

Insurance Planning?

By Dennis Ng



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hy is Insurance Planning crucial in overall Financial Planning?

The latest financial literacy survey done in Singapore in 2005 shows that many people might have the misconception that Financial Planning equals Insurance Planning. That is certainly not true. Financial Planning is more than just Insurance Planning, it involves other aspects which include cash flow planning, investment planning, tax planning, retirement and estate planning and debt management as well.

Financial Planning is like 'managing a soccer team'

However, Insurance Planning is a crucial part in overall Financial Planning. Why? If we use the analogy of Financial Planning is similar to "managing a soccer team", we can then easily understand that no soccer team in the world can win the World Cup without good goalkeeper and defence. A good defence in a soccer team would help ensure that should the opposing team strikers attempt to score, they would face strong resistance from your goalkeeper and defence. Similarly, prudent insurance planning would mitigate the risk of financial ruin due to unforeseen and unexpected events such as a major illness, accident or disability.

Learn from ancient Egyptians when Planning your Finances

We can also learn from the wisdom of ancient Egyptians in planning our finances. We all know the pyramid is the most stable structure in the world due to the wide and strong foundation. Similarly, when we plan our finances, we should "build them" like a pyramid with a strong foundation which comprises an "emergency fund". That is, cash set aside sufficient to meet at least six months of our expenses should we be unable to earn an income temporarily due to an accident or illnesses. The emergency fund should be supplemented by "comprehensive and systematic" risk transfer through getting insurance cover.

The table on the right shows the preferred Financial Planning Model