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It's All About Money Honey

Urban women are strong economic contributors to society. They are increasingly setting up small to medium scale businesses, or co-operative self-help groups. These contribute to their families' income and to the nation's GDP. The urban woman is sophisticated, and understands the importance of being financially self-reliant. Yet, many are reluctant to be involved in their own financial planning.

How women ignore their finances

I will like to narrate the real life stories of three women whom I have known personally.

The first story is about a woman who is single (by choice), and successful in her career that offered her a spacious flat on Altamount Road, in Mumbai. She lived a good life but in the last five years of her working career, she realised that her savings were woefully inadequate to afford an apartment in the country's commercial capital, or lead the lifestyle that she was used to.

In the second instance, the woman was happily married (for some time), and spent her salary on household expenses while her husband made the investment decisions. When the relationship soured, she realised to her dismay that she had precious little money in her own name that she could fall back on.

In the third case, a friend who was a homemaker lost her husband prematurely in a road accident. When he died she was clueless about what savings they had, and even whether they had an insurance cover.

In all three cases, while no one had any control over their personal pain, they may have derived comfort from their savings through better financial planning.

Survey results

In late 2011 and early 2012 the findings of a survey conducted by HDFC Standard Life Insurance among urban women in 11 Indian Tier I and Tier II cities, concluded that they have a lot to learn in goal-based, financial planning. They have poor financial awareness levels and are unable to review and realign their needs in a comprehensive plan which can cover short and long-term financial goals.

The survey titled HDFC Life ValueNotes Life Freedom Index also noted that just 22 per cent of urban women have a comprehensive financial plan that covers short and long-term goals, while 42 per cent have only a basic plan.

Are women's financial needs different?

Yes, women's financial needs are different from men's. Women face a number of unique risks that are physical as well as social. These include longevity, gender-related illnesses, caregiving responsibilities, single and ageing, and greater healthcare costs, among others.

Pregnancy brings its own joys and additional financial responsibilities. Most women opt to stay out of their careers, or settle for lower-paying jobs to balance their career and demands of motherhood. Many face complications, that leave them emotionally and financially drained. As moms, we often take prolonged leave from our careers to care for our kids or ageing parents. This may deplete our income source and the savings' gap may

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take years to overcome.

Our genetic and biological makeup places us in vulnerable medical and health situations that are unique. We bear a higher risk of cervical and breast cancer. These silent killers are known to target at least 1 in 10 women, as per reports. While medical advancement has made these illnesses less severe, the financial drain of fighting these diseases can wipe out a family's lifetime savings. It is advisable that we pay attention to our health at all times and plan proactively to build a fund that can aid in such situations.

With the evolving demographics and social changes, women may be forced to remain single through widowhood, divorce, or just by choosing never to get married. We are, therefore, more likely to be solely responsible for our own financial independence at some point in our lives.

Though saving systematically comes naturally to us and enables us to stick to a disciplined approach when investing, studies show that most of us do not start saving early in life. Building an asset and aiming to be self-reliant, enough to last the social stages we either choose or may have to pass through, requires the right financial planning.

Key basic financial steps

As a woman, we need to understand our financial situation and learn more about money. We need to do more than just balance our bank account and pay the bills. We must understand that as a woman, we have different financial needs than men and must start our financial planning as early as we get started in our first job or business venture. Things that we need to do to

have a better control on our finances are the following:

- Learn about money; we can control it if we know about it. Hence, the first thing we should do is know how to earn it, save it, multiply it via investments, protect it, and then pass it to the next generation;
- We should make projections of our income stream and the anticipated expenses in the short and longer term;
- We need to understand our risk profile and invest accordingly;
- We should start to plan for our retirement as early as our first job or venture to fully benefit from the power of compounding;
- Learn how to keep away from investing in products that we are unable to understand;
- Know our financial situation all the time and take charge of it. And after marriage, we need to share in managing the family's finances.

Several decisions we make as women will have a financial planning component to them. Hence, we should avoid being stranded when faced with a difficult situation.

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Steps to right financial planning

Step 1: Defining the objective

Women should clearly set a realistic financial objective, which could be purchasing a home, building a kitty for post-retirement income, starting a business, overseas travel, buying a car, and creating education and marriage funds for their children, among others. Defining the amount of money and the time horizon for accomplishing the objective is the second important factor, as it determines the choice of investment instruments and impacts the accomplishment of the objective.

Step 2: Preparing a plan

A financial plan starts with taking stock of one's assets and liabilities and projecting future expenses and incomes. This gives a fair idea of what amount is required to meet various current and future financial objectives. Various factors such as time horizons, risk appetite, and type of

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investment avenues available are also considered. It is important to build a contingency plan, so that savings can continue even in case of unforeseen circumstances such as, illness, death of spouse, or loss of job. Because women are more likely to face work disruptions due to care giving or they may live longer, it is important to capitalise on saving opportunities during their working years.

There are many financial instruments that fit one's diverse needs. Among these are equity, MFs, ULIPs, traditional insurance plans, pension plans, debt instruments like bonds, and PPFs among others, for savings and investment. For financial protection there are life insurance and health insurance plans. For tax savings we can choose from insurance plans, equity-linked savings schemes (ELSS), PPFs, MFs, and tax saving bonds, among others.

An improper diversification of financial assets may limit the potential to generate sufficient income from a portfolio and allow inflation to reduce the portfolio's purchasing power over time. Given longer life spans for women, the long term is critical. In the long-term period, shunning equity in favour of bonds can mean a portfolio is not properly diversified and so may not be able to combat the eroding power of inflation. Consulting a certified financial advisor is recommended in order to establish a financial plan.

Step 3: Starting to invest

Disciplined investment is the key for the success of a financial plan. Today, investing online is gaining popularity. Also, most financial advisors help with documentation. However, it is important to read and understand the nature and associated risk of each investment instrument before investing.

Step 4: Reviewing the plan periodically

Once investment starts, to ensure that you remain on course, it is advisable to periodically review it in line with increased income or expenses, new assets or liability acquisitions, or changing market conditions. For example, a plan should be reviewed to judge the performance of various investments. When stock markets change course over a period of time they may disturb your asset allocation. So you may have to redeem some equity investments or buy more of them depending on how much risk you are willing to take.

As you approach a particular milestone (say, your child's college admission or marriage) you will need to exit your equity investments and move to debt in order to protect your accumulated funds.

Step 5: Redeeming investments

As the milestone that you have been saving for approaches, you will need to redeem your investments. In case of a life insurance policy, it involves submitting your policy documents to the life insurer and follow up for the maturity proceeds. You may also need to sit down with your financial consultant and understand the taxation issues involved on redemption of your investments.

It is important to understand that just as we spend hours to figure out the right kind of outfit, kitchen appliances, and holiday packages, among others, it is equally critical for us to invest our time in educating ourselves about the different investment vehicles available along with the different life stage events for the right approach to financial planning. Women should cultivate a habit of reading different personal finance columns and related publications to brush up their knowledge of finance. We must know what exactly we are investing in. We should not blindly follow others' advice. Only an informed mind can take the right decision.

After all, you must carve out and decide your own financial future. This will help you to maintain your 'self respect' and 'dignity', irrespective of what life may throw your way! ■