

LET'S TALK MONEY

Issue 23



MANAGING FINANCIAL RISK

In this week's issue of Let's Talk Money we will look at how we can manage our financial risk. We are constantly faced with unforeseen events, which can put strain on the household budget. You may think that when things go wrong you can alleviate the situation by cancelling your short term insurance premiums, medical aid contributions or even withdraw funds from your pension/retirement fund to pay for the shortfall. However, this is a very dangerous road to take since all of these are meant to be your safety net when the unforeseen happens and to provide for you when you retire.

Many people look back at the amount of insurance they paid over their lifetime and think that this was a waste of money and that they should have cancelled their policies long ago. Some even think that they save money by cancelling these premiums, while they only increase the risk to the household.

The importance of having insurance is illustrated when the head of a household and main bread-winner should pass away or become disabled and is no longer fit to work. This can leave the remaining members with the sudden loss of income or the means to survive, worsened by untimely funeral expenses and unpaid debt. This is where life insurance, disability insurance, funeral cover and credit insurance can be helpful as it will at least help to lessen the financial burden for the family. It will help pay for funeral expenses and may even repay all or part of the debt of the household.

The risk of losing your home due to fire or a natural disaster is covered by household insurance while the loss of other assets, like a motor vehicle due to theft or an accident, can be managed by taking out short-term insurance.

The financial risk to the family is a lot higher if the asset is financed by a financial institution, because they will demand repayment of the loan if the asset is destroyed. The family will therefore remain responsible for the repayment of the loan.

If you take a group of one hundred 25 year old people, and estimate what their financial situation will be like at the age of 65, the statistics are shocking. It is likely that 49 of them will be dependent on social services or a charity to survive; 29 will be deceased; 12 will be bankrupt; and five will still have to work in order to survive. Of the remaining five people, only four will be financially independent and able to retire while only one will be rich.

While everybody cannot be rich, we should always strive to be one of the four that will be financially independent. Saving for retirement will help you achieve this goal. Pension funds and Retirement Annuity Funds are great ways to help you plan for your retirement and enjoy your old age – at least partially – care free.

Please contact us at any of our branches to assist you on your way to financial independence.

Plot 5129 • Queens Road • The Mall
Private Bag 00325 • Gaborone
Tel: +267 367 1500 • Fax: +267 390 4007
www.bankgaborone.co.bw



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