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Methods for managing financial risks

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- Modern businesses face many obstacles, competitors, and potential dangers. Risk control is a plan-based business strategy that aims to identify, assess, and prepare for any dangers, hazards, and another potential physical and figurative disasters that may interfere with an organization's operations and objectives. The core concepts of risk control include:

- avoidance is the best method of loss control. For example, after discovering that a chemical used in manufacturing a company's goods is dangerous for the workers, a factory owner finds a safe substitute chemical to protect the workers' health.

- loss prevention accepts a risk but attempts to minimize the loss rather than eliminate it. For example, inventory stored in a warehouse is susceptible to theft. Since there is no way to avoid it, a loss prevention program is put in place. The program includes patrolling security guards, video cameras and secured storage facilities. Insurance is another example of risk prevention that is outsourced to a third party by contract.

- loss reduction accepts the risk and seeks to limit losses when a threat occurs. For example, a company storing flammable material in a warehouse installs state-of-the-art water sprinklers for minimizing damage in case of fire.

- separation involves dispersing key assets so that catastrophic events at one location affect the business only at that location. If all assets were in the same place, the business would face more serious issues. For example, a company utilizes a geographically diverse workforce so that production may continue when issues arise at one warehouse.

- duplication involves creating a backup plan, often by using technology. For example, because information system server failure would stop a company's operations, a backup server is readily available in case the primary server fails.

- diversification allocates business resources for creating multiple lines of business offering a variety of products or services in different industries. A significant revenue loss from one line will not result in irreparable harm to the company's bottom line. For example, in addition to serving food, a restaurant has grocery stores carry its line of salad dressings, marinades, and sauces.¹

In the economic literature, two common approaches to the treatment of financial risks: *in the narrow sense*, they are defined as the risk of negative financial consequences in the form of loss of assets, income, and non-fulfillment of obligations in a situation of complete or partial implementation of economic uncertainty in the environment and economic activity that is of the subjects. *According to the extended treatment*, *Financial risk* is the uncertain possibility of damage, measured in monetary terms². This definition implies that is the possibility of loss, its uncertainty, the undesirability of the possibility of damage and its monetary dimension. And be sure to measure the financial risk is its manifestation is in the framework of the financial relations.

Object effects which do not lead to the planned change in his condition, justifiably considered unmanageable. Therefore, the way to impact on the risk, built on the principles of acceptable risk, can not be controlled, rather it is risk management. With it can be addressed and successfully resolved many private security problems.

Financial risk, its parameters and factors ³, influencing them, which define features as the control object, used in the construction of classification methods to

¹ <https://www.investopedia.com/terms/r/risk-control.asp>

² <https://reader.elsevier.com/reader/sd/pii>

³ https://link.springer.com/chapter/10.1057/9781403946089_3

manage them. It is therefore very important question is the choice of methods of financial risk management ⁴.

The purpose of financial risk management can be achieved on the basis of the following control its parameters - the uncertainty of loss (*decrease in the frequency or probability of occurrence of damage - ρ*) and the amount of damage - γ . Joint values of these parameters of risk - *the probability of occurrence of damage and the extent of damage ρ - γ* , describe the possible values of the risk:

- Low (*small*);
- Average (*rather small*);
- High (*high*) risk.

Undesirability of damage, permanently inherent in the very term financial risk, selected parameters describing its value specifying the purpose and parameters of risk management as follows: The purpose of management - reducing the damage that has monetary value and associated with the implementation of the risk, and the main control parameters of risk - but the main operated parameters of the risk- ρ, γ .

Practice shows that the most significant factor called "*structural risk characteristics*" ⁵ can be attributed ⁶:

- potential threat appearance damage caused by specificity object features risk situation and nature most damage in his turn, may provoke implementation risk;

- feature situation, characterized by pregnant appearance damage. Under exposure to risk can be understood the number of units of observation;

- the degree of sale danger, reflecting intensity appearance damage. The analysis Vulnerability can be to identify the effect of factors on the risk;

⁴ <https://www.researchgate.net/topic/Financial-Risk-Management>

⁵ <https://www.pmi.org/-/media/pmi/documents/public/pdf/certifications/practice-standard-project-risk-management>.

⁶ <https://bmcpublihealth.biomedcentral.com/>.

- a factor that reflects opportunity sale risks arising from his bond with other risks. For example, the risk of errors designers at construction Housing complex.

If the available information on risk is not sufficient for this purpose, with respect to it shall use methods of risk management under uncertainty. Since the available information base on risk is an important factor influencing the choice of a particular method of risk management, it can be seen as the first sign of the classification of risk management methods (Fig. 1).

In accordance with the values of this attribute management techniques may be aimed at reducing the likelihood of damage to ρ , and also to reduce damage to γ (see. Fig. 1). With this feature classification methods of risk management can be divided into:

- risk management techniques to reduce the likelihood of damage to ρ ;
- risk management techniques to reduce the size of the potential damage γ_s ;
- risk management techniques to reduce actual damages γ_p .

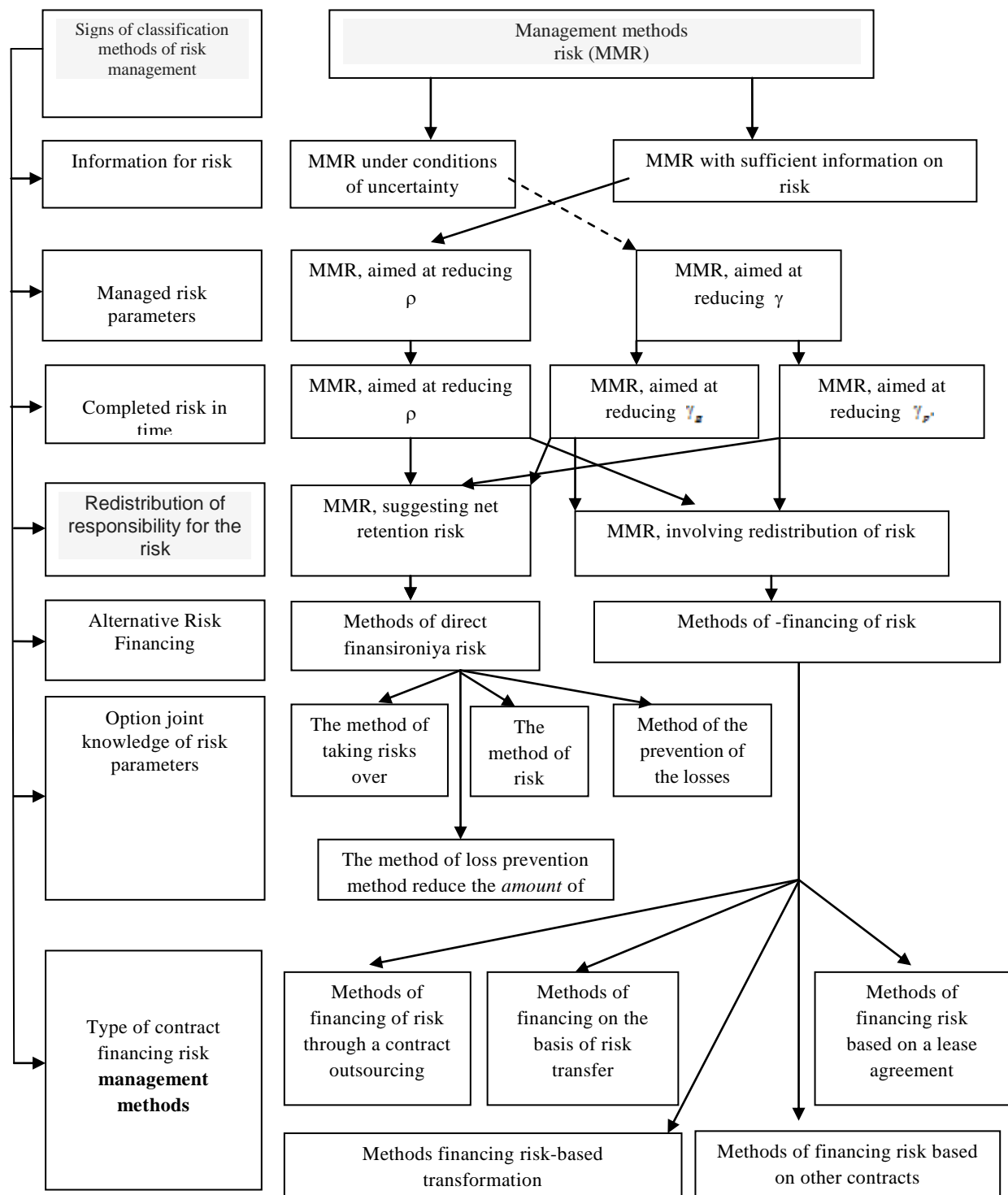


Fig. 1. Risk management methods and their relationship.

The need for an independent revthat isw of certain management practices designed to reduce the possible damage and methods aimed at reducing the actual damage caused by the fact that the risk factors (its structural characteristics can have different effects on the predicted, the possible values γ_B and damage to its real value

γ_p . Thus, the structural characteristics of the "interaction with other risks" may have a different impact on the size of the possible and the actual damage at because when assessing the possible damage was taken into account only one version of the test interaction risk with other risks, and the implementation of risk, that is the appearance of the actual damage, the interaction with other risks resulting, for example, more damage than anticipated at the stage of the forecast, that is in determining probable damage.

Implementation of the risk associated with potential actual loss, so it is very important is the question of how and who can and will reimburse it. Solution to this problem in the first place determined by the distribution of responsibility in risk among the following subjects:

- *A subject (S_A)* is the bearer of risk and is responsible for it, such as a driver exceeds the speed on the road, is the bearer of risk and is responsible for its implementation;

- *B subject (S_B)*, which is responsible for the risk, but it is not a car that is, such as the state is responsible for the risks associated with the use of nuclear power, but direct bearers of these risks are legal entities, and work with individuals;

- *D subject (S_D)*, which does not carry the risk, but he was given the responsibility for it, such as an insurance company under a contract of transfer which has taken responsibility for the risk of an accident an individual Eshmatov SS, are car that is of the risk.

It should be noted that taking into account the features of financial risk and a reasonable selection of features allow us to construct a classification of management, which is used in the implementation of the proposed procedures for the selection of the method of management, responsible for the transfer and transformation of risks in the insurance or other activities as a whole. Currently, there is significant progress in the area of risk management. Emerging trends must be converted into an effective financial mechanism.