Begin Your Investment Process With Risk Management

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Indian investors have come a long way from making random investment decisions to following a goal-based investment process. This strategy ensures that a time horizon is assigned to each goal, to be achieved over varied time horizons, and that helps in ascertaining an appropriate asset allocation. Besides, the increasing role of mutual funds in investors' portfolios indicates maturity in their ability to build a portfolio to achieve growth and earn tax-efficient returns.

This risk management process includes covering risks to life and health and creating an emergency fund. As such, it is important to have life insurance and also ensure that the sum assured is adequate to cover the money required for different goals to be achieved during one's lifetime.

Mutual funds, essentially a diversified investment vehicle, help mitigate risk in the portfolio but also help balance risk and reward. However, one area that still doesn't get the full attention of investors is risk management for the overall investment process. This is very important as it allows investors to plan for the 'what if' scenarios that no one wants to occur. What if one becomes disabled? What if one passes away prematurely?

These unfortunate scenarios could significantly negatively impact a family's financial security. Therefore, planning needs to be done to protect the financial future of those who depend upon you financially. This risk management process includes covering risks to life and health and creating an emergency fund. As such, it is important to have life insurance and also ensure that the sum assured is adequate to cover the money required for different goals to be achieved during one's lifetime.

While it may be tricky for you to ascertain how much insurance is required at the start, a common rule of thumb for life insurance coverage that propagates a sum assured of at least 10-15 times the annual income can be followed. This coverage should also consider any outstanding debts and loans you may have. It is equally important to increase the cover over time, in line with your changing needs.

Besides, you must buy the right life insurance product. For example, a term plan is best suited for this purpose since it is a pure-risk product. You should avoid the mistake of buying an investment-cum-insurance product as they neither give the kind of return you would expect from a long-term investment nor adequate life insurance cover required to ensure financial security for your family. Further, there is no doubt that health insurance is an integral part of risk management and it always pays to buy health insurance at the earliest.

For health insurance too, it is important to not only have adequate risk cover but also buy the right product. For example, for a young and small family, a family floater plan is the best option. Similarly, for elderly family members, individual policies are a better bet. Many times, those who are offered a group health insurance policy don't make any effort to ascertain whether insurance coverage is adequate or not. Besides, they also do not prepare themselves for a situation when they change jobs and the new employer doesn't offer them health insurance.

It always pays to have your own health insurance policy in such cases. Last but not least, creating an emergency fund can help you in navigating through financial emergencies. Creating an emergency fund is an integral part of the risk management process. Usually, an emergency fund should be equivalent to your 6-9 months' expenses. It should cover all those commitments like EMIs, education expenses, household expenses and others that require you to pay regularly. The amount earmarked as an emergency fund can be kept in options like bank fixed deposits or liquid funds to ensure the liquidity and safety of capital.