TECHNIQUES FOLLOWED TO SUSTAIN ILL EFFECTS OF RECENT FINANCIAL CRISIS

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ABSTRACT

The financial crisis refers to 'the loss of confidence in a country`s currency or other financial effects causing international investors to withdraw their funds from the country'. Economists have offered theories about how financial crisis develop and how they could be prevented. Even then, financial crisis is still a pain staking phenomenon around the world. The present recession in the entire world is one such which occurred in the past. The industrially advanced countries are also now officially in recession, having had two consecutive quarters of negative growth in recent past. The impact of the financial crisis is also felt by the developing economies as well and is observed as slow down in the growth of various sectors. This leads to loss of job in both developed and developing countries. In America, one in four Americans did not have a job and its severity mounds up to one in ten. Thus, the recession this time around is global and almost every working person is feeling its impact. Not only jobs, but its repercussions are felt by every individual in terms of his savings and investments due to insecurity in job. Thus it becomes imperative to discuss and to provide guidelines in overcoming these deep losses in day to day livelihood. At first, it calls for changes in the investment and spending patterns, as well as some adjustment in the current life style, but these changes will pay off. These include repayment of loans, health Cover, Life insurance and Lifestyle change. Apart from this some simple strategies may be followed for the payment of insurance policies which includes skipping premium for 3year old policy, taking loan on policy to pay premium, convert it to a paid –up policy and change the payment option. The next strategy is to cut down the budgeting expenses which includes cut down on luxuries, shift to a smaller house , unlock value of fixed asset, altering the investment and savings by exiting from stock completely, reduce equity exposure to 10% and sell shares and buy index funds. The last strategy is to extend the tenure of the loans or convert it to a step-up loan and if the problem is not yet solved, the loans may be foreclosed and the asset may be sold out.

Index terms: Financial crisis, recession, insecurity

I. INTRODUCTION

International investors will have an urge to withdraw the invested amount if the country has its weakness in terms of financial effects or fall in currency value[1]. This is termed as financial crisis in terms of investors. Economists have offered theories about how financial backlog occur and given measures to overcome it. Two years ago in U.S international financial crisis occurred due to subprime mortgage. This leads to recession and global meltdown and found as "Global recession" which engulfed around the global economy with a varying degree of recessional impact. Some of the major impacts are recession in job availability, downsizing in the existing available staff, cutting down of perks and salary corrections[2]. Developing countries also get struck in the waves of this impact of financial downtrend. International Labour Organization estimated that if the global recession continues more than five crore people across the world would have lost their jobs[3]. In the present study discussions to overcome these ill effects and its impact on other financial sectors have been dealt here under.

II. NEED AND IMPORTANCE OF THE STUDY

Job insecurity is defined as the perceived stability and continuance of one's employment with an organization (Probst, 2003). There is nothing we can do except make the best of what we have. Surveys show that job carrier websites are reporting a perceptible rise in traffic, not just to find jobs but to look tips on recession proof jobs (education, healthcare, security, etc,). So it is necessary to study the various ways in which one could cope with job insecurity or even job loss, without the constant threat how to manage the finances.

III. MAJOR COMPONENTS TO SUSTAIN RECESSION

1. Repayment of loans
2. Health coverage
3. Life insurance
4. Change in current life style

3.1 Repayment of loans

The first step towards financial sanity is to draw a list of expenses, which includes all loans, bills and regular payments. Sort out these payments on the basis of priority, keeping the loans upfront[4]. This is because lenders are quick to react (especially during times like these) when faced with a delayed payment or a cheque that is dishonoured by a bank. If one cannot able to pay the EMI, nowadays banks are offering several repayment options. Using these options borrowers can reschedule their loans.

Be realistic when assessing the loan portfolio and repayment capacity. For that purpose answer the following questions in an honest manner. Whether the income loss is temporary? Whether he can able to get the job within three to four months? When is the next increment? etc., Even then if one is not able to manage better sell-off the asset[9].

3.2. Health coverage

Across the firms, job insecurity research was taken up and all the results indicated negative employee attitudes which tremendously affect the employees health[6]. It is good news that there are plenty of policies in trending to cover health. Medical insurance is not an unnecessary expense, when there is low fund as that become the right time for them and their family to consider taking medical cover. The logic is simple: Instead of managing to pay Rs. 1,00,000 or Rs. 1,50,000 in case of emergency in the hospital, it is better to pay the premium of say around of Rs.2000 to Rs.3000 for medical insurance .That's a small price to pay for his peace of mind for the rest of the year.

3.3. Life insurance

The next priority is insurance policies. If it is a ULIP and three installments have already been paid, then one can delay or even skip the paying the next .The value of the units accumulated over three years is normally enough to carryover paying premium for several years.

If it is traditional endowment or any such related plans, several premium-paying options are on anvil. Also unlike ULIPS, endowment and money-back policies could be restarted even after several years of missed payments. But many people think if they don't pay the premium and the policy lapses, it cannot be revived. If it is a term plan option, it has to be paid, when it is on due because if it lapses it cannot be revived[10].

3.4. Lifestyle changes

For over a year, carried how small saving over time can result in the creation of wealth is a well known fact. For example saving of Rs. 50/- a day can add upto Rs. 1,500/- a month. For this purpose, eating out with the family, four times in a month can be reduced to once a fortnight and save some amount. Make some small life-style sacrifices. To repeat acliche, little drops of water make a mighty ocean.

IV. STRATEGIES FOLLOWED TO TIDE OVER THIS FINANCIAL TSUNAMI

4.1 Insurance policies

Traditional insurance plans offer several options to policyholders if they are facing a liquidity crunch and if they cannot pay the premium[5].

Strategy-1: Skip premium for three year old policy.

The impact is that the life cover will stop but policy can be reviewed by paying penalty.

Strategy-2 :Take loan on policy to pay premium

LIC lends loans @ 9%p.a. on their policies. Other insurers also offer this option. The impact is Life Insurance cover continues.

*Strategy- 3:*Change the payment option

If the policy holder is unable to pay in a lump-sum, switch to monthly or quarterly payment.

4.2 Budgeting expenses

While budgeting the family expenses follow the following strategies:

Strategy-1: Cut down luxuries

Cut down on eating out at expensive malls. Don't go for big brands. Join a car pool. This reduces the unnecessary wastage of income to a larger extent.

Strategy-2: Shift to a smaller house

By shifting from a 3-bed room to a modest 2-bed room flat one can cut the rental cost by almost half. While choosing a house, location is crucial. If the new area is far flung, the gains from lower rent may be offset by higher cost of travel.

*Strategy- 3:*Unlock value of fixed assets

Get credit against a house or car can help to come out from the crunch. Such loan is cheaper and more convenient[7].

4.3 Investments and savings

Still, if there is uncertainty about the future income, the first step should be to reduce the risk in one's investment portfolio and focus instead on capital protection.

Strategy-1: Exit from stock completely

It eliminates risk in the portfolio. In case of job-loss stick to risk –free deposits to protect capital. Selling the shares when markets are high results in gain.

*Stratagy-2:*Sell shares, buy index funds

Index funds are less risky than individual stocks or regular mutual funds because this reduces unwanted tensions mounding up when invested in small cap and penny stocks[8].

4.4 Loans and EMI'S

If the EMI is very high and if the income is very less it is much wiser to sell the property, rather than travelling in a sinking ship.

Strategy-1: Extend the tenure of the loan.

It will reduce the burden by reducing the home loan EMI even if the interest paid is slightly higher.

Strategy-2: Foreclose loan and sell the assert.

It eases the liquidity crunch of the borrower. Proceeds from the sale can be used to repay debts and may be used for living expenses.

V. CONCLUSION

No doubt that job insecurity has been one of the major burning issues of the 21st century. Greek philosopher **Epictetus** rightly pointed out "people are disturbed not by things but by their perception of things". We need to change our perception and attitudes towards financial security. Only then we could rise up to a state of mental peace and harmony.

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