ASK US

AARATI KRISHNAN

Q. Recently, we sold land and I got ₹15 lakh as my share. I'm confused about whether I must invest the money in a fixed deposit, land or in stocks?

RAJESH KUMAR

A. Your choice of asset should depend on three things — your risk appetite, return expectation and need for money. Do you want to protect your capital at all costs and think you will need the money in two to three years? Then bank deposits for 2-3 years may be your best option. Presently, the rates range from 7% to 8.5%. Do remember that your interest from deposits will be taxable every year at your income tax slab rate.

If you can take a little bit of risk and plan not to touch the money for three to five years, debt mutual funds are a good option. If returns are your priority and you will definitely not need the money for five-plus years, you can consider aggressive hybrid mutual funds that invest in stocks and bonds in the 65-35 proportion. There's some risk of capital loss with possible returns of 10%-12%. Investing directly in stocks can mean a high risk of capital loss. We don't recommend either land or gold because they aren't as liquid as bank deposits or mutual funds.

Q. I find that small finance banks offer a high rate of interest on fixed deposits. Why should I opt for a post office fixed deposit which gives a low rate of interest?

SHIVA CHHABRA

A. Small finance banks, though not government-backed, are tightly regulated and monitored by the Reserve Bank of India (RBI). As these are a relatively new category of banks licensed by the RBI, most of them have much lower bad loan ratios than some established banks. The key regulatory provisions that help protect depositor interests in traditional banks also apply to small finance banks. One, to ensure that banks have money that they can quickly draw on in case of deposit withdrawals, all commercial banks are required to set aside 4% of their deposit base in the form of a cash reserve ratio and invest 19.25% towards statutory liquidity ratio requirements. Two, deposit insurance from Deposit Insurance and Credit Guarantee Corporation of India, insures the principal and interest held in savings accounts, current and fixed deposits to the extent of ₹1 lakh per depositor per bank. This is applicable to small finance banks as well. However, your deposits with the post office do theoretically carry lower risks than deposits with any bank, because they represent direct borrowings by the Government of India.

Readers can send in queries on personal finance and investing to ***moneywise@thehindu.co.in****. Our experts who write on personal finance will answer these queries. Moneywise will not give specific recommendations for investment in a particular mutual fund scheme, share or fixed deposit.*

Outdated financial advice parents should avoid giving

Advising millennials to buy an insurance policy first or even invest in a house could simply be wrong in today's environment

VIDYA BALA

Several of the 50-year-plus investors I know are eager to initiate their millennial children into investing as soon as possible. In their eagerness, they help their children with the 'first steps.' Sadly, those steps often constrain or cripple the millennial's financial journey. It is terribly hard for me to tell the earnest parent how he (it's mostly the father) has given advice that is not only outdated but simply wrong in today's environment for two reasons: one, the millennials lead a very different working and personal life from their parents and therefore, have different financial needs. Two, the range of financial products and options available today are dramatically different from what their parents had when they started their careers. I seldom get to tell them this but here's a list of such advice and why they should not be repeated.

ILLUSTRATION: DEEPAK HARICHANDAN

Buy an insurance policy

With an average Indian, no investment journey begins without a policy and policy usually means LIC Pension Policy unless stated otherwise. A pension policy where one would get a handsome ₹8,000 per month after 25 years. Now, what exactly will the child do with just ₹8,000 a month, 25-35 years hence, even under a low inflation scenario? Even assuming it will just add to the rest of his income sources, what is the return? It may sum up to some measly returns of perhaps 4-5.5%! It is a different story entirely if you advise him to buy a pension policy soon after retirement. But tucking away his early earning years' savings now in low earning products? That's sad.

The insurance policy a millennial needs may be very different. A term policy, if and when they have dependants, yes. And there may be others. For example, an insurance that helps sail through job loss or on diagnosis of major medical illness and so on. Let your children figure out what they need before you tie them down by gifting their first premium for their pension policy.

'Relationship with bank'

If parents approved of any relationship of their millennial kids, it must be with their bank 'relationship manager (RM).' Investing in products suggested by the RM is important from the father's perspective because one needs to be in the good books of the RM. For what exactly?

Unlike those days, the millennial is unlikely to visit a branch for the rest of his/her life. There will be no occasion requesting for cheque clearance or asking for change in denominations of 10s and 50s; nor is a higher education loan dependent on how much you invested through the RM.

Your millennials do not have to blindly listen to the RM's advice. It could mean tying oneself to products one didn't know had a lock-in, products that would incur high costs if exited early or that are sold as high dividend products, not knowing the risks involved.

Anywhere between ₹1.5-2.5 lakh per annum of a young earner's income is locked into investment products that are of little relevance to his/her financial goals. Let your millennials explore their journey and find out what suits them. They could go the traditional way to seek an adviser offline or through online channels or be a do-it-yourself investor by spending time on the web.

What a millennial needs

- Insurance policy with different goals
- Flexibility on buying a house
- A different approach to banking

But let them not invest for relationship's sake.

Buy a house right away

"Real estate prices only go up, so I asked my son not to delay purchasing a house," said an investor known to me. After all, the logic goes, the son has no commitments and can well pay his equated monthly instalment (EMI) and finish them early.

But let's get a few facts right: one, if you plan to leave your house to your children (most of you will), they are not going to be homeless. Second, you have no idea in which State or country your children are going to settle in. Third, if your children pay an EMI now, that will leave little surplus by way of savings for the next 15-20 years. Exactly what are they supposed to do for the rest of their life's goals and aspirations? Fourth, EMI is not equal to rent, please!

You could have a spacious 1,500 sq. ft house and pay a rent of one-third (or less) the cost of its EMI. Purchasing a house before settling into a career, before marriage or even before having kids (there is an 'if' component to all these in the millennial age) is not a good idea.

And please remember, many millennials give up their jobs just after a few years to do their heart's calling – be a stand-up comedian, travel and photography or be an observer of people. Call it crazy or deep, the fact is they may not even work like you did for the next 15-20 years after they take up a job. Let them decide what debt they want to take up.

And please, don't even think you are being a bad parent by not advising them. You will still have enough to advice on their spending habits (a new mobile every year!) and their not removing their headphone the whole time you're talking to them!

(The author is head, MF research, FundsIndia.com)

FD FOCUS: DCB BANK

Healthy capital ratios, low NPAs

Private sector lender has been able to maintain asset quality with 1.5-1.9% GNPA

RADHIKA MERWIN

The RBI's policy rate cut in February this year is likely to nudge banks to trim deposit rates over the coming months.

Though a sharp cut is unlikely in the near term, depositors with surplus funds should consider locking into attractive rates now.

DCB Bank offers 8.05% for deposits with tenure of 15 months to less than 24 months. It also offers 8.05% on its 36-month deposit.

ANU ARORA

Lock-in now

Banks had raised deposit rates last year with those in the private sector hiking rates more aggressively.

With the RBI expected to cut the policy rate further in the coming months, retail deposit rates offered by banks are likely to fall too.

Hence, shop for higher rates now.

Attractive option

DCB Bank's 8.05% is among the best offered by traditional banks currently. Most other banks offer 6.5-7.5% for two to three year deposits – though there are a few others such as IDFC First Bank that offer 8.25% for a 731-day deposit. Small finance banks offer a rate closer to 9%.

So which tenure should you chose from? A two-year option can work well as it mitigates the uncertainty over reinvestment risk – inability to reinvest at the existing rate. The shorter tenure can also allow you to cash in on any rate hikes two years or so hence.

Key stats

- Rate offered: 8.05%
- Tenure: 15 months to less than 24 months; 36 months
- Minimum investment: ₹10,000
- Rating A1+ (very strong degree of safety regarding timely payment of financial obligations)

Given that interest rate cycles have become relatively shorter over the past two to three years, sudden reversal in rates (from rate easing now to hikes) cannot be ruled out.

If you are looking for a longer horizon to park you funds, the36 months deposit is also a good option.

Remember, bank deposits score on safety over options such as deposits in NBFCs (non-banking finance companies) or non-convertible debentures (NCDs).

Bank deposits are covered by the Deposit Insurance and Credit Guarantee Corporation of India (DICGC). Each depositor is insured up to ₹1 lakh for principal and interest.

About DCB Bank

DCB Bank, under the aegis of the with a new management since 2009, had shifted its focus towards secured lending, which has helped it tide over its asset quality issues.

It had delivered a healthy 25% annual growth in advances between FY13 and FY18 while the profit grew 19% annually during this period. In the December 2018 quarter, net advances grew by 23% YoY while profit after tax increased by 51%.

Healthy growth in core net interest income, other income boost and favourable cost to income aided earnings.

The bank predominantly focuses on mortgages, and the SME segment. It has been able to maintain its asset quality – its gross non-performing assets (GNPA) as a percentage of loans ranged between 1.5% and 1.9% over the last five fiscal years.

As of December 2018, gross NPAs stood at around 1.9% per cent. However, DCB's scale of operations is still modest, and so are its return ratios.

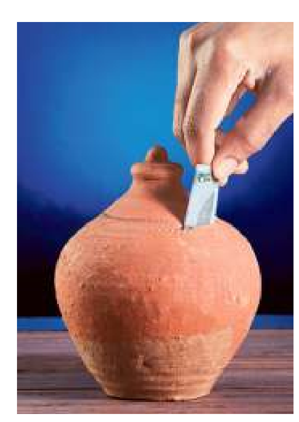
As of December 2018, the bank's return on assets stood at 1% while return on equity stood at 12.6%. Investments in branch expansion and technology have kept profitability modest.

Nonetheless, the bank's steady focus on SME, new branches expected to achieve scale, and healthy capital ratios lend comfort to earnings.

(The purpose of this column is to provide information. It is not recommendatory in nature.)

BLACKBOARD - SIP

A systematic way of maximising returns on investment



ASHISH RUKHAIYAR

What is a SIP?

■ A Systematic Investment Plan (SIP) is a way to invest in mutual funds wherein a fixed sum of money is put into a mutual fund scheme at a specified date every month. It is considered to be investor-friendly and an efficient manner of investing in the capital markets as one can start investing with small monthly contributions instead of first building a huge investment corpus.

It is a hassle-free manner of investment as well since one can issue standing instructions to the bank for a specified amount to be transferred to the fund house/distributor every month at a pre-determined date.

How can one start a SIP?

■ There are two ways of starting an SIP. One can use the direct way of investing though the fund house or go through a distributor. For direct plans, an investor can go to the website of the fund house for the scheme in which the SIP has to be started.

All the fund houses have a link on their portals for investors who want to start an SIP. Typically, only the Permanent Account Number (PAN) and/or Aadhaar is needed to open an account.

Thereafter, one can select the scheme, SIP amount, starting date and duration of SIP. If one opts for a distributor, then the same process can be done online on the distributor's portal.

Is it better to start direct SIPs or go through a distributor?

■ The returns for those investing directly will always be marginally better than for those investing through distributors as direct plan investors do not need to pay distributor commission. And since SIPs are typically long-term investments, the difference in the total corpus, at times, could be substantial.

However, going through a distributor has its advantages as well as one can get access to investment advice, help in fund selection and a consolidated view of the holdings through an app. On the other hand, if an investor wants to start 4-5 SIPs with different fund houses, then a direct approach would mean going to each of the fund house websites and opening a folio and keying in the details to start the SIP. However, there are some fintech start-ups that offer direct SIP options on their platform.

Is a demat account necessary for starting a SIP?

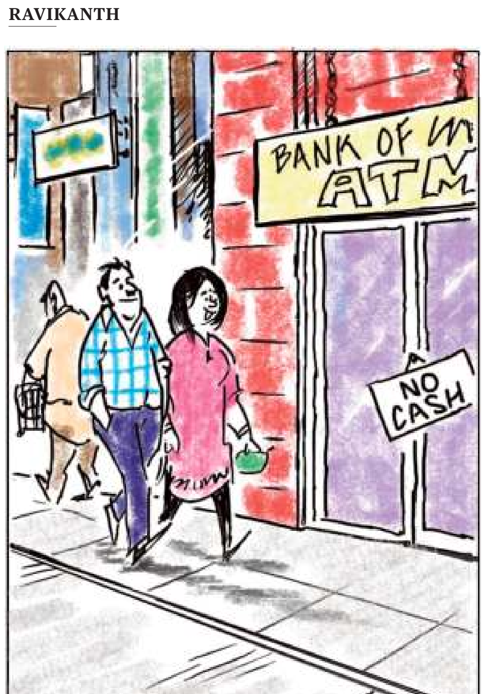
■ No. One does not need a demat account to start a SIP. As mentioned earlier, one can just start a SIP by opening an account – folio in industry parlance – through the fund house or the distributor. In fact, this is also one of the reasons for the increasing popularity of SIPs as one need not open a demat account through a stock broker.

What are the benefits of a SIP?

■ Timing the market is the most difficult thing when it comes to equity investment. SIPs, in a way, address this issue. SIPs capture every rise and fall of the market and hence, an investor need not worry about the level of the market. Also, there are sector-specific funds – pharma, banks, technology, etc. – and also those based on the size of the companies – such as large-cap, mid-cap, small-cap funds – that allow the investor to have a diversified portfolio rather than concentrate risk in a few companies.

LOOSE CHANGE

RAVIKANTH



"I really love their service! Our spending came down a lot, all thanks to this ATM!"

Life insurance term plan premium

Age: 30 Years, Sum insured- Rs. 1 crore, Cover upto- 70 Years

Insurance company	Plan name	Maximum cover	Annual premium (Rs.) (Male)	(Female)
ICICI Prudential Life	iProtect Smart	99 Years	12,502	11,028
HDFC Life	Click2Protect 3D Plus	100 Years	12,478	11,004
Max Life	Online Term Plus	85 Years	10,148	7,670
Aegon Life	iTerm	100 Years	8,331	6,861
TATA AIA Life	Sampoorna Raksha	100 Years	9,912	9,086
PNB MetLife	Mera Term Plan	99 Years	10,146	8,675
Kotak Life	Kotak e-Term Plan	75 Years	9,558	8,260
Aditya Birla Capital	Ultima Term	85 Years	10,270	8,733
Edelweiss Tokio Life	Zindagi+	80 Years	9,206	7,522
India First Life	e-Term Plan	80 Years	8,260	7,080
Aviva Life	iTerm Smart	80 Years	9,007	7,741
DHFL Pramerica Life	Flexi e-Term	75 Years	9,403	8,026
Future Generali Total Insurance Solutions	Flexi Online Term	75 Years	9,427	8,184
Bharti Axa Life	Flexi Term	85 Years	9,440	8,260
Canara HSBC OBC Life	iSelect	80 Years	9,491	8,022
Reliance Nippon Life	Digi-Term	80 Years	11,012	8,719
IDBI Federal Life	iSurance Flexi Term	80 Years	12,402	10,136
Bajaj Allianz Life	eTouch Online Term	75 Years	14,067	10,896
SBI Life	eShield	80 Years	15,070	12,898

Source: www.policybazaar.com

Health insurance premium

Insurer name	Key features	Plan names	Premium(Rs.)
Religare Health	Day care treatments, family floater option, health checkups, after hospitalisation	NCB Super Premium	8,675
		Care	7,887
		Care with unlimited recharge	8,478
		NCB Super Premium with UAR	9,267
Max Health	Day care treatments, hospitalisation at home, alternate medicine	Health Companion + Health Recharge (Money Saver)	8,764
		Health Companion	9,862
		Go Active	11,747
		Heartbeat Gold	15,319
Star Health	Family floater option, restoration of cover, wellness factors, network hospitals covered	Medi Classic	9,204
		Star Comprehensive	11,476
Apollo Munich Health	After hospitalisation, day care treatments, hospitalisation at home, hospital room eligibility	Optima Restore	11,024
		Easy Health Individual Standard	9,613
		Easy Health Individual Exclusive	12,067
		Easy Health Individual Premium	14,945
		Energy Gold	20,036
		Energy Silver	14,136
		Energy Gold with Co pay	17,216
		Energy Silver with Co pay	11,316
		Health wallet	22,908
HDFC Ergo Health	Hospitalisation at home, hospital room eligibility, alternate medicine	Health Suraksha Silver	9,380
		Health Suraksha Gold	11,162
		Health Suraksha Silver with Region & ECB	10,083
		Health Suraksha Gold with Region & ECB	11,998
Digit Health	Day care treatments, hospitalisation at home, hospital room eligibility, alternate medicine	Digit Health Plus Policy Plan - 3	10,679
Bajaj Allianz Health	Hospital room eligibility, wellness factors, family floater option	Individual Health Guard	11,569
		Health Ensure	7,642
Royal Sundaram	Day care treatments, hospitalisation at home, hospital room eligibility, alternate medicine	Lifeline supreme	7,936
		Group Health Policy	6,130
Universal Sompo	Hospitalisation at home, hospital room eligibility, alternate medicine	Individual Health Guard	12,241
Aditya Birla Capital	Day care treatments, restoration of cover, family floater option	Active assure Diamond	7,938
		Active Health Enhance	9,801
		Active Health Enhance (Diabetes)	38,148
		Active Health Enhance (Asthma)	16,818
		Active Health Enhance (Hypertension)	32,616
		Active assure Diamond with Super NCB	8,732
		Active assure Diamond with Unlimited Reload	8,494
		Active assure Diamond with Super NCB and Unlimited Reload	9,287
Edelweiss Health	Day care treatments, hospitalisation at home, hospital room eligibility, alternate medicine	Edelweiss Health Insurance-Gold (Health 241 Add-on)	10,398
		Edelweiss Health Insurance Gold	8,318
Kotak General	Hospital room eligibility, health checkups, family floater option	Kotak Health Care - Premium (Including Optional Pack 1)	8,738
Liberty General	Day care treatments, hospitalisation at home, hospital room eligibility	Elite	10,777
		Basic	9,579
		Supreme	11,337
Future Generali Total	Day care treatments, hospitalisation at home, hospital room eligibility, alternate medicine	Health Total Vital	10,031
United India	Hospitalisation at home, alternate medicine, family floater option	Platinum	13,531

All premia are for sum insured of Rs. 10 lakh for a 30-year old male/female, non-smoker in a metro city

Source: www.policybazaar.com