Секция: Актуальные проблемы современной науки и практики

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FINANCIAL RISKS IN A SYSTEM OF RISKS OF ENTERPRISE

In the normal course of business entrepreneurs are faced with a set of different types of risk, which differ from each other in time and place of occurrence, in a set of external and internal factors that affect their level and, consequently, in the method of analysis and description techniques.

As a rule, all kinds of risks are interrelated and affect the activities of the entrepreneur. A change in one type of risk can cause a change in the majority of the rest.

Risk classification means systematization of the set of risks on the basis of some features and criteria to combine subsets of risks in more general terms. Risk classification relates to how an organization defines the risks it faces. Coherent classification is essential to Enterprise Risk Management, as ambiguity will lead to confused reporting and management of risk.

However while firms may have a coherent system for classifying risks that meets their own requirements, such systems are unlikely to be identical between firms. Each system represents a risk “language” bespoke to the firm, with firms using different terminology for the same risks, or the same terminology for completely different risks. The different risk languages used by actuaries in their day to day work can cause confusion when actuaries from different firms come together to discuss risk. Thus it’s very important to develop classifications for all enterprises to use.

In the same time we are not seeking to develop a definitive, “one size fits all” risks’ classification. Firms should have their own classifications systems which meet their own requirements but it’s better to provide a common basis to make the work of business manager easier.

One of the most complex and hard to be classified risks is the financial risk. Financial risk is an umbrella term for multiple types of risk associated with financing, including financial transactions that include company loans in risk of default. This group of risks may also be the result of changes occurring in the financial system as a whole.

The main causes of financial risk are: dependence upon creditors, a significant excess of borrowed funds above level of own funds of the firm, passivity of the capital, heavy investments only in one project. Securities transactions are also the cause of financial risk.

There are many classifications of financial risks. L. Donets [1, p. 22] and L. Tepman [2, p. 52] distinguish three types of risk: currency risk, credit risk and investment risk. G. Poliak believes that the financial risk includes in itself the following types of risks: credit risk, interest rate risk, currency risk, risk of lost profits, investment risk and tax risk [3, p. 206].

The most complete classification, to our mind, is a classification offered in works of A. Shapkin [4, p. 165]. According to the classification of this scientist financial risks are divided into two groups:

1. Risks associated with the purchasing power of money.
2. Risks associated with investment.

1. Risks associated with the purchasing power of money include the following types of risks: inflation and deflation risks, currency risk and liquidity risk.

Inflation risk, also called purchasing power risk, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation. In today's economy, this risk is of permanent occurrence.

Deflationary risk is a risk that with the growth rate of deflation there will be fall in prices, deterioration of the business climate and reduction of income of the company.

Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business

operations across national borders, they face currency risk if their positions are not hedged. The group of currency risk includes three subgroups: transactional risk, operational risk and economic risk.

Transactional risk is the exchange rate risk associated with the time delay between entering into a contract and settling it. The greater the time differential between the entrance and settlement of the contract, the greater the transaction risk is, because there is more time for the two exchange rates to fluctuate.

Operational risk is the risk that arises in the course of a business agreement under the contract of which the payment or receipt of funds in foreign currency is provided not at the time of the transaction, but after a while.

Economic risk is the probability of reducing earnings or, conversely, the possibility of additional revenue as a result of changes in the exchange rates. The essence of this type of currency risk is that the value of the assets and liabilities of the company may change due to exchange rate changes.

Liquidity risk is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. Liquidity risk is typically reflected in unusually wide bid-ask spreads or large price movements (especially to the downside). The rule of thumb is that the smaller the size of the security or its issuer, the larger the liquidity risk.

2. Risk associated with investment or investment risk is the probability that removing funds from current sales in the future will bring profit or loss smaller than it was expected.

Implementation of the investment project consists of two stages. In the first stage funds are invested in various assets, construction or procurement revolving funds. In the second stage the invested funds are returned and the project begins to generate income.

There are such risks inherent to the first stage of the investment project:

- risks of detection of technical errors in the project;
- risks of excess of estimates due to higher costs of construction;

- risks arising from the improper execution of legal ownership or lease on land, immovable property or construction permit.

The second stage of the investment project must ensure its payback, it is connected with trade or production activities and is exposed to business risks.

Investment risks can be divided into risks of lost benefits, risks of reduction of return and risks of direct financial losses.

Risk of lost benefits is a risk of indirect financial loss as a result of failure of any event.

Risks of reduction of return consist of credit risks and interest rate risks.

Credit risk is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. It arises whenever a borrower is expecting to use future cash flows to pay a current debt.

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.

The risk of direct financial losses includes: stock exchange risk, selective risk, bankruptcy risk, tax risk, criminogenic risk and deposit risk [5, p. 109].

Stock exchange risk is the risk of loss from transactions at the burse.

Selective risk is the risk of losses due to the wrong choice of investment object.

Bankruptcy risk is the possibility that a company will be unable to meet its debt obligations. It describes the likelihood that a firm will become insolvent because of its inability to service its debt [6-8].

Tax risk is the probability of loss due to unforeseen changes in state tax policy.

Criminogenic risk is the probability of losses due to unlawful damage such as: losses due to the dishonesty of partners, employees of the firm or other persons. This risk is manifested in the forgery that helps outsiders to appropriate funds or other assets of the company, in theft of certain types of assets by the company's personnel, advert by partners of fraudulent bankruptcy.

Deposit risk is the risk of non-repayment of deposits or default of deposit certificates. It is associated with the wrong choice of commercial banks to carry out operations of this kind, and even though it is quite rare, it still occurs even in countries with developed market economies.

We examined the classification of financial risks that the company faces in its activities and though this kind of classification is to some extent arbitrary in today's economy it is important to not only know about the risk, but also be able to identify it. From this perspective, the classification of financial risks is of practical interest for the specialists and owners of the enterprise.

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