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Group Assignment 1

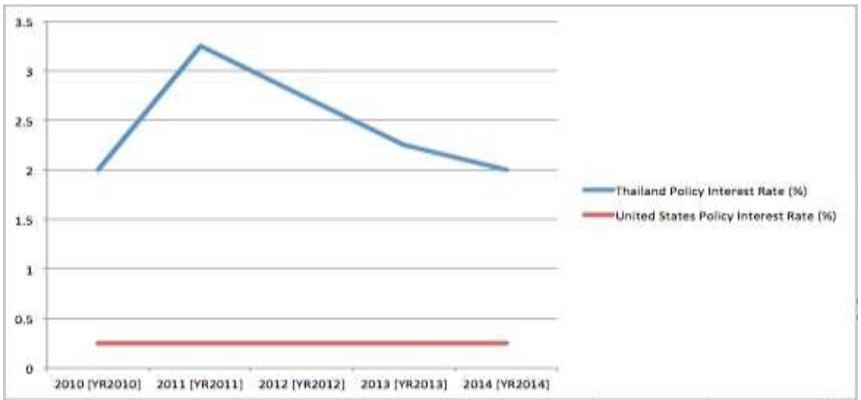
<u>Question1:</u> Research current economic conditions (interest rates, inflation) using *The Wall Street Journal*, other library resources, or the World Wide Web. Based on current economic conditions, what actions would you recommend to people who are saving and borrowing money?

United States and Thai Economic Current situations

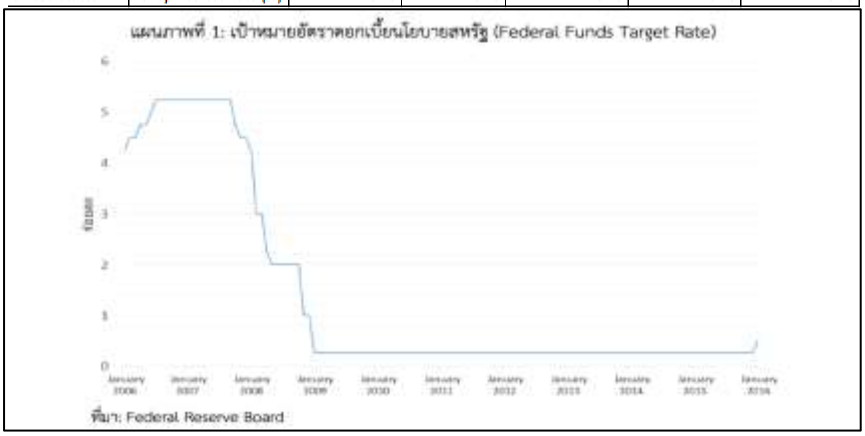
Although the central bank’s main objective is to stimulate growth and to maintain interest rate and inflation level, the goal cannot be achieved easily since in the reality, there are many economic variables that have to be considered. To determine what financial actions the people should take, they must take economic conditions which are interest rate and inflation at one particular time into account.

Beginning with policy rate, it is used to control the inflation rate and help stimulate economy. Theoretically, the increase in policy interest rate can help reducing the inflation rate while slowing down the economy. This because when the policy interest rate rises, it means the cost of investing rises leading to less amount of loans the commercial bank can provide. This brings to less consumption, investment and saving. Hence, it indicates the downturn of economic conditions. On the other hand, the decrease in the policy interest rate can bring higher inflation rate while can help stimulate the economy. This is because it means the cost of investing less leading to higher amount of loans the commercial bank can provide. This oppositely can bring higher consumption, investment and saving. It indicates the upturn of economic conditions. However, the increase or decrease in the policy requires a period of time in order to adjust and to bring safer and sound economy. The increase or decrease in policy interest rate from the central bank can be used as one of indicators to measure the economic condition.

According to the Federal Fund Target Rate in the US, the country tends to keep the policy rate to be low until reaching around 0-0.25%. However, in 2016, the adjustment tends to go up this is because the governement believe in higher labor force and better economic condition while they predict that the inflation rate will be 2%. The increase in US policy interest rate can affect Thailand in many aspects.



Country Name	Series Name	2010 [YR2010]	2011 [YR2011]	2012 [YR2012]	2013 [YR2013]	2014 [YR2014]
Thailand	Policy Interest Rate (%)	2	3.25	2.75	2.25	2
United States	Policy Interest Rate (%)	0.25	0.25	0.25	0.25	0.25



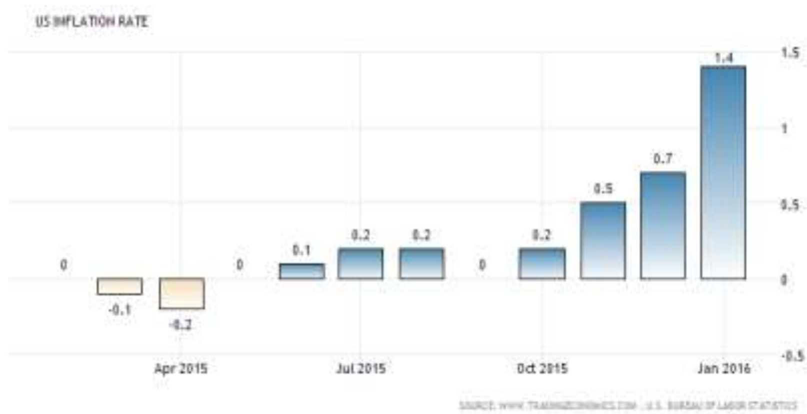
แผนภาพที่ 2 : อัตราดอกเบี้ยนโยบาย

ที่มา : ธนาคารแห่งประเทศไทย

Since, in Thailand, the policy rate tends not to change to go up, the rise in the rate of US rate can be relatively higher than in Thai rate. This gives incentive to more investors to invest in US more.

However, in Thailand, the policy rate trend tends to be downward during the recent years periods. The policy interest rate has been dropping. This trend suggesting that Thai people should plan to borrow more and save less since the return is lower relatively to US and to the previous years itself. This implies that opportunity cost or the cost of borrowing will become lower. Borrowers will be beneficial while savers are likely to be less beneficial.

After analysis of the policy interest rate, another important indicator for the economic condition is the inflation rate. The meaning of inflation in economic context is the reduction in the value of money; with the same amount of money, you can buy the less of goods. The obvious signs of the inflation are higher price of products, higher cost of services and higher salaries which actually cause the decline in purchasing power due to the oversupply of money in the system. People will demand more goods and services and increase borrowing to finance those purchases. Moreover, people will decrease their saving if the inflation keeping increase according to the high inflation would decrease the purcahsing power. So, parking their money in the financial institution or save it is not likely to safeguard the value of money. It would seem that the low inflation rate would good for consumers as the price or cost of living doesn't higher but actually, too low inflation rate also lead to the uncertainty and deflation which are not good for the economy. So, the inflation rate shouldn't be too high but lie on the constant rate which higher than zero.



Country Name	Country Code	Series Name	2010 [YR2010]	2011 [YR2011]	2012 [YR2012]	2013 [YR2013]	2014 [YR2014]
World	WLD	Inflation, consumer prices (annual %)	3.480507637	4.90547588	3.712867206	2.655488016	2.510876333
Thailand	THA	Inflation, consumer prices (annual %)	3.272220008	3.808790581	3.014899503	2.184886185	1.895141819

Whether inflation is high or low, there is no guarantee that it will keep stable. Therefore, there is always some uncertainty. To lower the uncertainty, FED has set the target inflation rate of a steady of 2% but it has not always reach the target as there are various factors that play an important role to the economy. In addition, the rate of inflation can reflect the economy of country. The high level of inflation can implies that the economy tends to growing up while the low level of inflation implies to the slow growth of economy.

According to the current inflation data above, the inflation rate of Thailand and US's inflation go to the same direction which is the decreasing trend. The decrease of Thailand's inflation rate in the period of 2011 to 2014 is resulting from the declining in oil price and household spending which resulted in lower prices for oil-related products and crops but the economy doesn't not yet in deflation. At the same time, many countries are also experienced with the low inflation rate due to the slow economic growth and the lower in crude oil prices. Nowadays, The rate of inflation run below the Fed's 2% goal more than 2 years according to the variety of factors and the reasons above. This time is likely to be good for the shoppers as the decrease in prices of crude oil drive the prices of other products decrease, people enjoy the cheaper products. This current situation that the world is facing the low inflation rate causing the prices are either stable or falling, people would have more disposable income or it means that their income become more valuable so, they will borrow less. When the demand for loans decrease, the lender would offer the lower interest rate which means the cost of borrowing become lower. For the savers side, they need to be aware of the rate of return on saving account which the rate can turn to be unfavourable comparing to the previous year. Lastly, the inflation trend of thailand increase from -0.2% to 0.59% between April 2015 to January 2016 which implies to the higher growth of economy while the inflation trend in US continue decrease and it is the sign of economic down turn.

<u>Question2:</u> Collect advertisements and promotional information from several financial institutions, or locate the Web sites of financial institutions. Create a list of factors that a person might consider when comparing costs and benefits of various savings plans.

Due to substantial increase in uncertainties nowadays, everyone is trying to find something that can provide the sense of secureness not only for themselves but also their love ones. This has created an incentive for financial industry to grab this business opportunity by providing varieties of financial products that are appropriated to the needs of consumers.

However, criteria in choosing the right option are different among persons. Some people put more concern on an investment return as they are willing to have higher purchasing power in order to exploit in whatever they want. While some people care more on standard living of their lovers so they try to find the most proper way to secure maintain well beings no matter what may happen in the future. *Therefore, the summary can be that even almost the same set of determinants that affects costs and benefits of the saving plan but the impacts of each one is diversely, depending on their preferences.*

In this case, we assume that we would like to examine the decision process of Mr.Somsak with 35 years old and will die at the age of 80. He is married and has two little kids. We make this assumption in order to calculate the return on investment in an insurance. The reason that we use the age of 35 is that it is an appropriate age for working man to start planning to his saving plan since he now has many issues to concern such as a large amount of children's education expenditure or the family's financial position if something accidentally happens to the main income gainer. Moreover, the megatrend now in Thailand is that the number of aging population tends to rapidly increase so that the government subsidiary could not support a large amount of burden or post-retirement fund as well as a decline in workforce and fertility rate, Thus, current laborers or future retirees tend to focus more on saving planning in order to guarantee their standard of livings in the long term.

Three popular options that most people perceive to be great choices to invest for saving are *banking deposit, fund, and insurance commitment.* One reason why these three financial products are widely used is because they are quite not complicated to understand compared to other assets like stocks and derivatives. Even funds that sound to be quite technical but the fund managers are actually the one who responds to which asset should be purchased. Thus, in this case, we will mostly focus on these three assets provided by financial institutions for the saving plan.

I. Bank Deposit

In the part of bank deposit,we have seen several promotional information and type of many account in banks. We are interested in these three option, which are

1. Bangkok bank Sinmathaya Subthawee Account

Terms and conditions:

- You can open a Sinmathaya Subthawee Deposit Account for a 24-month,36-month ,48-month, or 60-month term.
- The monthly deposit must be at least 1,000Bt and not exceed 25,000Bt. The total amount must not exceed 600,000Bt.
- Receive tax-free interest if you complete the full deposit term
- Make regular deposits at a branch or via ATM, CDM, Bualuang Phone, Bualuang iBanking, Bualuang mBanking, or Standing Order Service
- You need to make your deposit no later than the last working day of the month.
- If you miss more than two deposits, you will lose the tax benefits of this account, but you are still eligible for the interest rate according to terms and conditions.
- If more than four deposits are missed, your account will be closed. The tax benefits of this account will be lost and the interest rate will revert to 60% of the interest rate according to the terms and conditions.
- If a withdrawal is made prior to the maturity of the account, your account will be closed. The tax benefits of this account will be lost and the interest rate will revert to 60% of the interest rate according to the terms and conditions.

Sinmathaya Subthawee Interest Rates(%)	
24-month term	2.25
36-month term	2.50
48-month term	2.50
60-month term	2.50

2. LH Bank Tax free account

Terms and conditions:

- Option to pick fixed monthly savings amount that is right for you.
- Deposit principal available for planned usage within next 24 or 36 months.
- Only Baht 1,000 opening balance with up to Baht 25,000 monthly savings (for 24-month time deposits) and up to Baht 16,500 monthly savings (for 36-month time deposits) - the savings need to be in equal amount every month.
- Higher interest rates than regular 12-month time deposits.
  - Tax Free Saving - LH Bank Smart Kids (24 month time deposits)
  Get 12-month fixed deposit rate at lower limit+ 0.75% Interest Rate
  - Tax Free Saving - Taveeka(36 month time deposits)
  Get 12-month fixed deposit rate at lower limit+ 1.25% Interest Rate
- Granted tax-exempt interest when due.
- All sum up of savings for investment or cost targets at maturity of 24 months or 36 months.
- Eligible collateral for credit and letter of guarantee applications.
- Eligible evidence for certified bank letter issuances.

Tax Free Account Interest Rates(%)	
LH Bank Smart Kids (24-month time deposits)	1.8%+0.75% = 2.55%

Taveeka (36-month time deposits)	1.8%+1.25% = 3.05%

*suppose that current 12-month fixed deposit rate is 1.8%

3. Tisco bank Tax free deposits

Terms and conditions:

- Term deposit with tax free benefit and higher return. Recurring deposit per month starts from 2,000 baht up to 16,500 baht for 36 month-term or 5,000 baht up to 25,000 baht for 24-month term.
- The savings need to be in equal amount every month and does not miss more than 2 deposits.
- If a withdrawal is made prior to the maturity of the account, your account will be closed. The tax benefits of this account will be lost and the interest rate will be 0.5% per year

Tax free deposit interest rate(%)	
24-month term	2.25
36-month term	2.50

According to the deposit rate,We suppose mr.Somsak would plan to deposit to the account that is 24-months time deposits. We can see that the deposit rate on account from LH Bank option yields the highest deposit rate of 2.55% while others provide the approximately 2.25%. However, we can not conclude that the first option is the best option among deposit option choices because the rate of return is not the only factor that affect the cost and benefit of the decision. Other factors need to be take into account as well.

1.Minimum and Maximum deposit and balance requirement

The monthly deposit of these three bank required different minimum and maximum deposit. Bangkok bank and LH bank are also start at 1,000 baht and not exceed 25,000 baht for 24-month terms but Tisco bank start up at 2,000 baht. Therefore,If some people have not constant income, like they can not pay to much amount,they may choose other option that no required minimum or maximum deposit.

2.The penalties of account

In the fixed deposit account,they may have to pay the penaties if they want to take out their savings early.Example,The Tisco bank tax free account,If they withdraw their money early,the tax benefits of their account will be lost and the interest rate will be 0.5% per year.

3.Tax benefit

For these three account,They will granted tax-exempt interest if they compete full deposits term

4.Monthly term

In the fixed deposit account,they will have option for how long that you have to pay monthly deposit.These three choice also have various terms to choose such 12-month , 24-month , 36-month so that they can choose and plan their saving for flexibility.

5.E-banking and Transaction fees

For many deposit accounts,Banks may have the transaction fees so we should consider about fees and the bank also have E-banking or other that make customer comfortable and convenient so the people can choose account that be suitable for them

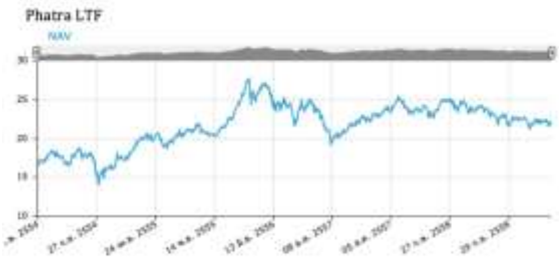
II. Fund

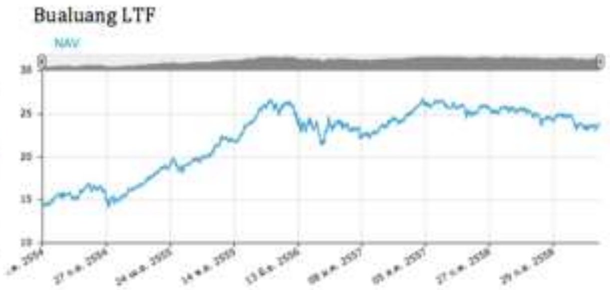
Financial instruments are one of the most effective saving plans. Fund is a form of money that is made for a specific purpose in order to help the money grow. There are many factors that influence people to save their money at this financial instrument. Let's emphasize on the top three performance of the long-term LTF funds: Phatra LTF, MFC LTF, and Bualuang LTF.

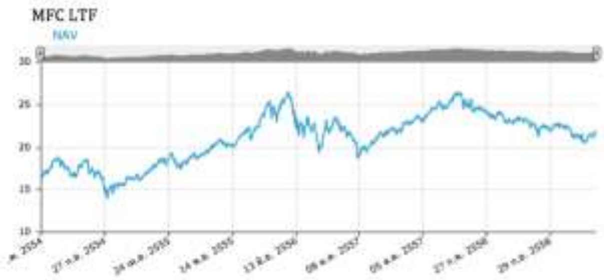
1. **RETURN:** The first of the factors that investors consider in comparing cost and benefits in investing in fund is return. It is an important factor, in which people consider this factor the most. The higher return investors will get, the higher risk investors will have to bear.

However, if investors are likely to hold safer funds, they will need to accept the lower return. Moreover, long-term funds will also generate higher return. Consider the 5-year LTF funds, Phatra LTF yields approximately 12.03%, MFC LTF yields 10.19%, and Bualuang LTF yields 10.95%.

2. **RISK:** Risk is one of the factors that people take into a consideration in cost and benefit when invest in funds. Risk is varied in each fund and also has its own characteristics. Investors who invest in LTF fund are likely to face credit risk, which is the risk that arises from borrower failing in paying required payment. Market risk is the risk that depends on the price in the market. Business risk is a risk that the fund may anticipate the lower profit. Other than risk, let's focus on volatility of the historical trend, Bualuang LTF fund is likely to be favored by risk-averse investors since the trend (looking from NAV) is less likely to be fluctuated while Phatra LTF is the most volatile fund, compared with the other two.







3. **LIQUIDITY:** Liquidity is the ability of each asset that is to be converted into cash. Investors who are less likely for the use of money urgently or in the short-run period should consider to save in LTF funds since it is the long term investment. LTF has low liquidity since investors are not able to cash out the money for the certain period. However, if investors are in need for the use of money, they should invest in high liquidity funds such as stocks or equity funds, which can be traded and converted easily in the market.
4. **ECONOMIC CONDITION:** Economic Condition is a factor the affects the funds since funds are invested in equity in Thailand, debentures, deposits, and assets & liabilities. These instruments are likely to volatile depend on the economy. Different sectors that LTF funds are invested in fluctuate through the economy cycle differently. For example, if the economy grows rapidly, investors would yield a higher return. However, if the economy is in the downtrend, investors should invest in less risky assets such as bonds or treasury bills.

III. Insurance Policy

After we have observed several advertisements and promotional information of many insurance companies. We are interested in these three options, which are

1. <u>AIA Link Regular Premium (Unit Linked)</u>

*eturn (IRR) on the Insurance Investment **

Sum Insured = 1,000,000 THB **IRR = 7.96468%**

Age	Year	Payments	Discount Factor	PV	Year	Returns	Tax Benefits	Fees	Invested Capital	Return from fund	Expected Market Value of Insurance portfolio(NAV)	Discount Factor	PV	NV
35	0	24,000	1	24,000.00	0	-	29,000	1,287	22,713	7.80%	24,484.45	1	2,900.00	(21,100.00)
36	1	24,000	1.086295	22,093.44	1	-	29,000	1,287	22,713	7.80%	50,878.94	1.08629508	2,669.62	(21,100.00)
37	2	24,000	1.180037	20,338.35	2	-	29,000	1,287	22,713	7.80%	79,332.46	1.18003701	2,457.55	(21,100.00)
38	3	24,000	1.281868	18,722.67	3	-	29,000	1,287	22,713	7.80%	110,005.64	1.2818684	2,262.32	(21,100.00)
39	4	24,000	1.392487	17,235.35	4	-	29,000	1,287	22,713	7.80%	143,071.63	1.39248734	2,082.60	(21,100.00)
40	5	24,000	1.512652	15,866.17	5	-	29,000	1,300	22,700	7.80%	178,703.90	1.51265215	1,917.16	(21,100.00)
41	6	24,000	1.643187	14,605.77	6	-	29,000	1,300	22,700	7.80%	217,115.85	1.6431866	1,764.86	(21,100.00)
42	7	24,000	1.784986	13,445.49	7	-	29,000	1,300	22,700	7.80%	258,524.32	1.78498552	1,624.66	(21,100.00)
43	8	24,000	1.939021	12,377.38	8	-	29,000	1,300	22,700	7.80%	303,163.06	1.93902099	1,495.60	(21,100.00)
44	9	24,000	2.106349	11,394.12	9	-	29,000	1,300	22,700	7.80%	351,284.07	2.10634897	1,376.79	(21,100.00)
45	10	24,000	2.288117	10,488.98	10	480	29,000	1,300	22,700	7.80%	403,159.00	2.28811653	1,477.20	(20,620.00)
46	11	24,000	2.48557	9,655.73	11	480	29,000	1,300	22,700	7.80%	459,080.69	2.48556974	1,359.85	(20,620.00)
47	12	24,000	2.700062	8,888.68	12	480	29,000	1,300	22,700	7.80%	519,364.83	2.70006219	1,251.82	(20,620.00)
								.....						
75	40	24,000	27.41022	875.59	40	1,320	29,000	1,878	22,122	7.80%	6,499,535.17	27.4102222	153.96	(19,780.00)
76	41	24,000	29.77559	806.03	41	1,320	29,000	1,878	22,122	7.80%	7,090,411.13	29.7755896	141.73	(19,780.00)
77	42	24,000	32.34508	742.00	42	1,320	29,000	1,878	22,122	7.80%	7,602,700.72	32.3450766	130.47	(19,780.00)
78	43	24,000	35.1363	683.05	43	1,320	29,000	1,878	22,122	7.80%	8,219,634.63	35.1362977	120.10	(19,780.00)
79	44	24,000	38.16839	628.79	44	1,320	29,000	1,878	22,122	7.80%	8,884,695.55	38.1683874	110.56	(19,780.00)
80	45		41.46213	-	45	10,577,791		-	-	7.80%	9,577,790.64	41.4621316	255,119.32	10,577,790.64
Total				294,828.96									294,828.96	

2. <u>PRUwhole Life 99/10</u>

*The calculation for Internal Rate of Return (IRR) on the Insurance Investment **
**Based on the assumption stated above)*

Payment 10 years		Sum insured	1,000,000
		i	3.79%
Year(end)	Payment	Discount	PV
0	25000	1	25000
1	25000	1.03794703	24086.01
2	25000	1.07733403	23205.43
3	25000	1.11821565	22357.05
4	25000	1.16064861	21539.68
5	25000	1.20469177	20752.2
6	25000	1.25040624	19993.5
7	25000	1.29785544	19262.55
8	25000	1.34710519	18558.31
9	25000	1.39822383	17879.83
Total	250000		212634.6

Year(end)	Return	Tax Benefits	Discount F	PV	NV	IRR
0	0	3000	1	3000	-22000	3.79%
1	0	3000	1.037947	2890.321	-22000	
2	0	3000	1.077334	2784.652	-22000	
3	0	3000	1.118216	2682.846	-22000	
4	0	3000	1.160649	2584.762	-22000	
5	0	3000	1.204692	2490.264	-22000	
6	0	3000	1.250406	2399.22	-22000	
7	0	3000	1.297855	2311.506	-22000	
8	0	3000	1.347105	2226.998	-22000	
9	0	3000	1.398224	2145.579	-22000	
10	0		1.451282	0	0	
11	0		1.506354	0	0	
12	0		1.563516	0	0	
13	0		1.622847	0	0	
14	0		1.684429	0	0	
15	0		1.748348	0	0	
		...				
40	0		4.436164	0	0	
41	0		4.604503	0	0	
42	0		4.77923	0	0	
43	0		4.960588	0	0	
44	0		5.148827	0	0	
45	1,000,000		5.34421	187118.4	1000000	
Total				212634.6	780000	

3. I-Sabai 90/55

*The calculation for Internal Rate of Return (IRR) on the Insurance Investment **
**Based on the assumption stated above)*

Payment 20 years		Sum insure	1,000,000
		i	3.24%
Year(end)	Payment	Discount	PV
0	105150	1	105150
1	105150	1.032447	101845.4
2	105150	1.065947	98644.66
3	105150	1.100534	95544.51
4	105150	1.136243	92541.79
5	105150	1.173111	89633.43
6	105150	1.211176	86816.48
7	105150	1.250475	84088.06
8	105150	1.291049	81445.38
9	105150	1.33294	78885.76
10	105150	1.37619	76406.58
11	105150	1.420844	74005.32
12	105150	1.466946	71679.52
13	105150	1.514545	69426.81
14	105150	1.563687	67244.9
15	105150	1.614425	65131.57
16	105150	1.666808	63084.65
17	105150	1.720891	61102.06
18	105150	1.776729	59181.77
19	105150	1.834379	57321.84
Total	2103000		1579180

Year(end)	Return	Tax Benefits	Discount	PV	NV	IRR
0	0	10500	1	10500	-94650	3.24%
1	0	10500	1.03245	10170.01	-94650	
2	0	10500	1.06595	9850.394	-94650	
3	0	10500	1.10053	9540.821	-94650	
4	0	10500	1.13624	9240.977	-94650	
5	0	10500	1.17311	8950.557	-94650	
6	0	10500	1.21118	8669.263	-94650	
7	0	10500	1.25047	8396.81	-94650	
8	0	10500	1.29105	8132.92	-94650	
9	0	10500	1.33294	7877.323	-94650	
10	0	10500	1.37619	7629.759	-94650	
11	0	10500	1.42084	7389.975	-94650	
12	0	10500	1.46695	7157.726	-94650	
13	0	10500	1.51454	6932.777	-94650	
14	0	10500	1.56369	6714.898	-94650	
15	0	10500	1.61442	6503.865	-94650	
16	0	10500	1.66681	6299.465	-94650	
17	0	10500	1.72089	6101.489	-94650	
18	0	10500	1.77673	5909.735	-94650	
19	0	10500	1.83438	5724.007	-94650	
20	150,000		1.8939	79201.65	150,000	
21	150,000		1.95535	76712.55	150,000	
22	150,000		2.0188	74301.67	150,000	
23	150,000		2.0843	71966.55	150,000	
		...				
41	150,000		3.70324	40505.07	150000	
42	150,000		3.8234	39232.1	150000	
43	150,000		3.94746	37999.13	150000	
44	150,000		4.07554	36804.92	150000	
45	150,000		4.20778	35648.23	150000	
Total				1579180	2007000	

According to the IRR calculation, we can see that the IRR on investment from AIA option yields the highest return of 7.96% while others provide the rate approximately 3%. However, we can not conclude that the first option is the best option among insurance choices because the rate of return is not the only factor that affect the cost and benefit of the decision. Other factors need to be take into account as well.

1. Initial Investment requirement

These three choices require different initial investment or different amount of sum insured. For AIA, there is no minimum fund but the rest need at least 100,000 baht in order to be able to purchase the insurance. However, the amount does not be paid all at the first but paid periodically. Therefore, if some people have a constraint in available fund, like they are not willing to save for that much amount to earn that large amount of future income, they may choose more flexible option of no minimum investment.

2. Tax Benefit

An investment in insurance can benefit the holders by providing tax reduction unlike other financial assets. It may seem to be very attractive but the decision maker must carefully compare between the advantage and the disadvantage of buying the insurance. If it still provides the buyer positive benefit, it may be a good choice for saving plan and vice versa.

3. Flexibility of the option

Some insurance options allow the holders to adjust the condition of the insurance policy by themselves in order to best fit lifestyles and needs. For example, the Unit Linked provided by AIA allows the purchaser to choose the amount of payment by themselves (in accepted range) as well as be able to add/withdraw some money into/from the initial investment through a holding period. Moreover, the insurance holders are able to choose which fund they are willing to invest their money in since this AIA insurance is linked to an investment in funds as well in order to yield the customers higher return than normal alternatives. Although the these adjustments may seem to fully benefit the holders but, still, a careful is required. The longer period of payment also means the longer period of burden that the buyer need to pay to the contracted company. The larger amount of money that the holder withdraws from an investment, the lesser portion is used to invest in the fund.

4. Living Standards

Since most of people do not live alone, they have families, partners, and relatives. Thus, their decisions usually do not focus solely on their needs but also their loved ones. The insurance policy can answer this need by providing the compensation in the stated amount to their beneficiaries if the holder dies. This does not only alleviate the problem of income shock but also secure the family's financial position as well since quite large lump sum amount will be pay back to them. However, if the buyers are still alive until the end of the contracted time horizon, the sum insured will be paid back to the insurance buyers so they will have financial secureness after the retirement.

5. Financial Aids as well as other facilities

An advantage of return from an investment is just an additional benefit, but the main purpose of having life insurance is to help you with the expenditure on health related issues and alleviate the problem of large burden. Although people normally save some portion of their incomes to use for unexpected payments, but usually the amount is not that large, Thus, when any unplanned events happen in life, most of people normally face huge problems. Health is one main concern and the spending on this issue is diversely distributed from only little to substantial large amount, which may lead your family into financial trouble. However, this problem can be partially prevented by the life insurance since some of the expenditure on health problems (or sometimes full amount) are in the responsibility of the insurance companies as a return for premium payment. At least, the holders are somehow being aided by the insurance firms if something happened to them and they are required to pay for health related issues, which are normally large or require payments more than one time for chronic diseases.