Financial Risks: Methodological Approaches and Management Methods

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Abstract

In the process of economic activity of any organization, there is always a danger of losing money, which results from the peculiarities of various economic operations. These risks are financial. At the same time, there are a number of methodological difficulties that do not allow us to approach these risks with the utmost efficiency. In recent years, the number of risks arising from the activities of many companies has increased significantly. In this regard, there have appeared a lot of new financial instruments which are actively used by market participants. The use of these tools makes it possible to reduce the level of risks assumed, but at the same time may entail certain problems for the activities of participants in the financial market. Therefore, at present, companies are increasingly thinking about how risk can affect their economic activity and what methods are necessary to respond to problems. To overcome difficulties, it is necessary to use insurance instruments in a timely manner against possible losses. At the present stage of economic development, it is difficult to overestimate the role of insurance in the system of enterprise risk management, since insurance is the way to cover losses that can accompany their financial, investment, and operational activities.

Keywords: Financial risk; Business risk; Risk management methods; Risk financing; Insurance.

1. Introduction

Firstly, we will define categories such as risk and financial risk. Risk is an economic and historical category. Risk as a historical category is a perceived risk in the course of human evolution. As an economic category, risk is a probabilistic event as a result of which three economic outcomes can be yielded: negative, zero and positive (Aris, 2017).

Having analyzed various points of view of economists, we formulate the following definitions of a financial risk:

1) In a narrow sense, a set of risks inherent in the implementation of financial entrepreneurship;
2) In a broad sense, it is the probability of loss of financial resources (money) by an economic entity or an individual (Beard et al., 1969).

Financial risk, as one of the most complex categories related to the economic activities of an organization, is characterized by the following characteristics (Łukasiewicz, 2014):

1. Objectivity of manifestation. The risk of financial losses at the present stage of development of financial markets is an objective phenomenon in the activity of any organization, related to political, economic, and social, and many other macroeconomic factors.
2. Economic nature. Financial risk has a direct impact on the formation of profits and is characterized by the possibility of economic losses in the process of the organization activity.
3. Uncertainty of consequences. This characteristic of financial risk characterizes the uncertainty of its economic effect, first of all, the level of profitability from financial transactions. Depending on the level of risk, the predicted level of economic performance varies widely. In other words, as a result of the actions carried out in the financial market, speaking about the risk category, an economic entity can receive both significant financial losses and additional revenues for the enterprise.
4. Probability of implementation. There is a certain level of probability that a risk event will occur or not. The probability of this or that outcome is determined by a combination of objective and subjective factors (Vaughan, 1986).
5. Subjectivity of evaluation. The definition of the risk level (the main assessment of financial risk) is subjective, despite the objective nature of financial risk. The unevenness of the assessment of this process is...
explained by the diversity, including the reliability, of the information base used, the professionalism and experience of financial managers, and other factors.

Among the factors determining the origin and extent of the impact of financial risks, economists identify the following: volatility of an economic situation; inflation; market volatility; consumer demand; provision of financial resources of the population; mastering of new financial instruments and technologies; increasing the scope of financial relations; development of new directions for the realization of manufactured products (Blanc, 2014).

6. The expected unpleasantness of the consequences. Despite the fact that the results of financial risk can be both negative and positive indicators of the effectiveness of financial activity, it is defined as the level of probable unfavorable results. This is due to the fact that many negative consequences of financial risk lead not only to non-obtaining of planned revenues, but also to a reduction in the assets of the enterprise, which can lead to financial insolvency (Kvon et al., 2017).

7. Level variability. The degree of financial risk which is characteristic to various financial transactions or certain varieties of economic directions of the enterprise is not considered as a stationary value. It is due to the period of the financial transaction, because the time factor directly affects the degree of financial risk, which can be traced through monitoring the liquidity of the invested financial resources, the variability of the interest rate in the financial market, and so on.

In addition to the above, the indicator of the level of financial risk is in constant interaction with a variety of objective and subjective factors that exist in daily dynamics (Kaigorodova G. N. et al., 2017).

In order to carry out this research, it is advisable to understand the financial risks as a possibility of the appearance of unforeseen financial losses (a drop in growth, loss of assets, etc.) in the face of uncertainty in the requirements of financial transactions of enterprises (Brehmen, 1987).

2. Methods

The existence of financial risks makes it necessary to manage them. Risk management includes the procedure for realization and implementation of management decisions that optimize the negative impact on an economic entity or an individual (Kaigorodova G. N and Mustafina, 2014).

All the variety of methods for managing financial risks in economic literature is usually divided into a couple of enlarged ways: pre-event and post-event (Fig. 1).

Figure-1. Risk management methods

Pre-event risk management methods include the implementation of procedures aimed at converting the main risk parameters, such as the likelihood of occurrence and the extent of damage in advance. These techniques are called technical. They should be understood as methods of risk transformation (Risk control, Risk control to stop losses) preventing the possibility of risk occurrence. In other words, these methods presuppose carrying out preventive measures (Yelokhin and Lebedev, 1998).

Transformation methods involve a procedure for influencing the conditions for the occurrence of negative results and the expected volume of losses. Typically, these methods are aimed at reducing the degree of exposure to risk, reducing sensitivity and increasing the joint interaction of various risks, which will have a positive effect on a business entity (Kaigorodova G. N. et al., 2018).

Post-event risk management methods are performed after the receipt of damage and are focused on the elimination of the consequences. These methods are aimed at creating financial sources necessary to compensate for losses. These techniques are also called financial, or economic. These should include the methods on financing risk (Risk financing, Risk financing to pay for losses) (Fig. 2).
Methods of financing risks are aimed at compensating for the already received losses. The methods presented in Figure 2 provide for the formation of special reserve funds or other resources for subsidizing damage. A special place is occupied by insurance along with the method of creating reserves at economic entities (Khasheva et al., 2017).

The Russian Federation Law dated 27.11.1992 No. 4015-1 "On the Organization of Insurance in the Russian Federation" (hereinafter referred to as the "Insurance Law") refers insurance of financial risks to the property insurance sector. Insurance of financial risks implies the insurance of property interests of a beneficiary (the insured person), combined with the risk of non-receipt of incomes, and the emergence of unforeseen expenses of individuals (Aladdinovna, 2016).

This type of insurance refers to the licensed one; in order to obtain permission to sell services, the insurer must:
- Own 100% of the authorized capital in the amount of at least 120 million rubles;
- Form technical reserves from the insurance premiums received, that is, reserves for fulfilling the obligations assumed under the contracts;
- Develop insurance rules for the risks under study, whether as a separate type of insurance service, or as a complex product, identifying all the main indicators for the transaction: insurance risks, insured events, insurance amount formation, loss adjustment process, withdrawals from insurance coverage (Markowitz, 1959).

It should be noted that the Insurance Law distinguishes between financial risk insurance and business risk insurance, and the article 32.9 applies the latter to the separately licensed type of insurance.

Thus, the Insurance Law examines their insurance protection as separate types of insurance, because:
- objects of insurance of entrepreneurial risks may be property interests associated with the risk of occurrence of losses from business activities due to violation of their obligations by contractors of the entrepreneur or changes in the conditions of this activity due to circumstances beyond the entrepreneur's control, including the risk of failure to receive the expected revenues;
- the objects of insurance of financial risks in property insurance may be the property interests of the insured party (the insured person) associated with the risk of non-receipt of income, the emergence of unforeseen expenses of individuals and legal entities.

Many specialists of the insurance market do not see a fundamental difference between them. Scientists recognize the risks of financial loss as financial risks in case of failure of participants to comply with the provisions of the contract to the insured party, or unplanned costs associated with unexpected events that do not certify damage or complete loss of ownership or the occurrence of civil liability for harm to others or the failure to perform or improper execution of personal contract provisions.

Also in the theory of the question, there is an opinion different from the above proving that insurance of entrepreneurial risk differs from financial risk insurance. The arguments are as follows:

1. A person engaged in entrepreneurial activities can insure financial risks only having signed an insurance contract for entrepreneurial risks. As a result, financial risks can only be insured by citizens and organizations either not doing business, or insuring risks that are not related to a given procedure.

1 Developed by the authors
2. The terms of a contract on insurance of business risk should unambiguously follow from the provisions of the law defined in article 933 "Insurance of entrepreneurial risk" of the Civil Code of the Russian Federation. It should be noted that at the conclusion of the contract on insurance of financial risks the participants are not entitled, but have the right to avail themselves of a significant part of the provisions regulating business risk insurance.

3. To implement insurance for both financial and business risks, it is necessary to obtain separate licenses. The existence of a license for insurance of one type of risk does not allow insurers to insure another type of risk.

We can distinguish the following differences in the procedure for insurance of business and financial risks:

1) The originality of the requirements for the insurance amount for business risks. It could not exceed the insured value;

2) The volume of losses. In accordance with Article 947 "Insurance Amount" of the Civil Code of the Russian Federation, the insurance amount under the contract on insurance of business risk corresponds to the volume of losses from entrepreneurial activity, the occurrence of which is possible when the insured party has an insured event. When concluding a contract on insurance of financial risks, the insurance value will be calculated in accordance with the provisions of para. 2, item 2 of article 947 "Insurance Amount" of the Civil Code of the Russian Federation. This provision gives us an understanding that when an insured event occurs, there is an obligation to pay insurance compensation. According to the basics of property insurance, the amount of these payments should be equal to the amount of damage inflicted or prescribed in the provisions of the contract unreached revenue. It is also necessary to say that in the insurance contract it is possible to provide for compensation in a smaller amount, for example, than when insuring deposits in Russian commercial banks.

Based on all the above provisions, it can be assumed that entrepreneurial risk is a unifying notion that includes the content of financial risk. That is, it can be argued that the business risk insurance contract provides insurance not only for losses from damage or loss of property, liability of counterparties for any transaction, but also financial risk, since the ultimate goal of any business has been and remains the profit.

3. Results and Discussions

In 2017, 91 insurance companies performed insurance of financial risks in Russia. In the period analyzed, insurers collected 26.5 billion rubles of premiums under financial risk insurance contracts, which grew by 25% from the previous period.

The share of premiums under insurance contracts with individuals was 60.4%, and premiums for insurance contracts with individual entrepreneurs and legal entities accounted for 39.6%.

During the year 2017, 21.4 million financial risk insurance contracts were concluded, this indicates an increase of 54.1% compared to the previous period. In 2016, only 13.9 million contracts were signed. In terms of the indicator “the average premium on concluded contracts”, a decrease took place by 18.9% compared to the previous year, and it amounted to 1.2 thousand rubles. At the end of 2017, the number of contracts in force remained 5.14 million.

In 2017, 38.6% of all payments were made under insurance contracts with individuals, and 61.4% accounted for the share of insurance contracts with individual entrepreneurs and legal entities. All payments for insurance of financial risks reached 2.35 billion rubles, and that has made an increase of 27.1% compared to the previous period.

In total, during the analyzed period, insurance companies were claimed 97.7 thousand of insured events, which indicate an increase by 39.6%. The number of settled insured events amounted to 99.2 thousand, with an increase of 49.4% over the number at the previous year. The amount of average payments for the settlement of insured events decreased by 14.9% in 2017 and amounted to 23.7 thousand rubles. The number of refusals in insurance payments increased by 33.5% and in the period under study amounted to 2.992 thousand units.

All the above data indicate that the level of payments was 8.8%, whereas a year earlier this figure was equal to 8.7%.

The structure of sales channels for insurance of financial risks in 2017 was as follows: 27.9% of all premiums were collected without intermediaries (in 2016 this figure was 11.8%); 1.7% was collected via the Internet (1.9% in 2016) and 70.4% was collected through intermediaries (86.2% in 2016).

At the end of 2017, the amount of remuneration to intermediaries in the insurance of financial risks was equal to 9.3 billion rubles, or 4.6% of the total volume of remuneration at the insurance market as a whole. If we consider the ratio of remuneration to insurance premiums for financial risks, in 2017 it reached 35%, and it was at 16% on the average in the Russian insurance market, and a year earlier this figure was about 33%.

The first place in the ranking of the largest insurers in the insurance of financial risks was taken by the company “VTB Strakhovanie”. In 2017, the company's market share was 34.6%. During the period under study there was an increase in the volume of premiums collected by the company by 5%, that in quantitative terms amounted to 9.2 billion rubles. The second place was taken by “Alfa-Strakhovanie”, with an insurance premium of 4.4 billion rubles, a 16.8% share of the insurance market and 25.4% growth in premiums. The third place, with 9% share of the insurance market and premium growth about almost 49% was occupied by the insurance company "SK Kardif". The share of the top three leaders accounted for 60.4% of insurance and insurance risks premiums, which amounted to 16 billion rubles. In 2016, the same figure was 65.4%.

Let's consider some insurance companies offering insurance of financial risks in the regional market in the Republic of Tatarstan (tab.1).
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Table 1. Indicators of insurers of financial risks in the Republic of

| Indicators                        | Ingosstrakh | "VTB Strakhovanie" | Alfa Strakhovanie |
|-----------------------------------|-------------|---------------------|-------------------|
|                                   | 2015        | 2016                | 2017              |
| Authorized capital, million rubles | 17500       | 5500                | 7500              |
| Insurance premiums, thousand rubles | 2305        | 4072                | 29909             |
| Number of insurance contracts, offs. | 313         | 738                 | 1038              |
| Market share, %                   | 1.26        | 1.76                | 3.37              |

The summary data for the Republic of Tatarstan are presented in Table 2

Table 2. Indicators of the financial risk insurance segment for the Republic of Tatarstan

| Indicators                        | 2015 | 2016 | 2017 | The absolute change for 2017/2015 | Relative change for 2017/2015 |
|-----------------------------------|------|------|------|----------------------------------|-------------------------------|
| Insurance premiums, thousand rubles | 183290 | 231510 | 277489 | +94199                          | + 51.4%                        |
| Number of contracts, offs.        | 39339 | 49716 | 50120 | +10781                          | + 27.4%                        |

In general, the market has growth dynamics, which may indicate efficiency and relevance of insurance of financial risks.

Among insurance companies, VTB Strakhovanie accounts for a large share of the insurance market for financial risks in the Republic of Tatarstan, amounting to 18.7%. Despite the fact that "VTB Strakhovanie" has a charter capital less than other companies, the volume of premiums is close to the highest value for the market. In addition, "VTB Strakhovanie" is ranked 3rd in the Expert RA rating.

4. Conclusions
Entrepreneurial activity is inextricably intertwined with various kinds of economic risks, among which a special place is given to financial risks.

We came to the conclusion that the term "entrepreneurial risk" combines the notion of financial risk. It can be argued that under the contract on insurance of business risk not only losses from damage or loss of property, liability of counterparties for any transaction are insured, but also financial risk is, since the ultimate goal of any business has been and remains the profit.

Having carried out a statistical analysis of the insurance market for financial risks, it can be noted that, in general, the growth of key indicators is observed, which indicates the efficiency and relevance of insurance of financial risks in Russia.

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