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Financial Housekeeping: A need of the hour for many

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Dear investors

The much awaited vaccines for COVID-19 are finally here. Over the course of the next few months, hopefully a large portion of the population will be vaccinated and we will be able to resume our normal lives. The past twelve months have arguably been the most challenging for businesses to ensure uninterrupted operations. Through the lockdown and through instances such as grid failure, what helped us in running our day to day operations was the robust business continuity planning framework that we follow. We give very high importance to business continuity as well as succession planning at an organisational level and do a periodic review. During one such meeting on the subject a thought crossed my mind, do individuals at large take continuity planning, succession planning as seriously as the businesses do?

Based on my interactions with advisors and clients, I believe that there is a growing awareness about the importance of what can be termed as financial housekeeping i.e ensuring that records and processes are being taken care of, for a smooth transfer of wealth in case of an unfortunate incident. However it looks like there is a wide gap between intentions and actions.

In my personal experience, I have come across instances where the paper work is perfect. Joint holders are there, nominations are properly done, will signed and registered but the family members are completely unaware of where the investments are, what is the insurance cover, which banks the money is parked and so on. So in my opinion a good starting point for personal continuity planning is to involve ones spouse and adult children in the process of financial planning. This ensures that more than one member of the family is aware about the financial and physical assets of the family and can ensure that the family is not deprived of what rightfully belongs to them. One only needs to look at the statistics for unclaimed deposits, dividends and policy maturities to realise the importance of this issue.

I also got surprising feedback from my operations team. Quite a few individuals choose to invest in their single name without registering a nominee for the investment. At least I am not in a position to understand the rationale behind such actions. Maybe it is lack of awareness or the attitude that if something bad were to happen it will happen to some one else and not me. We do our bit to encourage people to mention a nominee, like in case of Smart SIP, we do make it a point to communicate that the investor is eligible for insurance cover only if the nominee is registered on the SIP. But self help is the best way forward.

The most practical option considering all aspects is to have a joint holding if possible. Having either or survivor option in the joint holdings comes handy in case of one of the holders being hospitalised, or becomes immobile or meets an untoward incident. E/S option ensures that the other holder can access funds/investments when required.

Irrespective of the age group, the importance of writing a will cannot be overemphasised. It is not an activity reserved for old age. For some strange reason many individuals despite being aware of the difficulties faced by their legal heirs in gaining access to their rightful wealth in absence of a proper will, desist from making one.

The other key aspect in continuity planning is to consider whether the family members have the acumen and inclination to manage the wealth in absence of the key member. Given the level of financial literacy I would argue that in many cases surviving members would be ill equipped to do justice. So having a trustworthy advisor who can ensure continuity makes immense sense. Depending on the size and complexity, in case of large wealth, employing a trustee company is an option to consider.

Whatever route one may opt for, whether involving only family members, or having an external advisor or opting for a trustee company, it is imperative that each one of us focuses on continuity planning and take it to its logical conclusion. And yes importance of financial housekeeping and continuity planning will not go away even in the post Covid world for inter generational transfer of wealth.

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