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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	AN INSIGHT ON CONSUMER CHOICE AND MARKETING OPPORTUNITIES FOR BREAKFAST- CEREALS <i>SIMI SIMON & DR. MURALI MANOHAR</i>	1
2.	RECOGNITION OF THE INCOME TAX DEPARTMENT OF THE DISCLOSED PROFITS LISTED ACCORDING TO THE LEGISLATIONS OF THE COMMISSION OF REGULATING THE BUSINESS OF THE JORDANIAN INSURANCE COMPANIES <i>DR. SULEIMAN HUSSEIN AL-BESHTAWI</i>	4
3.	A CRITICAL ASSESSMENT OF THE CONTRIBUTION OF MARINE INSURANCE TO THE DEVELOPMENT OF NIGERIAN ECONOMY <i>DR. I. A. NWOKORO</i>	10
4.	APPLICATION OF 'BALANCED SCORECARD', IN PERFORMANCE MEASUREMENT OF NATIONAL OIL-RICH SOUTH COMPANY <i>ESMAIL HAMID</i>	17
5.	FIRMS' CHARACTERISTICS AND CAPITAL STRUCTURE: A PANEL DATA ANALYSIS FROM ETHIOPIAN INSURANCE INDUSTRY <i>SOLOMON MOLLA ABATE</i>	21
6.	IMPACT OF CELEBRITY ENDORSEMENT ON BRAND EQUITY WITH MEDIATING ROLE OF BRAND TRUST <i>SABIR HUSSAIN, RAJA WASIF MEHMOOD & FAIZA SAMI KHAN</i>	28
7.	PERCEPTION OF EXPORT DIFFICULTY IN SMEs AND EXPORT PERFORMANCE: A STUDY OF NIGERIAN SMEs IN THE LEATHER INDUSTRY <i>ABUBAKAR SAMBO JUNAIDU</i>	33
8.	INVESTORS PERCEPTIONS ON PUBLIC AND PRIVATE LIFE INSURANCE COMPANIES IN INDIA - WITH SPECIAL REFERENCE TO LIFE INSURANCE INVESTORS IN KARNATAKA <i>DR. SREENIVAS.D.L & ANAND M B</i>	37
9.	MICROFINANCE IN INDIA: CHALLENGES AND OPPORTUNITIES <i>S.RAVI & DR. P. VIKKRAMAN</i>	46
10.	DIFFERENCES IN ORGANIZATIONAL COMMITMENT IN PRIVATE AND PUBLIC SECTOR BANK EMPLOYEES <i>DR. SARITA SOOD, DR. ARTI BAKHSHI & SHIKHA SHARMA</i>	50
11.	FINANCIAL INCLUSION AND WOMEN EMPOWERMENT: A STUDY ON WOMEN'S PERCEPTION OF EAST GODAVARI DISTRICT, ANDHRA PRADESH <i>DR. PULIDINDI VENUGOPAL</i>	53
12.	A STUDY ON UNDERSTANDING THE LEVELS OF JOB SATISFACTION, JOB MOTIVATION, ORGANIZATIONAL COMMITMENT, PERCEIVED ORGANIZATION SUPPORT AMONG FRESHER'S AND EXPERIENCED ACADEMICIANS <i>DR. M. S. PRIYADARSHINI & S. PADMANATHAN</i>	58
13.	IMPACT OF FII'S INVESTMENT ON THE INDIAN CAPITAL MARKET <i>DR. K. B. SINGH & DR. S. K. SINGH</i>	61
14.	RETAIL BANKING: EFFECT OF FACTORS ON CUSTOMER SWITCHING BEHAVIOUR <i>NEETHA J. EAPPEN & DR. K. B. PAVITHRAN</i>	64
15.	PATTERN OF CAPITAL STRUCTURE IN AMARA RAJA BATTERIES LIMITED, TIRUPATI - AN ANALYSIS <i>K. KALYANI & DR. P. MOHAN REDDY</i>	68
16.	PROSPECTS OF MEDICAL TOURISM - A STUDY ON THE MANAGEMENT TRENDS AND PRACTICES OF THE PROMINENT PARTICIPANTS OF HOSPITAL SECTOR IN SOUTH INDIA <i>DR. BINDI VARGHESE</i>	73
17.	IMPACT OF LEADERSHIP STYLES ON ORGANIZATIONAL EFFECTIVENESS IN HANDLOOM SECTOR <i>DR. SOPNA V. MUHAMMED</i>	77
18.	STRATEGIC IMPLICATIONS IN AGRO-TOURISM WITH SPECIAL REFERENCE TO PUNJAB <i>DR. SARITA BAHL</i>	81
19.	LIQUIDITY ANALYSIS OF INDIAN HOTEL INDUSTRY <i>DR. K. KARTHIKEYAN & K. RAMASAMY</i>	85
20.	SATISFACTION LEVEL OF ADVERTISING AWARENESS AMONG COLLEGE STUDENTS – A FACTOR ANALYSIS <i>S. JEYARADHA, DR. K. KAMALAKANNAN & V. SANGEETHA</i>	92
21.	FACET OF GLOBAL RISKS <i>SURANJAN BHATTACHERYAY</i>	94
22.	A CASE STUDY ON THE GAPS BETWEEN EXPECTATIONS AND EXPERIENCES OF THE EMPLOYEES IN APHDC LTD ON 'PERFORMANCE APPRAISAL' <i>LALITHA BHAVANI KONDAVEETI & B. VAMSI KRISHNA</i>	101
23.	DO PEOPLE PLAN? WHY ARE THEY SO NEGLIGENT ABOUT THEIR OWN FINANCES <i>VISHWAS SRINIWAS PENDSE</i>	104
24.	STRATEGIC ANALYSIS AND IMPLEMENTATION OF SELF EMPLOYMENT GENERATION SCHEMES IN JAMMU AND KASHMIR STATE <i>AASIM MIR</i>	108
25.	ENTREPRENEURSHIP IN NORTH EASTERN REGION OF INDIA-THE MSME PERSPECTIVE <i>DR. KH. DEVANANDA SINGH</i>	111
26.	CONTEMPLATION OF ISLAMIC BANKING IN LUCKNOW: A CRITICAL ANALYSIS <i>IMRAN SIDDIQUEI, TUSHAR SINGH & SAIF REHMAN</i>	116
27.	FDI IN ORGANIZED RETAIL IN INDIA: LOOK TO THE MULTIBRAND OPPORTUNITIES <i>MOHD. IMTIAZ & SYED AHMED WAJIH</i>	122
28.	NON PERFORMING ASSETS MANAGEMENT IN KARNATAK CENTRAL CO-OPERATIVE BANK LTD. DHARAWAD <i>DR. RAMESH.O.OLEKAR & CHANABASAPPA TALAWAR</i>	126
29.	A CRITICAL EVALUATION OF FINANCIAL PERFORMANCE OF RAJASTHAN TOURISM: A CASE STUDY OF RAJASTHAN TOURISM DEVELOPMENT CORPORATION <i>DR. LAXMI NARAYAN ARYA & DR. BAJRANG LAL BAGARIA</i>	131
30.	GREEN INVESTMENT BANKS: A NEW PHASE OF CORPORATE INVESTMENT <i>NISCHITH.S</i>	138
	REQUEST FOR FEEDBACK	144

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DO PEOPLE PLAN? WHY ARE THEY SO NEGLIGENT ABOUT THEIR OWN FINANCES**VISHWAS SRINIWAS PENDSE****ASST. PROFESSOR****INSTITUTE OF BUSINESS MANAGEMENT & RURAL DEVELOPMENT****VILAD GHAT****ABSTRACT**

Increased disposable income, lack of social security system and increased exposure to different asset classes emphasize the growing need of proper financial planning. Though most people are aware of the fact that a sound financial plan is absolutely needed most of them have either no time or lack the required expertise in financial planning. This study aims to find out the myths about financial planning and in particular the behavioral issues regarding planning. Especially in country like India which is supposed to be a knowledge destination the lack of financial awareness and negligent about their own finances. The study undertook focus group interviews with financial planners and especially among post graduate students and faculty members considered to be among the top of social strata. Several reasons such as lack of time, I know it all approaches were found to be underlying reasons for the negligence and careless attitude.

KEYWORDS

financial planning, financial advisors, negligence, attitude.

INTRODUCTION

Investors take irrational investment decisions based on emotions which then become obstacles in achieving their financial goals. Previous studies have shown that though people are aware of the need to plan rarely they go into the act of planning. This study aims to focus on issues such as what are the habits people believe of good planners. Further enquiry is meant to understand if they are aware of such habits what the determinants that prevent them from practicing it are. "Personal financial planning is a fairly new and growing discipline. (Altfest, 2004, p.53). Kapoor et al. (2004, p.4) stated that "personal financial planning is the process of managing your money to achieve personal economic satisfaction". It is closely related to and encompasses insurance planning.

1.1 SCOPE OF FINANCIAL PLANNING

It covers a broad spectrum such as investments, insurance, banking, taxes, real estate, financial counseling, retirement, and estate planning.. Financial Planners offer expert opinions on issues like retirement planning, estate planning, financial management of small businesses, trusts, tax, stock broking and investments and debt and risk management

1.2 RELEVANCE OF STUDY**1.2.1 INCREASING SAVINGS**

With India expected to clock an impressive 6.5% GDP growth, there is evidence enough to support that Indian economy will increase the savings rate in the years to come. India is going to add a close to 80 million people to its working population in the next 6 years. The savings rate is set to go up to over 30-35% from the present level of 26-28%. A 30% savings rate applied to India's \$ 1-trillion GDP implies that there will be a flow an annual savings of \$300 billion (Rs 1.5 trillion) of which a certain portion will flow into the financial sector. There would certainly need of trained investment planners

1.2.2 There has been almost no academic research on financial planning by households. Some studies have investigated specific areas of personal financial planning.

1.3 OBJECTIVES OF STUDY

- 1.3.1 To understand the problems faced by people in financial planning
- 1.3.2 To ascertain the needs of savers and their expectations from the financial planners
- 1.3.3 To know about perception of people towards financial planning

1.4 NEEDS OF SAVERS AND THEIR EXPECTATIONS FROM PLANNERS**1.4.1 Saver's Mindset of Risk aversion**

India is a nation of savers and the domestic savings is around 30% of GDP. That is extremely good. It is shocking to note that more than 45% of domestic savings is invested in bank deposits and only about 2/3% in equity and equity related investments.

The financial planner should ensure that investors take a hard look at the fixed income components of their portfolios and rethink this strategy in the context of a more comprehensive, long-term objective, understanding where the clients come from, the priorities in their life and the challenges they face in a rapidly changing investment horizon.

1.4.2 LONG TERM OBJECTIVES

Succeeding in career, planning children's education, marriages, and having more than enough for an enjoyable retirement are some of the objectives most people aim at.

The financial planner in India hence, has a very important role to play. The planner's job in India is more challenging because of the Indian mind set and the aversion to risk. It will be part of his job to educate his clients on concepts of risks and returns and their relationship.

1.5 CLASSES OF THE RESPONDENTS TO BE CONTACTED

The research study includes structured interviews of both general public that may or may not be availing financial services or not. Generally the socio economic classification is generally used keeping in mind the constraint that personal financial planning shall be availed to certain socioeconomic classes

- | | | |
|--|---|-----------|
| 1. Total population of District | : | 4946573 * |
| Urban population | : | 972352 |
| Rural population | : | 3974221 |
| 2. Males and female ratio : | | |
| Male population total | : | 2548866 |
| Urban male population | : | 509405 |
| Female population total | : | 2397707 |
| Urban female population | : | 462947 |
| 3. Per capita Income | | 35252* |

4. Small savings Schemes in Ahmednagar

	No of Account holders	Net investment in Lacks
Post Savings	72205	126.88
Recurring Deposits	922441	2541.93
Fixed Deposits	8102	
(PPF) SBI	24112	4505.31
BOM	1520	260.95
Post	1625	566.46
Other Banks	320	33.74
MIS	59410	2130.45
Other schemes	610	590.82
Total	1090345	9501.05

* Based on projections by the District Collectrate of Ahmednagar of estimated population for the year 2010-11

1.5.2 The researcher also proposes to interview a sample of those professionals who either provide financial planning advice or who sell financial products in market. For this purpose a sample is drawn from the following population

1.5.2.1 INSURANCE AGENTS

LIC is a leading insurance service provider in the country with 10, 00,000 agents countrywide. In A'nagar alone there are about 4,500 agents (active) presently working. Along with a number of private insurance players like ICICI have about 600 agents working in the district.

1.5.2.2 RECURRING AGENTS

Along with the Post office of India other private players and mostly cooperative banks and society's offer these services in rural and semi urban areas. About 2000 such agents are working in the district

1.5.2.3 TAX LAWYERS AND CHARTED ACCOUNTANTS

A majority of population constitutes of people who avail tax planning services which are promptly provided by these service providers. There are about 100 chartered Accountants and about 250 tax consultant lawyers in the district.

Type of Financial Advisor	Estimated number of service provider
Insurance Agents	4500
Recurring Agents	2000
Tax Lawyers	250
Chartered Accountants	100
Others	390
Total	7240

Based on interviews conducted with LIC Development Officer's, Secretary, Association of Chartered Accountants, Directorate, Small saving's Scheme, Ahmednagar.

1.6 LITERATURE REVIEW

People are more likely to achieve goals and translate their intentions into action when they develop concrete plan. (Gollwitzer, 1996, 99). Exploratory research has found association between decreased productivity and financial mismanagement behavior. (Garman & Kim)

Furnham (1984) stated that nature of people's attitude towards and habits of money usage was complex and multifaceted. Beutler (1987) found that fewer than 10% of respondents in their study had written budgets. Moreover Millis (1982) reported that of respondents who said they budgeted, the majority of them reported a general idea rather than a written plan. Schinttgrund (1983) found that their respondents relied on checkbook, receipts and memory to track expenditures. Clark(2003) developing an adequate financial plan is critical for women due to their longer life expectancy, greater chances of becoming widowed and higher probability of ending up in nursing homes. Davis (1992) shows that while most households have a budget only a small percent have written budget. All the financial activities that an individual faces in a lifetime can be classified in a 2*2 matrix on two timeframes. (Chieffe etal)

Keeping records of expenses was most common followed by budgeting, comparing and analyzing. Irregularity in income and expense was the biggest obstacle to budgeting. (Davis and Webber). Planning behavior can explain the difference in savings and why some people arriving retirement with little or no wealth. (Lussardi&Mitchel). Roberts (2000) found that financial circumstances of students had an adverse impact on their health. Record keeping, Budgeting, comparison and estimation of net worth are 4 essential prerequisite for effective financial management. (Garman etal 1987). Mills (1982) reported that of respondents who reported they budgeted, the majority had a general idea rather than a formal plan. Alcon (1999), older women can be profoundly uncomfortable and unprepared to manage money. Davis shows that while most households had a budget only a small have a written budget. Economic hardships can lead to depressions, distress and poor interpersonal relations. (Conger, 2000) Self actualizing behavior, personal values and financial education at home, formal education at school may play important anticipatory socialization roles in the way that young adults acquire knowledge about financial matters and forms attitudes and behavioral intentions based on that knowledge. Garrett(2003) showed that those who were exposed to financial education in high school or workplace save more. Households are quite uninformed about many of key variables that should be part of planning. (Bernheim, 1998). Bernheim (1994) suggest that people's financial planning methods are fairly rudimentary, that their financial knowledge is generally poor and that their self described savings plan are often inconstant with the predictions of standard savings models. Financial mistakes are relevant among young and elderly who are groups displaying lowest amount of financial knowledge.

1.7 RESEARCH METHODOLOGY

This paper summarizes the result of focus group on savings and financial planning. The group consisted of twenty individuals and three financial planners with relatively high income and wealth. The current focus group was conducted as a part of pre pilot study of a Doctoral work on problems and prospects of financial planning profession intended to be submitted to University of Pune. The focus group provided a good opportunity to investigate directly people's approaches to savings, investing, and financial planning.

A focus group is a form of structured conversations where individuals are brought together to discuss some topic of interest with the help of a vacillator. Focus groups are widely used in various studies. While a focus group is by no means a representative method, it can be extremely useful for identifying ranges of behavior or opinions and for suggesting some of the sources of variations across individuals. Also, people can be asked to explain what goes into their thinking, providing an opportunity to, pursue topics in greater depth than is possible by regular survey methods.

The participants were recruited mostly from a Management college in Ahmednagar. While this is not clearly a repetitive group in any general sense, the saving behavior of individuals like them is of interest for three reasons. First previous research have confirmed that with increased exposure to education and business education in particular people tend to be score more on financial literacy scores which shall also mean more probability of planning their own finances or using a financial planner for such purpose. The researcher himself working in the college gave an added advantage of pursuing the respondents to reply. Out of the 20 respondents five were females and the rest males. Also of the three planners interviewed both of them were males. Most were management teachers in their thirties and some professionals.

Because the group is small and not randomly selected, it is possible that the focus group participants differ from other in some systematic way. While this possibility cannot be ruled out, unfortunately we do not have any benchmark data to compare with.

ANALYSIS OF DATA

Table 1 reported the self described saving behavior of the focus group participants

TABLE 1

Description of savings last year	Focus group participants
i) Spending< Income	75
ii) Spending=Income	25
iii) Spending>Income	0
Usual Saving Behavior	
i) Save regularly	10
ii) Spend regular income, put money aside	15
iii) Spend income of one family member	12
iv) No regular plan	60
v) Don't save	3

Respondents were asked many open ended questions about whether they feel need for a financial planner, what were their experiences about a planner if they hired one. The planners in turn were asked about their experiences about their clients, their habits and their expectations. Some of the common reasons and experiences are described below

WHY FINANCIAL PLANNING IS NOT POPULAR?

Unlike in the US and other European countries where there are robust social security system to tackle care of you in the old age, interestingly personal financial planning is quite unpopular or unknown in India. The present study aims to investigate the reasons for such UN enthusiasm. The study shows that with interviews conducted with some of the financial planners suggested that though many enthusiastic clients initially approach them for advice with reference from friends and peers, a majority of them do not show up again. After the initial meetings the advisor asks for financial details sometimes in a form, many brave hearts call it quits at this juncture because for most of them remembering or going through their financial records is a task preparing themselves for board exam. Some people after filling the form fill embarrassed and don't go back to their advisor. Many people fail to finalize their financial investment plan for variety of reasons.

SOME TIME PLEASE

When the young cohort approximately aged between 25-35 were asked whether do they plan to visit their advisor and if they don't what were the difficulties in approaching their planner. The study found that young people often fail to go through the entire exercise because of lack of awareness or. More importantly they can't find time to do so because they are extremely busy with their life and career. This is a familiar story shared by many planners and advisors. Also do really this people don't have sufficient time to give due diligence to their personal finances or is it the famous "chalta hai" attitude at work. When questioned about the need of keeping records for tracking expenses a majority of them said they don't need to keep records of spending may suggest that they don't see any value in engaging such practices. One of the advisors suggested a unique way to overcome this problem is to impress upon the senior and elderly people who are very diligent about their own finances, to convince the younger people in the family to be serious about their financial health. The trick he says works out as we have the tradition to listening to elders like parents or in laws in the family

CAN'T SACRIFICE MY LIFE

For most of people planning for future is equal to sacrificing the present happiness. Rightly or wrongly the perception is deep-rooted among the young category. For most people spending has become a way of life. They don't think it is worthwhile to plan for big purchase when they can do it with a credit card or a zero percent finance scheme in a matter of few minutes. Also when interviewed many young managers categorically stated that they don't want to compromise their present life's to be able to lead a better future life. However experts say that these people have got it completely wrong: financial planning does not mean living a hermetic life but it simply says living within your means.

I KNOW IT ALL

When interviewed whether they ever felt the need of a financial planner or advisor not surprisingly many of them replied in a negative. A lot of people believe that they read so much about personal finance on the net, newspapers and magazines they are their best managers. Further when inquired about their idea of a comprehensive financial plan, hiring a mutual fund advisor and making investment was their reply. Though preparing a financial plan of oneself can be justified sadly apart from the knowledge about investment and financial plans, the real problem is the lack of time. Many people don't have the time to follow their plans continuously. Also when many people questioned about their accumulation of various assets just accumulated them without understanding them. The fact is proved by the basic financial literacy tests conducted on the sample.

HINI & FINANCIAL PLANS

Though the HINI were expected to have their financial plans precise most of the HINI had fancy plans not supported by numbers. A majority of them failed to have a precise financial plan because most of them had no clear financial objectives. When questioned about their financial objectives about 72 % failed to specify clearly their goals and plans. According to experts fancy notions about one's future are common problems among HINI. Further though some people start investing as per the plan earnestly especially those who have started late tend to be aggressive. The moment they see their investment not doing well for a year or two, they loose interest. They just abandon their plan and run away

I DON'T WANT TO PAY FOR THE ADVICE

A majority of experts in financial planning say that the biggest obstacle to compensation of advisers is the attitude of consumers. The attitude is that I'm coming to you only because I don't have the time. People don't understand that drawing up an entire financial plan or reviewing an entire financial plan is not an easy job and they should be prepared to pay for it says----. Also when inquired about benefits of financial advice majority of the respondents said that it was hard to quantify the value of investment advice and would prefer a fee based compensation rather than a commission based advises.

BEHAVIORAL ISSUES

The client himself is the biggest factor coming in the way of the success of financial plan saysK.K.Vijan, a Chartered Accountant and financial planner. Individuals get swayed by environmental factors such as information flow, peer pressure, emotions etc.

CONTINGENCIES

90% of the respondents stated that contingencies in real life may turn out to be much bigger than what was counted for in a financial plan. Also it may not be possible to asses exactly how much needs to be set but the efforts are worth taking.

Execution & review

Many plans fail due to lack of review and monitoring.

CONCLUSION

The findings raise questions regarding the extent to which households are willing to actually use (rather than endorse) the management practices that financial educators traditionally recommend. There appear to be some barriers to the adoption of recommended financial management practices that this study has not uncovered. Financial advisors and educators should ask themselves and their clients what other factors discourage households from using these practices. The

relatively high portions of respondents saying “they don’t need to” engage in financial planning or they never felt the need of planner or never thought about it suggest that people need more information about financial planning.

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