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IMPROVED UNDERSTANDING OF RISKS AND THEIR TYPES

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ABSTRACT

Risks can come from a variety of sources, including uncertainty in international markets, political instability, threats of project failure (at any stage of design, development, production or maintenance life cycle), legal obligations, credit risk, accidents, natural causes and disasters. a deliberate attack by an enemy or an event of uncertain or unpredictable root cause.

Keywords: risk, investment risk, insurance risk, systematic risk, unsystematic risk, speculative risk, pure risk, economic risk, market risk, inflation risk, risk identification, risk identification.

INTRODUCTION

Risk is the potential, numerically measured probability of loss. The concept of risk is characterized by uncertainty associated with the possibility of adverse situations and consequences during the implementation of the project, as well as the possibility of losses, loss of planned income, and lack of profit.

Risks come in different areas, for example, we can take on investment risk or insurance risk:

Investment risk is the risk of partial or complete loss of investment, receiving less than expected profit and failure to achieve project goals. The higher the expected profit from the project, the higher the risk.

Insurance risk is an event at an uncertain time, with an uncertain dimension, the occurrence of which can lead to both negative, positive and neutral results.

The area of greatest risk is the financial market, and the risks there are divided into two large groups:

- Systemic risks (investment portfolio risks) – it is not individual securities that are exposed to risk, but the entire market, a significant part of which is exposed to risk. In this case, many issuers and security holders may suffer losses due to economic instability or other reasons. Systematic risks include: interest rate risk; currency risk; inflation risk; political risks.

Unsystematic risks – certain securities or a group of them are exposed to risk, that is, securities of a specific company or securities of a network. Unsystematic risks include: business risk; financial risks; illiquidity risk.

Repayment risks are divided into:

- short-term risks;
- long-term risks.

Risks depending on the result:

Speculative risk - due to their influence, there is a possibility of large losses or large profits.

Pure risks - they can lead to zero losses (profits).

Based on the level of impact on the project, risks are divided into the following:

Possible risks - due to their influence, the expected profit may be lost;

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Critical risks – the risk of loss of project cash flows;
Catastrophic risks are the risk of loss of income and investments.
Investment risks can be classified according to different criteria.
Content risks:
Economic risk;
Market risk;
Inflation risk;
Environmental risk;
Risk of bankruptcy;
Marketing risk and others;
The most common measures aimed at reducing credit risk in foreign banking practice are:
Assessment of the borrower's creditworthiness. The borrower assessment criteria are strictly individualized for each bank, based on its current position and revised from time to time.
Reducing the size of a loan issued to one borrower is applied only if the bank is not completely confident in the client's creditworthiness.
Credit insurance – Credit insurance assumes that the risk of non-repayment is transferred to the insurance company. All insurance costs are paid by the borrowers.
Discounted loans. Discount loans help reduce credit risk to a small extent. Lending in this way ensures a minimum loan payment.
Risk identification is a process that combines identification, analysis and comparative assessment. Risk can be assessed for the entire organization, its divisions, individual projects, activities or a specific hazardous event. Therefore, different risk assessment methods can be used in different situations.
Risk identification is the process of identifying risk elements, listing them, and describing each risk element. The purpose of risk identification is to compile a list of sources of risks and events that may affect the achievement of each of the organization's defined goals or make it impossible to achieve these goals.
The frequency of losses of a certain level during project implementation can be calculated using the formula

$$f(A)=n(A)/n,$$

Here f is the frequency of occurrence of a certain level of losses; n(A) – number of cases of a given loss level; n is the total number of cases in the statistical sample, including successfully completed and unfinished investment projects.
The risk classification is as follows:
- risks of economic activity, which can be expressed directly in monetary form (risk of changes in net profit, risk of changes in market capitalization, risk of financial activities, risk of non-fulfillment of obligations by the counterparty, etc.);
- Non-financial risks (risk of deterioration of reputation, risk of failure to fulfill government obligations, etc.)

Risk prevention mechanisms include:
Limiting the concentration of risks;
Hedging;
Diversification;

Limitation;
Risk sharing;
Risk insurance;
Risk avoidance;
An important component of developing a risk strategy is hedging, that is, the development of measures to reduce risk or prevent its occurrence.
To summarize: Risk analysis is the analysis and study of risks. Risk analysis contributes to the overall risk assessment process, helps decide whether risks need to be managed, and assists in the selection of appropriate risk treatment strategies and techniques. Risk analysis involves analyzing the likelihood and consequences of identified hazardous events, taking into account the availability and effectiveness of the control methods used.

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