Risk Management - An Integral part of Financial Planning

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**Executive Summary** - Risk management should be an integral part of financial planning. You can manage risks by avoidance, transfer, mitigation or acceptance. We can face numerous risks related to life, health, property etc. Insurance is an important aspect of risk management. We need to take appropriate steps to manage the risk depending on its probability and impact and our risk tolerance levels.

Risk management is an integral part of business. All businesses have a risk management team that puts together a risk management strategy and provides guidelines and process for risk management for various teams in the organization. The basic strategy involves -

- Identify the risks
- Measure impact and probability of each risk
- Take steps to manage them.

Management of risks generally involves -

- **Avoid Risk** - Do not undertake a particular activity then there is no chance of any risk. But this may not be possible or practical.
- **Mitigate Risk** - Take steps to reduce the probability and/or impact of the risk
- **Transfer Risk** - Take steps to shift the impact of risk
- **Accept Risk** - Some risks are tolerated to achieve objectives. In this case, the risk and its consequences are endured. not covered though listed down. These are generally risks that have a low probability of occurring or a low impact even if it occurs. Acceptance depends on one’s risk tolerance levels. There might be some strategy on how to handle it when the risk when it occurs or how to reduce its impact.

Risk management is an integral part of our personal financial plan as there are many risks in life too. We need to understand them and take steps to manage them. Let us look at some risks and see what kind of risk management strategy we can undertake -

**Uncertainty of Life** - Death is a certainty but one does not know when it will happen. If you have financial dependants like spouse, children, parents, it is important to protect them from financial effects that accompany your loss of life. The people left behind have to deal with financial burdens
such as outstanding debts, planned and unplanned expenses and loss of regular income. Life insurance policies help in easing the financial burden and provide peace of mind to the policy holder. A life insurance policy mitigates the financial risk of the death of the insured and at the same time transfers the financial pressure from the policy holder to the insurance company in case the policy holder is not there.

**Risks to possessions and property** - We have a lot of possessions - house, car, motorcycle, expensive art. These things are at a risk of theft or natural disasters. The financial risk can be transferred by taking an insurance cover for these material possessions. You can take property insurance. Vehicle insurance is anyways mandatory. You can mitigate risks by keeping jewellery and other valuable possessions in a bank locker. You should have sufficient security measures in the house. You should not share personal information with strangers.

**TATA AIG Private Client Group** provides insurance cover for private collections of art, antiques etc. **Future Generali** provides home insurance that covers fire, natural calamities, losses to electronic goods, burglary etc. It provides add on covers for earthquakes and terrorism too. **Bajaj Allianz** has a policy - 'My Home Insurance' that provides protection for property, contents like jewellery, works of art, portable equipment in the property etc. against fire, burglary and natural calamities.

If you live in an area which is not prone to disasters, you may not need insurance add ons related to disasters. If you live in Mumbai in a low lying area, you might accept some risks such as damage due to flooding.

Vehicle insurance has to be taken by people owning a vehicle. It provides insurance for accidents for vehicle owners and for passengers and third party legal liability while the car is being driven. You can have a look [here](#) to find out more about car insurance. You can mitigate driving risks by following all rules of driving, driving cautiously, maintaining an average speed as dictated by law and being attentive to traffic blocks, weather conditions and cars around you.

**Health** - Health is wealth. But as we age, our body feels the wear and tear. Unfortunate events such as illnesses and accidents can happen. It is important to transfer the financial cost by taking a medical cover. It will cover surgeries, certain diseases etc. You should take a policy as per your lifestyle, possibility of hereditary diseases etc. If you take part in extreme sports or adventure, one
wrong move can cause a lot of problems. You should ensure you take appropriate health cover or life insurance. The other way of managing risk to health is to mitigate the effects of ill effects on health. You should led a healthy lifestyle with a complete diet, exercise and mental and physical well being. You should go for regular medical check ups.

**Loss of Income** - Your business might be hit hard due to unfavourable conditions. You might be one among many who lose their job due to downsizing or technological changes. You should mitigate the effect of such risks or avoid such risks by taking practical steps to make your business successful and your career on the right path. It could be re-skilling, learning continuously and using it to improve your income and returns, adopting appropriate business strategies etc.

There are other areas where one might encounter risk such as travel or health of pets. Depending on the risk tolerance levels, we should take appropriate steps. Here is a guide on [travel insurance](#).

There are different risks that we might encounter. It is important to be armed with a strategy and have concrete measures to reduce impact and probability of risks with appropriate consideration for our risk tolerance. Do share with us your views on how to manage risks that people might encounter in their lifetime with regards to financial status.

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