

PGDM (Insurance Business) 2014-16

Subject: Financial Services and Personal Financial Planning

Code: INS-307

Trimester-III, End – Term Examination: April-2015

Time Allowed : 2 Hrs. 30 Min.

Max Marks: 50

Roll No: _____

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as Unfair Means. In case of rough work please use answer sheet.

SECTION-A

Attempt any three questions. All questions equal marks. (15)

- Q1. What is the difference between factoring and forfeiting? Describe the merits and demerits of factoring?
- Q2. Once your financial plan has been implemented, what is the next step? Why is it important?
- Q3. Describe the consideration made when deciding between leasing and buying.
- Q4. Explain the criteria and procedure of bankruptcy.
- Q5. Discuss the term Asset Allocation with suitable example.

SECTION-B

Attempt any two questions. All questions equal marks. (10)

- Q1. Explain the types of investment risks and their characteristics.
- Q2. Describe the Dow Theory of investment analysis.
- Q3. Discuss the Risk Profiling of the customer according to Barnwell Two Way Model.

SECTION-C

Compulsory CASE STUDY (15)

Case 1 : Financial and Personal Details of Mr Ram

Personal Details	
Age	35 years
Retirement Age	60 years
Dependents	Only Spouse
Income	Rs 1,30,000 per month
Expenses	Rs 50,000 per month
Financial Goal	Retirement

Personal Details

Mr. Ram a 35 year old married individual wanted to plan for his Retirement at the age of 60 years. He had a decent monthly income of Rs 1,30,000 and his expenses were just Rs 50,000 per month. So he could easily have

a monthly surplus of Rs 80,000. Moreover, he had a long term time horizon of 25 years for his retirement goal. Now let us have a look at his assets.

Assets	
Type of Assets	Amount (Rs.)
Equity Mutual Funds	275,000
Fixed Deposits	5,000,000
PPF	600,000
Gold Mutual Funds	100,000
Residential Flat	10,000,000
Cash in Bank	300,000
Total	16,275,000

Assets

Mr. Ram's biggest asset was his Residential Flat worth Rs 1 crore which he had inherited from his father. Because of his conservative nature, Mr. Ram was holding his 2nd big investment of Rs 50 lakh in Fixed Deposits. His other small investments were into Equity Mutual Funds, PPF and Gold Mutual Funds. Moreover he also maintained Rs 3 lakh as cash in bank for any unforeseen contingencies; while he had no current liabilities.

Now let us take a close look at his Current Asset Allocation

Current Asset Allocation		
Asset Class	Amount (Rs.)	Weightage
Equity	275,000	4.60%
Debt	5,600,000	93.72%
Gold	100,000	1.67%
Total	5,975,000	100.00%

Current Asset Allocation

Since he is staying in the Residential Flat, this will not be available for any investment purpose. Also as the cash in bank is kept aside for contingency, we have not included it as a part of his current asset allocation. So considering his other assets worth around Rs 60 Lakhs meant for investment purpose, his current asset allocation in Equity is approx. 4.6%, Debt is 93.7% and Gold is 1.7%.

And here was Mr. Ram's Concern!

Even though Mr. Ram had 25 years left to his retirement, he was concerned if he has sufficient savings to fund for his post-retirement expenses. Moreover can his investments help him achieve a hassle free retirement?

Retirement Corpus Required by Mr. Ram

Mr. Ram had current total expenses of Rs 50,000 per month and wanted to maintain the same lifestyle during post retirement as well. Assuming life expectancy of 85 years, inflation of 10% p.a. and post retirement return of 8% p.a., he required a retirement corpus of Rs 20.8 crores.

Question :

As a financial planner , give your finding and recommendations to Mr Ram on his current asset allocation .
(Marks 5)

Case 2 :

Prashant and Srividya Nair are a salaried couple staying in the central suburbs of Mumbai. Prashant works as a programmer for an IT firm, while Srividya works in the administration department of an FMCG company. The family comprises of 6 members, Prashant & Srividya, their 2 kids and Prashant's parents.

Name	Age	Relationship	Health History
Prashant Nair	38	Self	Healthy
Srividya	35	Wife	Healthy
Dinesh Nair	74	Father	High BP.
Lakshmi Nair	70	Mother	High BP, Diabetes
Asha	7	Daughter	Healthy
Vineet	5	Son	Healthy

Their inflows, outflows & Networth details are given below.

Inflows

	Monthly	Yearly
Prashant	64500	774000
Srividya	21000	252000
	85500	1026000

Outflows

	Monthly	Yearly
Household expenses	27500	330000
Life insurance	5333.33	64000
Total Outflow	32833.3	394000

Investments

	Monthly	Yearly
PPF	5833.33	70000
Surplus	46833.3	562000

Networth

Self Occupied home	4200000
Savings Account	550000
PPF (both accounts)	400000
EPF (both accounts)	445000
Stocks & Mutual funds	200000
Loans	-0
Networth	5795000

Srividya has decided to **discontinue working after 1 year to concentrate on her children's education**. Both the kids are going to school and grand parents take the responsibility of looking after them during the day, in the absence of Prashant & Srividya. Prashant would like to continue working in the IT industry and the family's financial goals are enumerated below.

INSURANCE

Inspite of paying an annual premium of Rs. 64000, Prashant is covered for a sum assured of Rs. 12 lakhs while Srividya is covered for Rs. 400000. Prashant's Employer provides group floater mediclaim cover of Rs. 300000 for the family of 4, excluding the parents. Parents are not covered by any form of medical insurance.

FINANCIAL GOALS

The following are the financial goals as enumerated by Prashant and Srividya in present value terms.

1. Educational funding of Asha – Rs. 1 lakh each year from age 17 to 20 and Rs. 3 lakhs at her age of 21 years
2. Educational funding of Vineet – Rs. 1 lakh each year from age 17 to 20 and Rs. 3 lakhs at his age of 21 years
3. Marriage funding of Asha – Rs. 4 lakhs at her age of 26 years
4. Marriage funding of Vineet at his age of 27 years
5. Retirement in the year 2031 when Prashant turns 58 years old.

Question 2 : As a financial planner – Mr Prashant and Ms Vidya Nair has approached you help them to achieve all the financial goal till 2031. (Marks: 10)
