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THEORETICAL ASPECTS OF FINANCIAL RISK MANAGEMENT

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Abstract: the study is devoted to the theoretical aspects of financial risk management, namely: analyzes the economic content of financial risks, methods of financial risk management and insurance and the effectiveness of internal mechanisms to reduce financial risks in the enterprise is considered.

Keywords: financial risks, liquidity, solvency, bankruptcy diagnosis

Risks arise in connection with the movement of financial flows and are manifested in the markets of financial resources mainly in the form of interest rate, currency, credit, commercial, investment risks.

Risk is defined as the threat of incurring losses in the form of additional costs not predicted in forecasts, projects, plans, programs, or to receive income less than expected. Moreover, if the costs are necessary in any case, the losses are a consequence of uncertainty.

The risks that accompany the financial activities of the entity are divided into a special group - financial risks, which are characterized by the probability of adverse financial consequences in the form of loss of income, capital or liquidity. Financial risks arise from the movement of financial flows and are manifested mainly in the markets of financial resources.

In a broad sense, financial risks are most often associated with operational, investment and capital structure risks; in the narrow - with risks, the source of which is the financial activity of the enterprise, which changes the composition and structure of capital (liabilities) of the enterprise.

Thus, financial risks belong to the group of speculative risks, the realization of which can result in both losses and gains.

Financial risks are objective in nature due to the uncertainty of the external environment in relation to the enterprise. The external environment contains the objective economic, social and political conditions under which the company operates and to the dynamics of changes which it is forced to adapt.

There are many reasons for financial risks (Fig. 1).

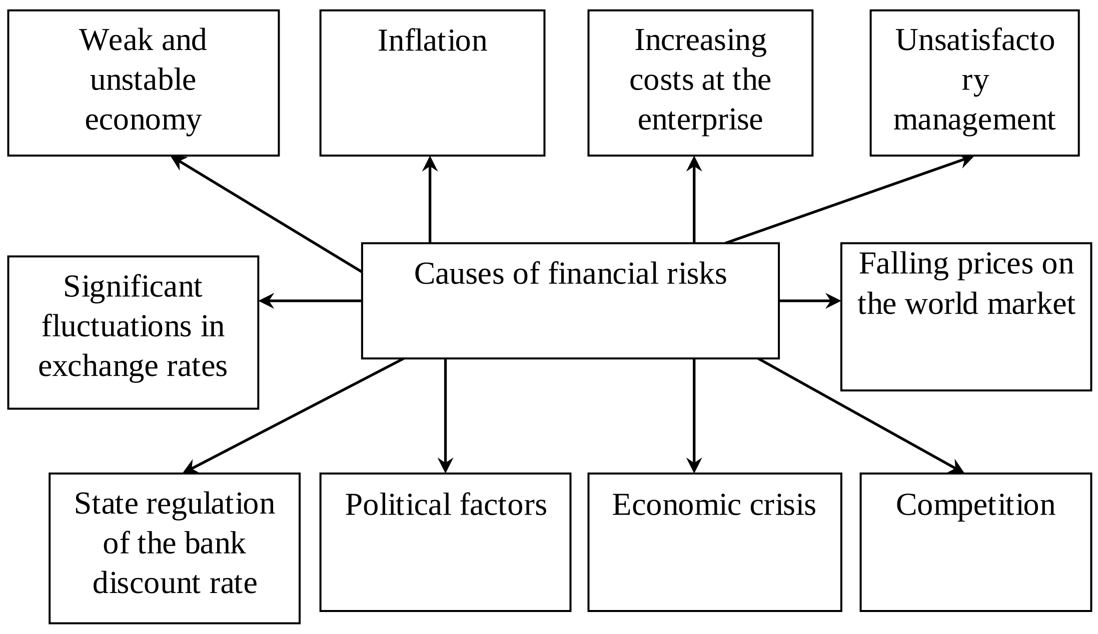

Fig. 1. Causes of financial risks [2, p.45]

The analysis of the main approaches to minimizing the adverse effects of random events and their financial consequences allows us to identify a number of general risk management procedures.

This point of view makes it possible to explore how, in general, you can deal with a particular risk that can be done with it. Possible procedures include:

- Risk elimination - a set of measures that allow you to avoid completely the impact of certain adverse events;

- risk reduction (Risk mitigation) - the set helps to reduce the adverse consequences of the actions of the public authority, firm or individual. This procedure assumes that the risks remain the carrier's own responsibility, so it is sometimes called Risk retention or Risk assumption;

- risk transfer - a set of measures to transfer responsibility for reducing the possibility of adverse events and for compensation for related damage to another entity.

Another classification of risk management procedures is based on the relationship between the time of implementation of specific measures and the time of occurrence of an adverse event. From this point of view, all methods of risk management can be divided into two major groups:

- pre-event risk management methods, planned and implemented in advance and aimed at reducing the probability of damage, reducing the amount of possible damage and modifying the structural characteristics of the risk. This group of risk management methods mainly includes methods of risk transformation (Risk control or Risk control to stop losses). They are mainly related to changes in the risks themselves, i.e. involve the implementation of such measures that will prevent the implementation of the relevant risks. In this regard, it becomes clear why these methods are often associated with preventive measures;

- post-event management methods carried out after the occurrence of damage and aimed at eliminating the consequences of an adverse event and compensation for damage. The main thing for this group of methods is that they are aimed at financing the risk, i.e. the formation of financial sources used to cover losses that result from the implementation of risks. This group of methods mainly includes risk financing methods (Risk financing or Risk financing to pay for losses).

Methods of risk transformation - a group of methods that involve the impact on the conditions of adverse effects and the possible amount of damage. Typically, these methods are aimed at reducing risk exposure, reducing vulnerability and enhancing the mutual impact of risks in the portfolio, which will be more favorable for the risk carrier. These methods are also called technical methods of risk management.

Risk financing methods - a group of methods aimed at covering already incurred losses. These methods involve the creation of special reserve funds or other sources of financing for losses. Methods are also called economic, or financial, methods of risk management.

Both of these classifications are important for understanding the specifics of a particular method of risk management. Therefore, the final classification of specific methods should be based on the use of both criteria (Table 1).

Table 1

Classification of risk management methods [8]

Risk management procedures	Group of methods	
	Methods of risk transformation	Risk financing methods
Risk avoidance	Risk waiver	-
Risk reduction	Reducing the frequency of damage Reduction of losses Risk sharing (differentiation and duplication)	Coverage of current income loss Creating reserves Borrowing (lending) Other methods of self-insurance
Risk transfer	Risk outsourcing Providing guarantees	Insurance Risk redistribution among a group of economic entities Sponsorship

This "double" classification allows you to more accurately indicate the role and place of the proposed methods, emphasizes their essence. Thus, the methods of financing the risks left on one's own (as part of the risk reduction procedure) differ only in the sources of coverage of the loss, and the methods of risk transformation within the same procedure are associated with different types of preventive measures.

In the system of methods of financial risk management of the enterprise the main role belongs to the internal mechanisms of their neutralization. Internal mechanisms for neutralizing financial risks are a system of methods to minimize their negative consequences, which are selected and implemented within the enterprise. The main object of the use of internal neutralization mechanisms are, as a rule, all types of acceptable financial risks, a significant part of the risks of the critical group, as well as uninsured catastrophic risks, if they are accepted by the company due to objective necessity. The advantage of using internal mechanisms to neutralize financial risks is a high degree of alternative management decisions, which are usually independent of other entities. They are based on the specific conditions of the financial activities of the enterprise and its financial capabilities, allow to take into account the impact of internal factors on the level of financial risks in the process of neutralizing their negative consequences. The system of internal mechanisms for neutralizing financial risks involves the use of the following basic methods (Fig. 2).

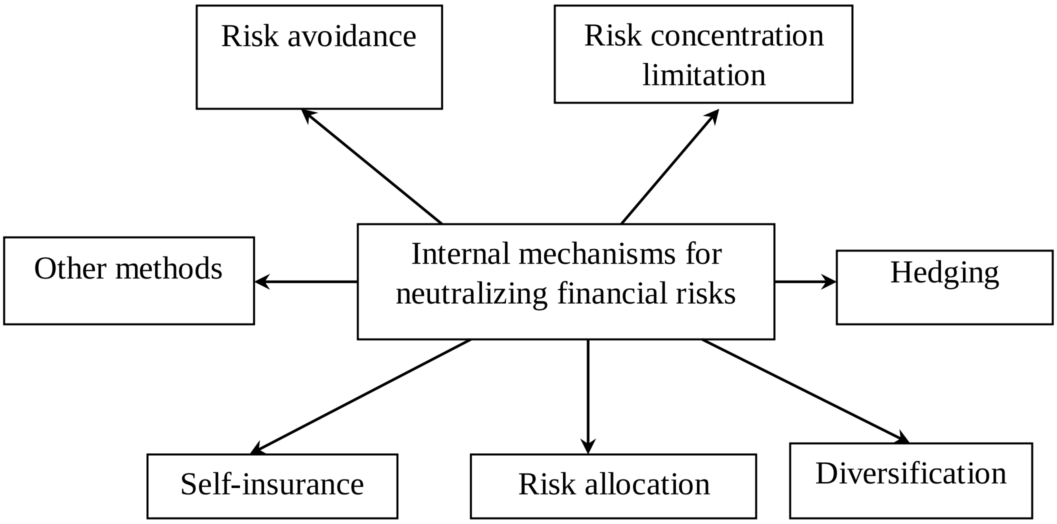

Fig.2. System of internal mechanisms of neutralization of financial risks of the enterprise [7]

Risk avoidance. This direction of neutralization of financial risks is the most radical. It consists in the development of such measures of an internal nature that completely eliminate a particular type of financial risk.

There are the following main measures:

- refusal to carry out financial transactions, the level of risk of which is excessively high. Despite the high efficiency of this method, its usage is limited, as most financial transactions are associated with the implementation of the main production and commercial activities of the enterprise, providing regular income and profit;

- refusal to use high amounts of loan capital.

Reducing the share of borrowed funds in economic turnover avoids one of the most significant financial risks - the loss of financial stability of the enterprise. At the same time, such risk avoidance leads to a reduction in the effect of financial leverage, i.e. the possibility of obtaining an additional amount of return on invested capital;

- rejection of excessive use of current assets in low liquidity forms. Increasing the liquidity of assets avoids the risk of insolvency of the enterprise in the future. However, such risk avoidance does not leave the company additional income from expanding sales of products on credit and partially creates new risks associated with the irregularity of the operating process by reducing the size of insurance stocks of raw materials, finished products;

- refusal to use temporarily free monetary assets in short-term financial investments. This method avoids deposit and interest rate risk, but generates inflation risk as well as the risk of lost profits.

The mechanism for limiting the concentration of financial risks is usually used for those types that go beyond their allowable level, ie for financial transactions carried out in the area of critical or catastrophic risk. Such limitation is realized by establishing appropriate internal financial standards at the enterprise in the process of policy development of various aspects of financial activities.

Limiting the concentration of financial risks is one of the most common internal risk management mechanisms that implement the financial ideology of the enterprise in terms of accepting these risks and do not require high costs.

Hedging financial risks by carrying out appropriate transactions with derivative securities is a highly effective mechanism for reducing possible financial losses in the event of a risk. However, it requires certain costs for the payment of commissions to brokers, premiums on options, and so on. But the level of these costs is much lower than the level of costs for external insurance of financial risks. Various forms of financial risk hedging have already become widespread in the practice of domestic risk management. The mechanism of neutralization of financial risks on the basis of various forms of hedging will be increasingly developed in the domestic practice of risk management due to its high efficiency. Diversification. The diversification mechanism is used primarily to neutralize the negative financial consequences of non-systematic (specific) types of risks. However, it allows you to minimize to some extent the systematic (specific) risks - currency, interest and some others. The principle of operation of the diversification mechanism is based on the differentiation of risks, which prevents their concentration.

As the main forms of diversification of financial risks of the enterprise the following directions can be used [3,4]:

- diversification of financial activities. It involves the use of alternative income from various financial transactions - short-term financial deposits, loan portfolio formation, real investment, the formation of a portfolio of long-term financial investments, etc.;

- diversification of the currency portfolio ("currency basket") of the enterprise. It provides a choice for foreign economic transactions of several types of currencies. In the process of this direction of diversification the reduction of financial losses on currency risk of the enterprise is provided;

- diversification of the deposit portfolio. It provides for the placement of large sums of temporarily free funds for safekeeping in several banks. Since the terms of placement of monetary assets do not change significantly, this direction of diversification reduces the level of deposit risk of the portfolio without changing the level of its profitability;

- loan portfolio diversification. It provides a variety of buyers of the company's products and aims to reduce its credit risk. As a rule, the diversification of the loan portfolio in the process of neutralizing this type of financial risk is carried out together with the limitation of the concentration of credit operations by setting a differentiated by groups of credit limit buyers;

- diversification of the securities portfolio. This direction of diversification allows to reduce the level of unsystematic risk of the portfolio, without reducing the level of its profitability;

- diversification of the real investment program. It provides for the inclusion in the investment program of various investment projects with alternative sectoral and regional orientation, which reduces the overall investment risk of the program.

The degree of risk allocation, and hence the level of their negative financial consequences for the company is the subject of its contractual negotiations with partners, reflected in the terms of the relevant contracts.Self-insurance (internal insurance). The mechanism of this direction of neutralization of financial risks is based on the reserve of the enterprise of a part of financial resources that allows to overcome negative financial consequences on those financial operations on which these risks are not connected with actions of counterparties.

The main forms of this direction of neutralization of financial risks are [5]:

- formation of the reserve (insurance) fund of the enterprise. It is created in accordance with the requirements of the legislation and the charter of the enterprise. At least 5% of the amount of profit received by the enterprise in the reporting period is sent for its formation;

- formation of target reserve funds. An example of such formation is a price risk insurance fund (for the period of temporary deterioration of market conditions; a fund for the revaluation of goods in trade enterprises; a fund for repayment of bad debts on credit operations of the enterprise, etc. The list of such funds, sources of their formation and amounts the company's charter and other internal regulations;

- formation of reserve amounts of financial resources in the system of budgets, which are accounted for by different centers of responsibility. Such reserves are provided, as a rule, in all types of capital budgets and in a number of flexible current budgets;

- formation of a system of insurance stocks of material and financial resources for individual elements of current assets of the enterprise. Such insurance stocks of the enterprise are created on monetary assets, raw materials, materials, finished goods. The amount of needs in insurance reserves for individual elements of current assets is set in the process of their rationing;

- undistributed balance of profit received in the reporting period. Prior to its distribution, it can be considered as a reserve of financial resources, which are directed, if necessary, to eliminate the negative consequences of certain financial risks.

Using this mechanism to neutralize financial risks, it should be borne in mind that insurance reserves in all their forms, although they allow you to recoup quickly the financial losses incurred by the company freeze the use of a significant amount of funds. As a result, the efficiency of the company's equity use decreases, its dependence on external sources of financing increases.

This determines the need to optimize the amount of reserved funds from the standpoint of their future use to neutralize only certain types of financial risks. Such risks include [6]:

- uninsured types of financial risks;
- financial risks of acceptable and critical level with a low probability of occurrence;
- most of the financial risks of the acceptable level, the estimated value of the estimated loss for which is low.

Among the main of the following methods used by the company may include:

- ensuring the right to demand from the counterparty for a financial transaction an additional level of risk premium. If the level of risk on the planned financial transaction exceeds the estimated level of income on it (on a scale -profit-risk), it is necessary to provide additional income on it or refuse to conduct it;
- obtaining certain guarantees from contractors. Such guarantees related to the neutralization of negative financial consequences in the event of a risk may be provided in the form of a guarantee, letters of guarantee of third parties, insurance policies in favour of the company by its counterparties for high-risk financial transactions;

- reduction of the list of force-majeure circumstances in contracts with contractors. In modern domestic economic practice, this list is unreasonably expanding, which allows the company's partners to avoid in some cases financial liability for non-performance of their contractual obligations;

- ensuring compensation for possible financial losses on risks due to the envisaged system of penalties. This direction of neutralization of financial risks involves the calculation and inclusion in the terms of contracts with counterparties of the required amounts of fines, penalties, penalties and other forms of financial sanctions in case of breach of their obligations (late payment for products, non-payment of interest, etc.).

Conclusions. Based on the consideration of general economic processes as manifestations of risky events, the main components of uncertainty and unpredictability in the financial sphere of enterprises are revealed, which include: the presence of a large number of unprofitable enterprises, tax arrears, growing dynamics and unsatisfactory structure of accounts payable, difficulties with the restructuring of certain industries, over-regulation of economic entities.

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