# An Analysis on Financial Planning Profession in Andhra Pradesh State

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## ABSTRACT:

A financial planner is a qualified investment professional who helps individuals and corporations meet their long-term financial objectives. Financial planners do their work by consulting with clients to analyze their goals, risk tolerance, and life or corporate stages, then identify a suitable class of investments for them. From there they may set up a program to help the client meet those goals by distributing their available savings into a diversified collection of investments designed to grow or provide income, as desired. This paper reflects an analysis on financial planning profession in Andhra Pradesh state.

Keywords: planning, client, accountants, transactions, knowledge, occupation

### 1. INTRODUCTION:

Financial planning is goal seeking process involving determining one"s own current financial position and formulating strategies to achieve desired objective. Coined in other words the process of financial planning involves following key steps:-

a) Finding out present net worth of an individual.

b) Formation of objectives

c) Estimating future cash inflows and outflows (Budgeting)

d) Keeping track of current expenses. (Recordkeeping).

### 2. OVERVIEW OF SELECTED FINANCIAL PLANNERS

A brief profile of each profession is essential for proper understanding of the topic under study. This section deals with an introduction of professionals, covering the aspects of their responsibilities, duties and the services provided by these planners.

Traditionally, Law, Medicine, Accountancy are regarded as professions. A profession means a vocation which involves service to people through application of professional knowledge. A professional is a person who has undergone certain rigorous training to acquire certain knowledge and skills. The knowledge must be transferrable through the medium of formal teaching, training and practice. There must be competent application of knowledge to problems. There is abiding commitment to update knowledge and skills on a continuous basis. An occupation must satisfy certain criteria in order to claim the status of a profession. The professional must be expert and specialized knowledge in field which one is practicing professionally. A professional is an expert who is master in a specific field.

The professionals selected for my study are chartered accountants, tax consultants, stock brokers, mutual fund agents, insurance agents and postal agent. Each one has different approach towards financial planning. It varies with person to person. Chartered Accountants:

Chartered accountants provide trustworthy information about financial records. This involves financial reporting, taxation, auditing, forensic accounting, corporate finance, business recovery and insolvency, or accounting systems and processes. They play a strategic role by providing professional advice, aiming to maximize profitability on behalf of their client or employer. The professionals of this class work in different areas including public practice firms, industry and commerce, as well as in the not-for-profit and public sectors.

In public practice firms, a chartered accountant gives professional services to fee-paying clients. The clients are mainly private individuals or large commercial or public sector organizations. In commerce, industry and the not-for-profit and public sectors, they may work in treasury management, procurement, and financial management or in reporting roles. The role of a chartered accountants cover many aspects of finance work, including:

- Management of financial systems and budgets.
- Undertaking financial audits.
- Providing financial advice.

The chartered accountant performs the following activities in public practice,

- Providing financial information and advice.
- Reviewing the company's financial performance and analyzing risk.
- Checking financial information and systems.
- Advising clients on tax planning.
- Maintaining accounting records.
- Advising clients on business transactions, such as mergers and acquisition
- Advising clients on areas of business improvement, or dealing with solvency.
- Detecting and preventing fraud (forensic accounting).\
- Managing junior colleagues.

**a. Tax consultant**

Tax advisers use their knowledge of tax legislation to provide advisory and consultancy services to clients, ensuring that they pay their taxes in the most efficient way and benefit from any tax advantages and exemptions. They keep up to date with changing tax laws and explain complicated legislation and its implications to their clients in simple terms.

**Typical work activities**

Tax advisers can work in compliance, ensuring a client meets all tax obligations by preparing and submitting tax returns, tax computations and any other necessary forms. Alternatively, they may work in consultancy, advising clients on how to minimize their tax liabilities.

**Typical areas of activity include:**

- Researching, analyzing and interpreting changing tax legislation
- Working with tax law and revenue provisions;
- Preparing and submitting compliance (tax) returns by the deadline;
- Liaising and negotiating with tax consultant on behalf of the client;
- Providing consultancy services to high value private clients;
- Creating tax strategies for clients and planning their financial futures;
- Carrying out detailed computations to calculate tax liability and advising on how to minimize a client's liability;
- Estate planning and advising on tax residence and domicile matters;
- Providing guidance on indirect taxation issues such as VAT, customs planning and environmental taxes;
- Producing reports and presentations for clients.

Some self-employed tax advisers also offer their clients a range of accountancy services, such as bookkeeping, payroll and VAT.

**b. Stock broker**

A stockbroker is a financial service agent who helps customers to buy and sell in financial marketplaces -- such as the New York Stock Exchange. He can sell securities to investors and provide insight on the market to his clients. This job requires fast thinking and excellent customer service skills to survive in this highly competitive industry.

**Duties and Responsibilities**

A stockbroker serves the financial interests of his clients. He sells securities and commodities to individual clients, advises clients on what investments suit their financial situations and can manage clients' investment portfolio. He executes trades and sells for clients in the exchange market. A broker must stay on top of the market at all times by analyzing, monitoring and researching the performance of stocks, trade markets and acquisitions. A broker has a fiduciary duty to protect the interests of his clients; therefore, he cannot engage in trades or offer financial advice that benefits him financially.

**c. Insurance Agent**

Insurance Agent Job Purpose: Provides service to clients' changing insurance needs by selling life, health, and disability insurance.

**Insurance Agent Job Duties:**

- Determines clients' particular needs and financial situations by scheduling factfinding appointments; determining extent of present coverage and investments; ascertaining long-term goals.
- Develops a coordinated protection plan by calculating and quoting rates for immediate coverage action and long-term strategy implementation.
- Obtains underwriting approval by completing application for coverage.
- Completes coverage by delivering policy; planning future follow-up visits and

evaluations of needs.

- Provides continuing service by providing direct deposit forms; processing changes in beneficiary and policy loan applications.
- Provides death benefits by delivering policy proceeds; reassessing client needs.

**d. Mutual Fund Agent**

A mutual fund agent is representative of a bank or similar financial institution, who offer mutual fund to prospective investors, maintains records of their investments and conducts regular market research to advice customers.

The individual is required to have interpersonal and analytical skills. He must be able to track the mutual fund market and maintain relationships with customers.

**e. Postal Agent**

A postal agent is representative of most trusted and oldest organization offering financial services to a larger section of population and prospective investors. As the Indian Post offers a variety of financial products such as monthly recurring deposit, small saving schemes, national saving certificate the postal agent are expected to cater to investor needs.

## 3. RESEARCH METHODOLOGY AND ANALYSIS

### 3.1 INTRODUCTION

The information on financial planning practices, impact of financial planning on development and problem associated with financial planning is collected through Likert scale based questionnaire. Questionnaire also takes care of some personal information on qualification, profession, gender, age and experience along with preferential reason for their planning wasting. The weight age is also given to collect the information on sources experienced by the professionals to know more about financial planning.

The table 1 below gives the figurative information about the volume of questionnaire.

**Table 1 : Information on Questionnaire**

| S. N. | Particulars | No. of questions |
|---|---|---|
| 1 | General Information | 8 |
| 2 | Financial planning practices by the professionals | 20 |
| 3 | Effect of financial planning on development of individual | 25 |
| 4 | Problems associated with financial planning | 16 |
| 5 | Sources experienced. | 05 |
| Total | | 74 |

*Source: Primary Data*

The information from 320 selected professionals is sex wise classified and depicted in table 2. Statistical analysis of each question in the questionnaire is cross tabulated on the basis of profession and response. The chi-square test is also applied to investigate the possible independence between them. The values in the bracket below the table gives chi-square value, degree of freedom and „P' value. The source of data given in all the tables is based on the survey. In this study two types of questionnaire were designed; one for investors and other for Financial Planners. A purposive sample of 722 investors is taken to collect the relevant data through questionnaire.

This questionnaire includes 36 items which has following relevance

**Table 2: Details of Questions used in questionnaire**

| Parameters included in Questions | Number of Questions | Significance |
|---|---|---|
| Demographics | 10 | Age, Gender, Marital Status, Family Structure, Education, Occupation, Income, Source of Income |
| Monthly Budget | 01 | Monthly Expenditure as % of Gross Monthly Income |
| Goals | 02 | Goal Priority and Goal Achievement |
| Risk Perception | 01 | Perception towards investment options |
| Portfolio Management | 01 | Consumption frequency of investment option |
| Investment Strategy | 01 | Role of factors affecting investment |
| Financial Management Practices | 04 | Financial Management practices adopted by investors |
| Perception towards Financial Planning | 02 | Attitudes towards Financial Planning |
| Attitudes towards Financial Planners | 09 | Attitudes about Financial Planners, planner compensation, nature of services, selection of planner and qualification of planner |
| Financial awareness | 02 | Unauthorized schemes |
| Total | 34 | |

The information through questionnaire is collected from following Tehsils of Anantapuram and Chittoor district of Andhra Pradesh state. Tehsil wise breakup of sampled investors.

**Table 3: : District** wise Respondents

| Sr. No. | Tehsil | Number of Respondents | Percentage of investors in total sample |
|---|---|---|---|
| 1 | Anantapuram | 11 | 1.52 |
| 2 | Krishna | 100 | 13.85 |
| 3 | Visakhapatnam | 154 | 21.32 |
| 4 | West Godavari | 66 | 9.14 |
| 5 | East Godavari | 58 | 8.03 |
| 6 | Chittoor | 76 | 10.52 |
| 7 | Kurnool | 33 | 4.57 |
| 8 | Cuddapah | 13 | 1.80 |
| 9 | Nellore | 52 | 7.20 |
| 10 | Prakasam | 40 | 5.54 |
| 11 | Srikakulam | 29 | 4.02 |
| 12 | Vizianagaram | 21 | 2.91 |
| 13 | Guntur | 69 | 9.56 |

*Source: Primary Data Collected*

The second questionnaire for Personal Financial Planners covers items including demographic, educational, type of services provided, experience, customer base, perception about investors, factors affecting the services taken by clients, challenges in the profession, scope for financial planning profession, role of internet and media in disseminating financial information. This questionnaire was subjected to 320 financial planners that include Charted Accountants, Tax consultants, Stock Brokers, Mutual Fund agents, Insurance Agents and Postal agents. Table 4 gives breakup of Personal financial planners from whom the data is collected.

**Table 4 : Distribution of sample financial planner respondents:**

| Sr.no | Category of financial planner | Number of respondents |
|---|---|---|
| 1 | Charted accountant | 14 |
| 2 | Tax consultant | 6 |
| 3 | Insurance agent | 169 |
| 4 | Stock Broker | 22 |
| 5 | Mutual fund agent | 29 |
| 6 | Postal agent | 80 |

*Source: Primary Data*

The data collected through two questionnaires is systematically analyzed by using different statistical tools.

Two types of structured closed ended questionnaire were applied for recording the responses of respondent. The questions included multiple choice questions, dichotomous questions and also questions based on a 5 point Likert scale. The data and information for the study is collected through primary as well as secondary sources. In the primary source, structured questionnaires are used to collect the information on various aspects of financial management from selected respondents.

In the general information along with name his/her qualification, profession, contact details, age and gender, these attributes are covered. Other three questionnaires are based on five points or three point likert scale. Setting of goals, investment provision and means to achieve goals, methods of record keeping are some of the attributes which are covered in financial management practices of selected respondents.

The questionnaire on problems associated with financial planning includes the attributes likes opinion of financial planners about attitudes of investors towards financial planning practices, factors affecting client selection of financial planners or advisors, effect of technology on planning business, challenges before financial planning profession and prospects for this profession.

## 4. DATA PRESENTATION:

The data through questionnaire is properly presented so as to give comparative self-explanatory and easy to understand summarizing picture. For the presentation purposes following diagrammatic technique were used.

1) Vertical Bar Diagram
2) Horizontal Bar Diagram
3) Multiple Bar Diagram
4) Pie Chart
5) Histogram

## 5. CONCLUSION:

Financial planning practices

1. Monthly budget and Investment provision of selected investors.
2. Goal setting and classification and requirement of tools to achieve these goals.
3. Findings and conclusions for practices like record keeping, estimation of net worth

Portfolio Selection and Management

1. Findings and conclusions on risk perception regarding various investment products
2. Investment frequency for various product clusters and unauthorized investment options.
3. Findings and conclusions from the cluster analysis for the impact of information sources on investment decision making.
4. Findings about Investor awareness towards unauthorized schemes

Awareness towards Financial Planning And Financial Planners

1. Findings of investor awareness towards benefits of financial planning post retirement,

reasons for non-engagement in financial planning.

2. Findings and conclusions regarding financial advisors, frequency and duration of association with financial planner.

3. Opinion about planner selection, planner qualifications, factors influencing choice of planner compensation and services of financial planners

Problems Associated With Financial Planning.

1. Findings and conclusions of problems associated with financial planning.
2. Findings of prospects with financial planning profession.
3. Findings and conclusions from the cluster analysis for the problems associated with financial planning.

## 6. FINANCIAL PLANNING PRACTICES:

### Findings and Conclusions of Monthly Budget and Investment Provision:

As monthly budget is basis for investment and savings it is a reflection of investor attitude towards financial advisors and financial advice. The budget heads of expenditure reflect four groups by using Cluster analysis. Four groups consistent with Maslow theory were obtained. Group wise analysis of Expenditure pattern reflects following facts are presented below and association patterns are explained in part B

*1)* Four groups of expenditure heads described as below were obtained by cluster analysis

Group One: *Grocery and Clothing*

Group Two: *House Rent*

Group Three: *Bills, Entertainment, Investment*

Group Four: *Education, Fuel, Health care*

The budget heads were obtained according to decreasing order of importance by investors. It has been observed that highest preference was given to grocery and clothing and least preference was given by investors for budgetary provision for expenses on education, fuel and healthcare.

2) Majority of respondent (54.85%) do not conveyed any response on budgetary provision of investment.

3) None of the respondents communicated that their monthly budgeted expenditure on either bill, entertainment and investment is more than 15% of their gross monthly house hold income.

### Allocated budget expenditure heads and Demographics

a. It is found that in age groups 25-35, 35-45,45-55 and 55-65 family budgeted expenditure on grocery and clothing are associated with each other that is change in expenditure on grocery reflects change in expenditure on clothing. The percentage expenditure on house rent is negatively correlated with age that is more the age of respondent less is the expenditure on house rent.

b. In short it can be concluded that in few segments of population for given age group and fuel expense group expenditure on health and education are positively associated and in most of the segments it is not related.

c. Expenditure on grocery and clothing are associated in different occupation groups like government servants, private sector employees, businessman, labor, farmer and other occupation group.

d. It has been found that expenditure on grocery and clothing is not significant in self-employed, house wife and retired group respondents. This might be because they are not financially involved in incurring expenditure on grocery and clothing.

e. It is found that in different age groups house rent expenditure is almost same or house rent expenditure does not depend upon occupation.

f. In short in few occupation group respondents having lower provision for investment show positive association between expenses on bills and entertainment expenses.

g. In short it can be concluded that few occupation segments of population incurring less than 10% of their gross house hold income on fuel show positive association between expenses on health and expenses on education.

h. It is seen that in all gross monthly house hold income groups including respondents not giving any response to gross monthly household income show high degree of positive association between expenditure on clothing and expense on grocery.

i. It is seen that expenses on house rent is not at all associated with gross monthly house hold income of an individual.

j. In short it can be concluded that almost in all income groups showing different patterns of investment the association between bills expenditure and entertainment expenditure is either not associated or ill associated.

k. In short it can be concluded that in majority segment of various income groups a positive association between health and education expenses are found.

**Findings Related to Goal Setting by Investors:**

Since these two types of objectives have effect on investment decision and investment options, using factor analysis different future plans are factorized into three factors as follows.

Factor One: *Purchase of land, construction of house, purchase of land and* development of land; *this factor mainly deals with 'infrastructure development'. Factor Two:* Marriage and Education of self, near and dear ones; *this factor mainly deals with 'Human resource development'*

Factor Three: includes all other plans that are not included in the list.

Infrastructure development objectives when further subjected to factor analysis revealed two distinct sub factors as "Residential Infrastructure Development objectives" and "Commercial Infrastructure Development objectives". The findings related to each subgroup are presented below and findings related to association between various subgroups and demographics are presented in section B.

**Financial Planning Practices:**

As budgeting and goal setting are basic steps in financial planning equally important are daily financial management practices such as record keeping, estimating net worth and modus operandi decided by investors to achieve these goals. A detailed summary of findings regarding methods of record keeping and estimation of net worth are presented in this section.

1. Modus Operandi to achieve future goals

The result of factor analysis shows that priority wise factors and its contents give following factors

Factor One: *Cash Deal includes loans and savings*

Factor Two: *Real estate deal includes sale of plot or land*

Factor three: *Gold deal includes sale of gold*

One third of respondents adopt savings as a major tool to achieve future plans. The option of loan is expected to be practiced by only 8.71% respondents. The mixed strategy of loan and savings is preferred by 28.53% respondents. The observation in summary is consistent with the saving tradition of Indian culture.

**Methods of Recording Financial Transactions**

There are different approaches to keep track of such records. Six options were submitted to the respondents and these options are factorized into three factors on the basis of response. The recording method included in different factors on decreasingly importance level is as follows

Factor One Self-Memorization

Factor Two Diary, Computer, Mobile

Factor Three Calendar and Reminded by family members

47.09% respondents keep track of different transactions by self-memorization while 38.78% respondents use diary for the same. About 48.20% respondents have not given any response on the use of any of three methods for recording their financial transactions. Family members reminds about prospective transactions to 15.93% respondents whereas calendar becomes the source of reminder to 33.93% respondents. In general non response level is high which might because individuals are not well aware about the benefits of financial planning through keeping records.

**Association of Methods of Recordkeeping and Age**

From Chi square values shown in table 4.96 it is observed that diary and reminder by family members as methods of record keeping are independent of age groups where as other methods of recording financial transactions depend upon age group.

**Association of Methods of Recordkeeping and Occupation**

Chi square values shown in the table indicate that practice of simple memorization or to rely on memory for recording financial transactions is independent of occupation but other practices are occupation dependent.

**Association of Methods of Recordkeeping and Occupation**

The chi square analysis shows that simple memory and diary maintenance are equally common practices in all income groups whereas excising other practices varies from income level.

## 7. ESTIMATION OF NET WORTH

The question on evaluating net worth and its frequency was subjected in the questionnaire and summary of response shows that

a. 31.58% respondents evaluate total receivable and total payables on every month, 17.73% perform such a evaluation as and when necessary. The percentage respondents evaluating on six monthly basis who do such evaluation are 10.11%.

b. Even 1.66% and 1.39% respondents evaluate total receivables on monthly and total payables on quarterly basis respectively. Most importantly less than 1% respondents have not communicated any response to this question.

i) Association of Age and Evaluation Type

It is seen that individuals of all age groups evaluate both liabilities and assets. The result of Chi square test shows that evaluation method is not age dependent.

ii) Association of Occupation and Evaluation Type

It is seen that gross worth evaluation method is occupation dependent. In fact among government and private service, business, labor, farmer and retired occupation groups perform evaluation of both assets and liabilities where as a significant group of self-employed and other occupation groups do not carry out evaluation of gross worth.

## 8. PORTFOLIO SELECTION AND MANAGEMENT:

Findings and Conclusions of Risk Perception Regarding Various Investment Products

In the questionnaire awareness and risk level of 24 different investment options was subjected to the respondents. The risk level is classified as risky, less risky and non- risky. In order to get meaningful information from the responses of the respondents Factor Analysis is carried out. The result of factor analysis reveals that different investment options can be factorized into five different factors.

F1: *Government approved investment options or schemes*

F2: *Guaranteed Appreciation or sum assured investment options*

F3: *Valuables*

F4: *Risk prone investment*

F5: *Unauthorized schemes*

Group one includes 16 out of 24 investment options which means two third of investment options are included in factor one. For simplicity of understanding factor analysis of investment options in market linked schemes is further carried out. The results of this further give three sub factors

The sub factors extracted above are termed as follows

SF1: Market linked schemes

SF2: Traditional investment options

SF3: Cooperative schemes

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