products you made?
7. Who is to blame for financial planning failure?
8. Do you plan to avail the services of a financial planner in future?

The list of IFAs is available on AMFI India website and the wealth managers can be contacted by visiting the banks. To cater the planner side different set of questions were being asked.

1. What are the products that you tend to sell to your customer?
2. Did you charge fees from your client and why?
3. Did you informed the client about the risks involved in the products and whether you knew about the dangers it posed?
4. What are the remedial actions you took after the financial plan failed?
5. How do you upgrade yourself to cater your clients effectively?

Results

The responses have been divided in two parts as the questions have been asked separately to the investors and the planners.

Responses of Investors

Most of the respondent investors blamed their financial planner about their failed financial plan. When informed that the person involved in their financial planning was an agent and not a planner they were shocked. They did not know about the difference between the planner, advisor, agent etc. Another shocking revelation that was made by the investors was that they were advised to invest in equities for a very short span of time, in most of the cases one to two years. Also the knowledge of mutual funds, insurance, derivates, etc. was lacking for most of the investors.

Investors Response and the Results						
1)	What do you know about financial planning?	**Nothing**	**Limited Knowledge**		**Substantial Knowledge**	
		48	60		50	
2)	How do you found your financial planner?	**Through Website**	**Reference**	**Bank**	**Approached by the Planner**	**Other**
		5	59	24	35	35
3)	Whether you are able to differentiate between a planner, agent, wealth manager and an investment advisor?	**Yes**	**No**		**Partially**	
		26	89		43	
4)	Which product you bought after consulting with the advisor and whether you paid a fee to your planner?	**Mutual Fund with Fee**	**Mutual fund without Fee**	**Health Insurance**	**Life Insurance**	
		5	79	6	68	
5)	What is your understanding of those products including risk, holding period and level of returns?	**Risk**	**Holding Period**	**Returns**	**Not Sure**	
		23	15	18	102	
6)	What went wrong with the choice of products you made?	**Wrong product choice**	**Wrong financial Planner**		**Expectations Exceeded**	
		29	112		17	
7)	Who is to blame for financial planning failure?	**Self**	**Planner**		**Market Conditions**	
		12	139		7	
8)	Do you plan to avail the services of a financial planner in future?	**Yes**	**No**		**Not Sure**	
		78	69		11	

Responses of Planners

The planners/ advisors involved in the process came up with their own excuses. First one was the reluctance of investors to pay fees; even some investors demanded the pass back of brokerages they earned. Second one was the lack of knowledge in the advisors themselves. For example an independent financial advisor was totally unaware about the time value of money calculations. Thirdly, the employees of banks were forced to sell the high brokerage products to achieve their targets not for the achievement of client's financial goal.

One point that has to be emphasized after the research and the analysis is that the mutual fund distributors are reluctant to upgrade themselves to financial planner, i.e. CFP or a SEBI registered advisor who will do fee based advisory. The reasons cited by them vary from high cost of doing CFP, its relevance in India and doubt on their capabilities to clear the exams.

Financial Plan never fails. It's a wealth management failure disguised as a financial plan. At the end, if the decision is taken after the proper understanding of the advice, advisor and the subject and it end up in a mess;it must be accepted as it was destined to happen without human control. Investor must try to find out the remedy of the same with open and cool mind. Controlling anger and emotions is although a very difficult thing but it will definitely be of immense help if it is done. Because nothing is permanent, so is our grief and no one is responsible for it except us. We cannot avoid problems but we can learn to tackle them. As a social animal discussing it with nearest and dearest ones whom we think are sensible enough to understand is always advisable. Invest in equity after understanding the impending risks associated with it. The value of investments may come down in shorter run but that is a notional loss and it recovers over a period of time. The investor must stay invested and must haveclarity about what theywant to achieve over a period of time.The investor must not **invest in a product that he do not understand and must know his worth before investing.**

Conclusion

After analyzing the responses from the clients and the planners, it can be concluded that planner plays a very important role in achievement of financial goal. It has also been noticed that client's financial awareness is also very important. The products that the investors bought to achieve their financial goals were not in sync with the risk return dynamics. There has been no understanding of the concepts of the financial instruments and hence result oriented plans and their implementation could not be done.

The entire hypotheses thus have been rejected. There is a significant relationship between the planner's advice and the failure, the expected and the actual returns so as to perceive it as a success or a failure, the know-how of the investor and the investment decisions taken and the know-how of the investor and the investment decisions taken.

On the basis of the results, some suggestions have been given to the regulator, planners and the investors.

Suggestions to the regulator

1. There should be proper awareness programs in various parts of the country emphasizing the importance of financial planning and the planners too. Mere awareness of financial products will not help.
2. The marketing of various financial products like insurance and mutual funds must include mandatorily buying after the planner's advice not because the product will give good returns.
3. The agents and planners must be differentiated and should be brought in the public domain. This means that there should be clear cut demarcation between the roles of different intermediaries.
4. The certified planners must go through rigorous training and complete a number of steps including education, exams and appropriate work experience in order to earn the designation.
5. Accountability has to be there. It could be done by introducing a new regulator or by empowering the existing financial planning standards board of India to look after that.

Suggestions to the Investors

1. No one can help you except you. Investor must know hisfinancial goals and look whether his investments are in line with that. Any deviation means that the time to change the planner is come.
2. Start investing early or as soon as possible. The late start will mean the holding time will be less. In equities the longer holding period results in higher returns.
3. Systematic investing is always one of the best ways to take exposure into the market. The discipline of investing into these types of products is SIP and STP route.
4. Before consumers seek advice from a financial planner or advisor, they should check their education and also determine if they have licenses related to the services that they are selling and proper certifications.
5. Investors must learn to pay fees for the financial advisory as they pay to their doctor. Nothing comes for free. The advisors who charge less or nothing from investor tend to compensate it by selling products of higher brokerages.

Suggestions to the Planner

1. They must upgrade the knowledge of the product and the market regularly by reading magazines and good books, interacting with the fund managers and various other sources available like workshops etc.
2. The onus must be on generating returns for the client or more specifically should be on helping client to achieve his financial goals not on generating brokerage revenue. The planner must abide by standards and ethics and follow a code of conduct so clients' interests come first.
3. Personal likes and dislikes must not over power client first attitude. The scheme of a particular company may be bad or not fit for customer's needs but the relationship between the person from that company and the advisor sometimes result in sale of that product to the customer.
4. Transparency is required to manage client's finances. The client must know that direct plans in mutual fund are more beneficial than regular plans in terms of expenses and must be exposed to those schemes. Similarly the insurance schemes in which there are higher brokerages must be avoided and the reasons for the same should be communicated to client.
5. Fees charged from customers must be in sync with the level of financial plan. Higher fees must not be charged. Performance linked fees can also be a good option.

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