



Lessons from 2008 crisis to weather covid-19 storm

These precarious times can help you realize how savings can come to your rescue

Dealing with one recession does prepare you emotionally and financially for another one to a certain extent

A report by the ministry of labour and employment states that about half a million people in India lost their jobs between October and December 2008 because of the global financial crisis. But Kolkata-based Chandan Kumar Modi, who'd started working in 2008, faced the real consequences of the crisis in 2009. He worked in the sales and development department of an IT firm, but was asked to leave within a year because he was unable to secure any deals. "To recapitulate, the job and all the pressure impacted my physical and mental health," said Modi, 35, an IT professional. It took Modi about six months to get another job and even that came with a 50% pay cut. Since he'd been working only for a year, he didn't have enough savings to fall back on. It took him two years to recover from the 2008 crisis.

Though Modi does fear another job loss in the current situation, he has sufficient savings this time around to weather the storm. "My wife works too, so from a financial point of view we are better equipped and can survive a couple of months in case of extreme circumstances," he added. The ongoing slowdown has pushed Modi to rework his priorities. His long-term investments have taken a backseat and the focus is now on ensuring that there's enough liquidity to sail through the next few months.

In a way, the crisis early on in his career helped him take a different view of his money life. One of the major takeaways was saving aggressively. He opened a Public Provident Fund (PPF) account and started investing through [mutual funds](#) once he was back on track after the 2009 crisis. He also invested in real estate for diversification. Another lesson for him was to invest in learning an additional skill.

2008 Vs NOW

Covid-19 has brought the world to a standstill and though the ramifications of the crisis could be similar to the 2008 recession, the scale of the impact is still not quantifiable. "What we witnessed in 2008 was a liquidity problem and what we see today is an insolvency problem. Zero revenues yet full cost. We haven't experienced anything in the past, which could have remotely prepared us for the current pandemic," said Rituparna Chakraborty, co-founder and executive vice-president, TeamLease, an HR solutions provider. "Therefore, it's difficult to model covid's impact on unemployment and its tenure."

However, a survey conducted by the Centre for Monitoring Indian Economy (CMIE) shows that India's unemployment rate rose to 24.48% as of 5 May 2020, from 8.7% in March. For many Indians working abroad, the 2008 crisis meant losing jobs and getting back home. Mufazzal Arif, now 43, too was taken aback when one afternoon he was informed that it was his last day in his California-based company. The job loss came at a time when he and his wife were expecting their first child. Though he managed to find another job in the next 30 days (in Mumbai), it came with a deep pay cut. "To ensure our financial life doesn't go off track we restricted our expenses to the bare minimum and directed our savings towards better financial planning. But it took us five years to recover from the setback," said Arif, a banking analytics professional.

The ongoing crisis is mind-numbing but Arif feels he is better prepared now. But given the market volatility, his goals have taken a considerable hit. "Our investments have dipped drastically and our short-term goals which we wanted to achieve within the next five years have been postponed indefinitely," he added.

The 2008 crisis helped Arif realize the importance of building a contingency fund. He started following a budget. Levying luxury tax on himself was another habit he inculcated. If he splurged in a particular month, he covered up for it in the next by restricting his spends.

Deepali Sen, founder partner, Srujan Financial Advisers, said it's difficult to compare the ongoing crisis with the 2008 recession, as there's great uncertainty with no light at the end of the tunnel. "I think it will take five to six months for the economy to show signs of recovery," said Sen. "If there's one thing that's common between 2008 and 2020, it is the lack of market confidence in [debt funds](#)."

MONEY STRATEGIES

A Mumbai-based financial services professional, who didn't want to be named, took over a year to find another job after being laid off in 2008. Due to the lack of options, the 35-year-old was open to opportunities in other areas such as tutoring students as well. However, nothing materialized. He had to cut down on his expenses drastically for a year and depend on his family for financial support until he found another job. Yet it took him about four years to fully recover from the fallout of recession. With more responsibilities now, he feels he may not be completely prepared to face another job loss.

His biggest learning from the 2008 crisis was to build an emergency corpus. Though he managed to save three months of expenses, he fears it may take him longer to recover in case he indeed loses his job. He, however, has health and life [insurance](#) policies with adequate cover. For investments, the one rule that he follows is listening to everyone but deciding based on his own analysis. *Mint* recommends consulting a financial planner if you are overwhelmed with how to go about investing.

Sen said her clients who faced the 2008 recession are not panicking as much about the ongoing crisis. "Investors are continuing with investments, especially in equities. I think their past experience with market volatility is helping them remain calm this time around," she said.

Financial planners said the 2008 crisis taught people a few key lessons. First, to build an emergency corpus. This is often neglected until one faces a serious liquidity crunch. Second, having an independent health insurance policy. "Depending on the employer-provided policy is a mistake people realize only after they lose their jobs," said Vishal Dhawan, certified financial planner and founder, PlanAhead Wealth Advisors. Third, to never cross the limit when it comes to liabilities. Make sure EMIs don't exceed one-third of your net income. Fourth, keep away from high-cost debt such as personal loans and credit cards. Fifth, keep a check on your lifestyle expenses. "Controlling lifestyle inflation through careful rational decisions on upgrades supported by appropriate increase in income is important," said Dhawan. And finally, disciplined investing to ensure you invest systematically towards long- and short-term goals.

ACT WITH CAUTION

Chakraborty said there is always an upside to having gone through a crisis, which threatens livelihood, and learning to save for a bad day is just one of the many realizations. "A lavish lifestyle makes it difficult for people to deal with financial uncertainty because it hits them like a meteor," she said. "Another byproduct of witnessing a crisis is embracing up-skilling in a big way and having a flexible outlook towards employment."

While dealing with one recession does prepare you emotionally and financially for another one to a certain extent, it's always advisable to take precaution and not be over-confident. Human memory is short-lived but that doesn't mean you forget how a crisis can dent your financial life. "Even if you feel you've provisioned for a rainy day, now is not the time to be greedy and go overboard with anything. Save as much as you can especially if you're in an industry that's vulnerable to job cuts," said Melvin Joseph, founder, Finvin Financial Planners.

It's precarious times like these that help you understand how loans and outlandish lifestyles can hurt, whereas savings and investments can come to your rescue.