



# How Risk & Protection Planning Fits into Financial Planning

When it comes to financial planning, safe-guarding your hard-earned wealth is just as important as building and accumulating wealth.

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**H**aving a comprehensive financial plan is undoubtedly very important in a person's life. It helps the person to have a clear and precise understanding on their own current financial position and assists them to map the way to achieve their financial

life goals and objectives. There are many important components that make up a financial plan and risk management is one that cannot be neglected.

When discussing about achieving financial goals and objectives, most people will focus on the tasks of building

and accumulating wealth. Some are able to achieve them through saving and capital appreciation via investment planning in properties, shares and bonds, and futures and options. However, they may overlook the importance of safe guarding their hard-earned wealth, which is risk management.



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### PREPARING FOR LIFE'S EMERGENCIES

For example, Mr. A, age 40, worked hard his whole life to achieve his financial goals. One of his goals is to pay off his home mortgage before the age of 50. Mr. A is unfortunately diagnosed with a critical illness and in need of specialist medical attention. Without any proper risk management or protection plan, Mr. A has no choice but to prematurely liquidate his investments, assets or other resources to pay for his treatments. This in itself will lead him in utilising his income which could have a direct impact on the family's cash flow.

Let's take a look at another scenario; a dual-income household where the husband takes care of home mortgage and car loans, and the wife takes care of household expenses. They have decided to have risk coverage for the husband in terms of income protection, life insurance, and personal accident. But, they did not have risk protection for the wife. In the unfortunate event if the wife is not able to work (could be due to illnesses, accidents, or death), her medical expenses, hospitalisation expenses, specialist treatment

expenses which is not covered by her employer, as well as her financial responsibilities will fall upon the husband. In this event his income alone might not be sufficient. The husband may be severely burdened due to the loss of his wife's income.

### THE IMPORTANCE OF REVIEWING INSURANCE POLICIES

Let's imagine a family of 5 members having 10 insurance policies where a major portion of their income is contributed to insurance premium. When the bread winner is admitted to the hospital, he realises that there were no proper medical insurance in place.


He can't claim the major part of the expenses incurred during hospitalisation. Furthermore, after getting discharged from hospital he has to undergo follow-up treatment before he is fit to get back to work. In the meantime, he may face financial difficulties due to loss of income because he has no income replacement plan in place as a backup during this period.

These are some common issues that have been detected as per scenario mentioned above, because most people purchase

insurance policies when they were young; they do not know the importance to review or revise the benefits when major life events occur. Some even use the insurance policy as their investment vehicle which may not be able to address their immediate needs.

### LIMITING POTENTIAL DAMAGES

However, risk management does not necessarily fall within medical or life insurance. Proper insurance can cover potential legal litigation which may arise due to occupational and business risks. We must be able to anticipate it and if done with proper planning and precautions, we will be able to limit the potential damage that can arise.

This is why risk management planning fits perfectly into financial planning. The amount of risk management and protection that you need can be easily identified from a financial plan. It will be computed based on the goals and objectives that have been determined. From the financial plan, we can also identify if the coverage from the insurance plan is sufficient or one is under insured and would require a higher coverage. All in all, a financial plan allows an individual to achieve their financial goals and objectives, knowing that they are sufficiently protected and are ready to financially mitigate any unforeseen events. 



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