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COVID 19 PANDEMIC IMPLICATIONS HIGHLIGHT THE SIGNIFICANCE OF FINANCIAL PLANNING

The Coronavirus crisis has brought people face-to-face with their worst economic nightmares. While some might have been prepared to deal with financial emergencies, many others believed that they would never have to face such a time in their lifetime. For the majority of people, it is becoming increasingly difficult to emerge out of the financial challenges being posed by the COVID-19 crisis. However, sound financial planning can alleviate the impact of some of these events.

5 implications that have drawn attention to the importance of financial planning:

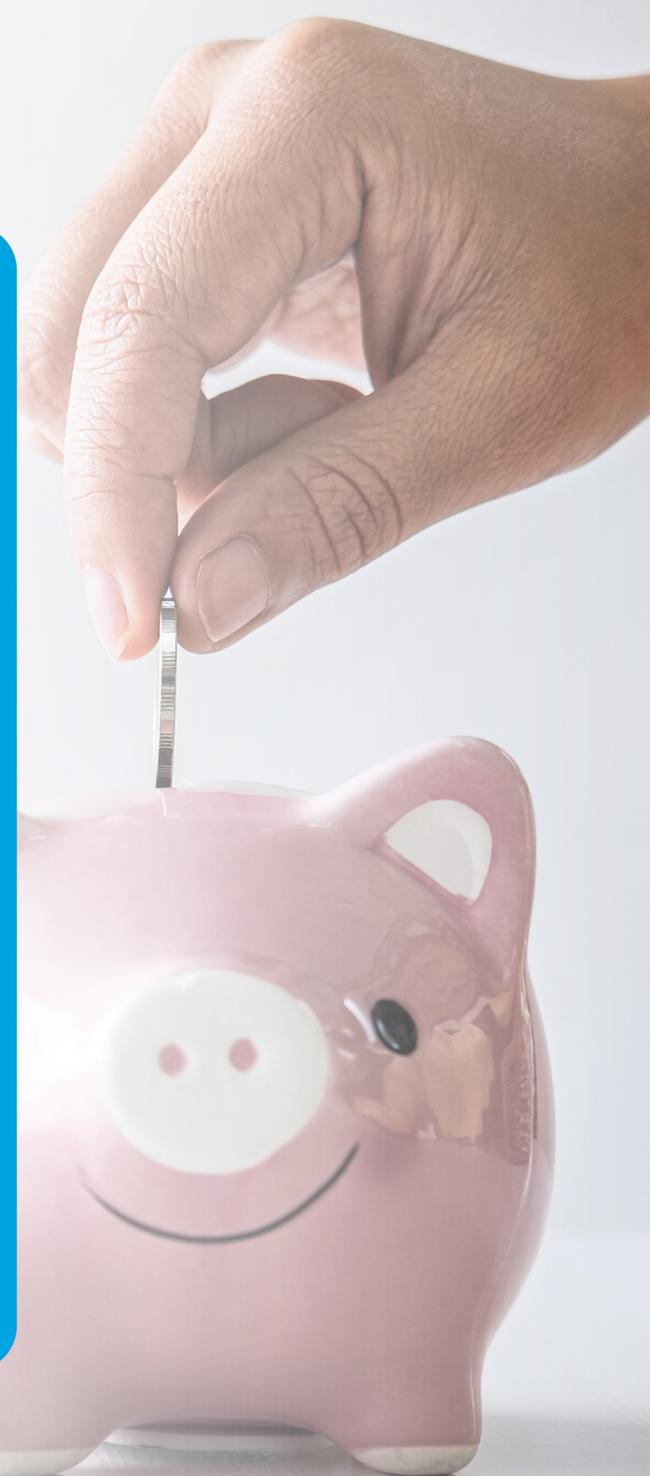
- 1 | **Uncertainty of Life**
- 2 | **Uncertainty of employment and regular income**
- 3 | **Extreme enhancement in market volatility**
- 4 | **Burden of loan and credit card repayments**
- 5 | **Importance of savings**



UNCERTAINTY OF LIFE

The global crisis has made life seem uncertain. Amid this ambiguity, the best support system that one can have is optimal medical as well as life insurance. Ideally, life insurance should be enough to cover all existing debt and loans, as well as, all future major expenditures that will likely be incurred by the family at different stages of their life. These expected costs include higher studies, marriage, contingency medical costs for illnesses not covered under health insurance, etc. If the sum assured does not cover all these expenses, it is advised to take a top-up plan.

In addition to this, appropriate medical insurance can also help cover all the family members. An ideal health insurance policy should provide for common illnesses, along with coronavirus, since this is a major threat right now. It is also essential to not rely on company-sponsored medical insurance for two primary reasons. One is the lower sum assured, and the second is the limited range of coverage. Keep in mind that insurance can ensure the economic independence of a family in case of any unfortunate event. So, investing in one may be the need of the hour.





UNCERTAINTY OF EMPLOYMENT AND REGULAR INCOME

Before this pandemic hit the world, many people did not pay attention to the usual monthly expenditures that could have easily been avoided. Everyone has a fixed list of expenditures that they cannot do away with. These include equated monthly instalments on loan (EMIs), school fees, groceries, rent, etc. But, there are also certain costs that can be easily avoided. These include apparel shopping, subscriptions, purchasing overpriced gadgets, etc. With social distancing and quarantine norms in place, many have had to deal with reduced salaries and job terminations. With no guaranteed income, people have now understood the importance of saving and utilizing their income optimally. This is where financial planning enters the picture. A comprehensive plan can be instrumental in not only providing a comfortable life but also fulfilling financial objectives. Financial planning allows people to save enough to meet their objectives and also develop a contingency plan in case of a crisis.



EXTREME ENHANCEMENT IN MARKET VOLATILITY

Asset allocation was earlier considered a simple and straightforward task. However, the extreme volatility being experienced in the financial markets amid the pandemic has changed this perception. Investors have understood that their investible savings must be optimally and cautiously diversified across various financial instruments. Ideally, funds need to be allocated into a combination of equity, debt, gold, real estate, retirement accounts, savings accounts, etc., For example, the current equity market is showing a downturn while the gold market is on a much stable platform. Thus, investment risk should be mitigated with sound diversification decisions. Asset allocation must be carried out in a manner that a fall in one instrument is covered or overshadowed by improvement in the other. Emergencies tend to increase volatility in certain sectors, while certain avenues are considered safer havens. Investment in various financial instruments without any financial planning can result not only in losses but also cause severe implications during times of need.



BURDEN OF LOAN AND CREDIT CARD REPAYMENTS

With people struggling to meet essential day-to-day requirements, ongoing loans and credit card dues are nothing more than a burden. It has become a way of life to meet unexpected expenditures with a loan or a credit card. However, one must pay attention to the increase in their liabilities being caused due to them. Financial planning involves determining the extent of additional liabilities that can be absorbed by a person's income. The problem arises when liabilities are increased beyond income. In the absence of a regular salary and employment, many people are not able to afford necessities, let alone loans or credit card repayments. The failure to pay bills and EMIs results in various additional charges like late repayment fees, extra interest, etc. The government has introduced several economic policies amid the coronavirus crisis to ease off these burdens. But a better strategy would still be to avoid accumulating your debt and repay loans at the earliest to avoid such financial limitations.



IMPORTANCE OF SAVINGS

For many individuals, the importance of savings has never been as evident as it has become now. In the absence of a definite income and employment, savings are the only means through which most people are being able to get through the pandemic. Financial planning involves the establishment of an emergency fund for such circumstances. An amount equivalent to four to six months' worth an individual's salary can ensure the fulfilment of essential needs in difficult situations. Proper planning and saving can provide economic security during times of extreme predicament.

Summary

The significance of financial planning has been strongly brought forward by the extreme repercussions of the COVID-19 crisis. Several risks and apprehensions have surfaced in the current times. Although not all risks can be avoided, some economic implications can be subdued to a certain extent with sound financial planning.

Financial planning can be daunting while the world around you seems to be struggling in a financial crisis. You can reach out to financial advisors to establish an optimal plan.

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