**HOW THE PANDEMIC COULD CHANGE FINANCIAL PLANNING**

For many years this column has expounded the wisdom of sound financial planning, ranging from protection to maintaining cash reserves, regular savings schemes, building up a pension pot and diversifying investments.

The pandemic has not changed any of that but its massive global impact will undoubtedly modify our approach in the future.

***Protection - as important as ever***

To date, Bali and in fact Indonesia as a whole have not been impacted as severely in terms of cases and deaths as many of the most developed countries such as the United States, the United Kingdom, Italy, Spain and France. But the story is ongoing and no-one can safely rest on their laurels. Medical insurance remains as relevant as ever to expatriates, as does life insurance. Admittedly, Covid-19 has taken a heavy toll on the elderly but many younger people have also been affected. The insurance industry globally is already reeling from related claims and while they are strong enough to meet their obligations there is a pretty good chance they will cover their potential losses with higher premiums.

***Cash reserves***

I have consistently stressed the importance of maintaining ample cash reserves to cover unforeseen contingencies. In fact I have often quoted one year's worth of cash as a minimum reserve, even though the cash earns little or no interest in strong currencies. For example, if you place a deposit in Swiss Francs you will receive negative interest. But the cash is there when you need it and right now there are millions of people around the world who have completely run out of cash. And it's not just individuals who have run out of cash. Many large companies, particularly in travel-related industries are now facing bankruptcy. Airlines that were booming only four months ago have completely run out of cash. Some will go to the wall; others may survive with government assistance. Why did many of them go for expansion by ordering more planes? Remaining competitive is probably the answer, not to mention the fact that no big company wants to have a year's cash sitting around earning nothing.

But the pandemic will no doubt make both companies and individuals think twice about going for growth and spending as opposed to building a significant cash buffer against an unforeseen event. Covid-19 may be a one-in-a-hundred years event but who knows what or when the next calamity will be? It could well be related to climate change.

***Savings and pension plans***

The insecurity posed by the pandemic is likely to increase people's concerns, not just over short term liquidity, but also their long-term future, particularly retirement and care in old age.

People may decide to spend less and save more. But the old regular savings plans are now outdated. Their charging structures are the same as they were decades ago and their terms are too rigid. Many people who have lost their jobs will have difficulty maintaining their plans or will even be forced to encash part or all of them early if they have not maintained ample cash reserves. Any of these actions will result in penalty charges. More flexible and less costly plans are now available and should be considered in the future.

***A move to sustainable investing***

So-called ethical funds have been around for decades. For many years they were the choice for a small minority of investors who wanted to be sure they would not be supporting 'sinful' products such as alcohol, gambling or arms sales. The sector was not attractive to mainstream investors however as ethical funds usually underperformed. But the sector has now expanded to include environmental issues, matters of interest to society and standards of governance. They are now grouped together as 'sustainable' funds or under the heading of ESG (environmental, social and governance). And far from underperforming, ESG-related funds have become very profitable and held up better in the recent crash than conventional funds.

Once the pandemic crisis is over it is likely that climate change will take centre stage again. Companies and funds that do not adapt to the new standards being demanded by investor groups will find themselves left out in the cold.

***And finally, a warning***

According to figures released by Canada Life on May 26, over five million people in the UK had fallen victim to or knew someone who had been duped by a financial scam since the beginning of the pandemic outbreak. The most common financial scams were related to banking while one fifth had been targeted by a pension scam. Some were perpetrated by emails, others by phone calls and text messages. Action Fraud in the UK reported that scam reports had increased by 400% since the start of the pandemic. Clearly there are criminals who are taking advantage of people's vulnerability during the crisis. And they won't be limited to the UK; they can operate from anywhere in the world and target any part of the world, including Bali. So be extra vigilant during these challenging times.

Stay safe!

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