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**THE METHODS OF MINIMIZATION AND NEUTRALIZATION OF FINANCIAL RISKS: THEORETICAL AND PRACTICAL ASPECTS**

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**МЕТОДИ МІНІМІЗАЦІЇ І НЕЙТРАЛІЗАЦІЇ ФІНАНСОВИХ РИЗИКІВ: ТЕОРЕТИКО-ПРИКЛАДНІ АСПЕКТИ**

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**МЕТОДЫ МИНИМИЗАЦИИ И НЕЙТРАЛИЗАЦИИ ФИНАНСОВЫХ РИСКОВ: ТЕОРЕТИКО-ПРИКЛАДНЫЕ АСПЕКТЫ**

*The factors which cause the high level of instability and uncertainty of functioning of the subjects of an economy in current conditions are researched. The essence of risk management, based on identification and assessment of risks and development of measures for minimization and neutralization of negative effects of the risks is considered. The importance of identification of the threats and interests of the subject of entrepreneurship as a key element of risks assessment is proved. The methods of minimization of financial risks are systematized and their theoretical and practical aspects of use are determined.*

**Key words:** risk, risk management, risk identification, risk assessment, interests, threats, methods of risk assessment, risk minimization, neutralization of risks, risk aversion, risk sharing, self-insurance.

Fig.: 1. Tabl.: 2. Bibl.: 7.

*Досліджено фактори, що спричинюють високий рівень нестійкості і невизначеності функціонування суб'єктів економіки у сучасних умовах господарювання. Узагальнено сутність управління ризиками, що базується на ідентифікації й оцінці ризиків та розробці заходів щодо мінімізації та нейтралізації негативних наслідків ризиків. Обґрунтовано важливість ідентифікації загроз і інтересів суб'єкта підприємництва як ключового елемента оцінки ризиків. Систематизовано методи мінімізації фінансових ризиків та визначено їх теоретико-прикладні аспекти використання.*

**Ключові слова:** ризик, система управління ризиками, ідентифікація ризиків, оцінка ризиків, інтереси, загрози, методи оцінювання ризиків, мінімізація ризиків, нейтралізація ризиків, уникнення ризику, лімітування концентрації ризику, розподіл ризиків, самострахування.

Рис.: 1. Табл.: 2. Бібл.: 7.

*Исследованы факторы, которые вызывают высокий уровень неустойчивости и неопределенности функционирования субъектов экономики в современных условиях хозяйствования. Обобщена сущность управления рисками, основанная на идентификации и оценке рисков и разработке мер по минимизации и нейтрализации негативных последствий рисков. Обоснована важность идентификации угроз и интересов субъекта предпринимательства как ключевого элемента оценки рисков. Систематизированы методы минимизации финансовых рисков и определены их теоретико-прикладные аспекты использования.*

**Ключевые слова:** риск, система управления рисками, идентификация рисков, оценка рисков, интересы, угрозы, методы оценки рисков, минимизация рисков, нейтрализация рисков, избегание риска, лимитирование концентрации риска, распределение рисков, самострахование.

Рис.: 1. Табл.: 2. Библ.: 7.

**JEL Classification:** E63, E69, E52, E60, D81

**Target setting.** The modern Ukrainian economy is characterized by considerable uncertainty of the key factors of functioning and development, such as political and legal, social and economic, territorial, sectoral, natural and geographical, demographic and others. In addition, the activity of the Ukrainian economic entities is determined by a high degree of instability and uncertainty, caused by such negative factors as:

- the information infrastructure which is necessary for the development of new technologies, production of the innovative products, entry into the new non-traditional markets and expansion of existing ones, is not developed well;

- structural imbalances of the national economy, which are caused by separation of the financial sector from the production sector, instability of the ratio between accumulation and consumption, growth of the imbalance between savings and investments, high rates of physical and moral wear of industrial, transport and other potentials, significant changes in the composition and structure of a banking system, etc.;

- a gap of economic relations with occupied territories of Ukraine, loss of a part of natural resources and energy which were used for domestic production;

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- loss of a part of seaports, resources and other above-mentioned circumstances have caused redistribution of cargo flows and influenced on expenditures of the economic entities, and consequently, on the results of an internal and external economic activity;

- high inflation rates and exchange rate fluctuations during recent years have increased the degree of risks and reflected negatively on functioning and opportunities of development of the economic entities on the micro, meso and macro levels.

As a result, the economic entities have a need for making management decisions which are able to minimize adverse threats and risks of an external and internal environment.

The risk management system is a key element of management and allows predicting and reducing the negative impact of risks on activities of the economic entities in conditions of the unstable and uncertain environment. Therefore, theoretical and practical problems of development and implementation of the effective methods of minimization and neutralization of risks, including financial, become very important in the current economic conditions.

**Actual scientific researches and issues analysis.** The problems of risk management are in the center of attention of the scientific research of the numerous domestic and foreign scientists. In particular, the fundamental works in the field of risk management are presented by papers of such scientists as S.I. Anokhin, M. Chekulaev, J. Keynes, H.B. Kleiner, F. Knight, M. H. Lapusta, A. Marshall, O. Morgenstern, L.N. Tepman, K. Redkhed and others. The scientific and practical aspects of risk management of industrial enterprises of separate branches are developed by foreign and domestic scientists, namely P.A. Fatkhutdinov, P.H. Hrabovyi, V.M. Hranaturov, H.B. Kleiner, O.O Kulikova, A.Iu. Popova, M.A. Rohov, O.S. Shapkin, V.L. Tambovtsev, N.M. Vnukova and others. The features of the risk management of the industrial enterprises are reflected in works of I.T. Balabanov, I.A. Blank, N.A. Brehin, Iu. Brikhem, O.V Chuhunov, H.B. Kleiner, O.A. Lobanov, V.P. Savchuk and others. These and other scientists also research the origins of risks, carry out their classification and analysis, and consider various options and ways of their complete or partial neutralization and compensation.

**Uninvestigated parts of general matters defining.** The analysis of the published researches in the outlined sphere allows noting the fundamental nature of works in the field of the theory of risk and their theoretical and practical character which is shown in the development of the system and the policy of risk management and in the application of a large number of various methods of their minimization and neutralization.

The urgency of the problems in risk management on a global scale led to the creation of Risk Management Standards which were the result of joint efforts of the Institute of Risk Management (IRM) [1; 2; 3], the Association of Risk Management and Insurance (AIRMIC), the International Risk Governance Council (IRGC) [4], the National Forum for Risk Management in the Public Sector (ALARM) [5].

At the same time, Ukrainian entrepreneurs just begin to realize the importance of timely identification, assessment and neutralization of financial risks, and scientific works in this sphere have mainly theoretical and methodological character and are based primarily on international experience which requires adaptation to the specific conditions of development of Ukrainian economy. In particular, it concerns the methods of minimization and neutralization of risks, and it proves the need of carrying out researches in this sphere and causes the purpose of this scientific work.

**The purpose of the article** is the theoretical and practical research of the methods of risk management in the financial sphere and determination of the features of their use in modern conditions of functioning and development of economic entities.

**The statement of basic materials of the research.** Risks are an integral part of functioning and development of any economic entity regardless of ownership and sphere of

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activity. However, expressed aspects determine specific features of risk management, including financial, of such economic entities.

Financial risk management consists in identification and assessment of risks and development of the system of measures for minimization of negative effects of risk events which occurred. Identification of risks represents detection and documenting of all types of possible risks of economic entities, connected with each specific transaction and activity in general [6; 7]. Risk assessment is a scientifically based process which consists of identification of dangers / threats, characteristics of detected threats and qualitative and/or quantitative determination of the amount of their influence on the functioning and development of the economic entity.

In our opinion, it is reasonable to systematize detected threats according to interests of the economic entity like in Tables 1 and 2. The risks need to be in the spotlight both owners and business administration.

Table 1

*Identification of interests of the research object and its contractors*

INTERESTS	Degree of importance			Duration of actions			Nature of collision			Place of actions		Degree of implementation			Spheres of distribution							
	vital	strategic	tactical	long-term	medium-term	short-term	parallel	confrontational	divergent	joint	internal	external	not implemented	partially implemented	fully implemented	industrial	financial	export-import	technological	socioeconomic	others	
1.																						
2.																						
...																						

Source: created by the author.

Table 2

*Identification of threats of the research object*

THREATS	Place of origin		Degree of danger		Possibility of implementation		Scales of implementation			Character of direction		Attitude towards them		Sphere of direction								
	internal	external	especially dangerous	dangerous	real	potential	nationwide	local	individual	direct	indirect	objective	subjective	industrial	financial	technological	export-import	others				
1.																						
2.																						
...																						

Source: created by the author.

Nowadays in Ukraine the interests of business owners, administration and employees often clash that reduces the effectiveness of an economic entity and increases the number of losses caused by negative effects of risks. Therefore, identification and systematization of the economic entities interests become more actual and require specification. Structured interests and threats will allow using resources of the economic entity more efficiently, developing balanced risk management policy and creating tactical and strategic development plans.

The most important indicator that allows assessing the security of an economic entity from threats of the environment and determining the level of financial and economic security is a risk level that is calculated by means of specific methodological tools, which provide a

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qualitative and quantitative assessment and allow solving related specific tasks of activity management of the entity.

Qualitative risk assessment consists in the analysis of sensitivity of financial results to change of key parameters of activities in the conditions of uncertainty and instability of the market, namely a risk of a deviation of actual data from planned, requiring a quick response. Quantitative risk assessment determines probability of emergence of risks and influence of their effects on functioning and development of the economic entity that helps top management to make appropriate decisions of tactical and strategic nature.

In the system of measures for ensuring steady functioning and development of the economic entity an important place belongs to minimization and neutralization of financial risks. Development of measures for neutralization of risks covers several stages (Fig. 1):

- 1) research of the factors which influence on functioning and development of the economic entity;
- 2) setting the maximum acceptable level of risks on specific transactions related to the operating (main), investing and financing activities of the economic entity;
- 3) determination of the directions of neutralization of negative effects of the certain types of project risks;
- 4) selection and use of internal mechanisms of neutralization of negative effects of the certain types of financial risks;
- 5) selection of forms and kinds of insurance of the certain types of financial risks;
- 6) assessment of neutralization of financial risks.

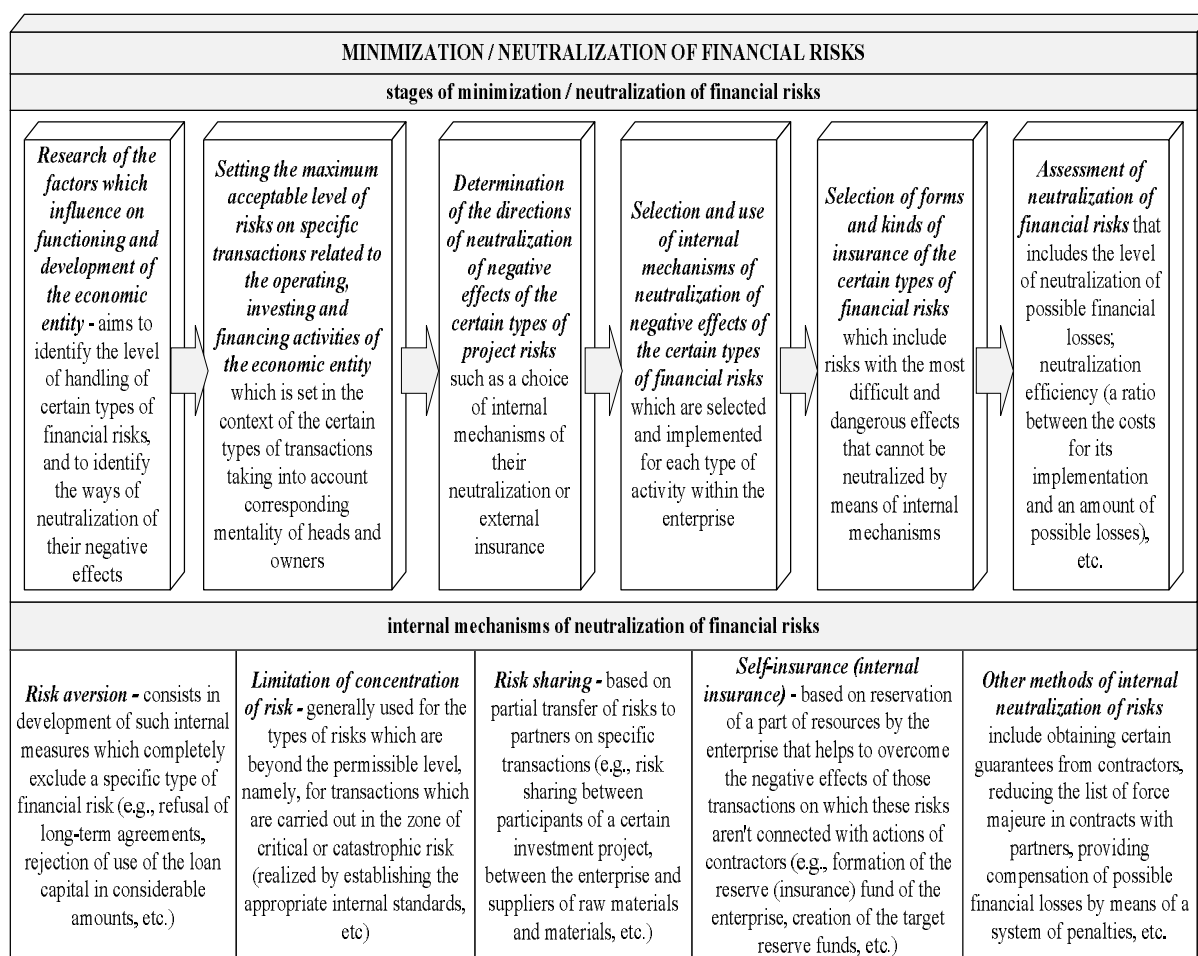


Figure 1. Essence, stages and mechanisms neutralize financial risks

Source: created by the author.

Within mechanisms of neutralization of financial risks, it is possible to allocate external and internal ones. External mechanisms connected with the implementation of external insurance, hedging (as a kind of insurance), diversification of investing and financial activities, acquisition of additional information that will allow predicting, considering and reducing an impact of market risks, etc. Internal mechanisms of minimization and neutralization of financial risks involve use of such main methods as risk aversion, limitation of concentration of risk, risk sharing, self-insurance and other methods of internal neutralization of risks (Fig. 1).

Each of these methods has its advantages and disadvantages that define the practical aspects of use of these methods and mechanisms. In particular, external insurance is the most widespread method which doesn't require additional time-consuming, however assumes availability of additional costs in the form of insurance premiums; hedging allows fixing profits at a certain level, but limiting receipts of an additional profit; diversification allows earning an additional profit, but the wrong choice of an object of diversification is possible and it can cause essential losses; risk aversion and risk limitation can provide a certain level of income, but often makes impossible to obtain an additional profit. In general, the advantages and disadvantages of each method should be considered in combination with the specific object of a research.

**Conclusions and results.** Despite a large number of publications on financial risk management, many aspects of the components of management remain a subject of long and heated debates that led to the choice of the theme of this scientific research. Risks accompany any activity of an economic entity, at the same time each economic entity has its own set of individual risks. The identification and assessment of risks, detection of threats of functioning and development of the economic entity in the context of its interests can minimize and neutralize some of the risks that are able to cause the loss of profit (income and capital). The author offered the systematization of interests and threats that will increase the level of financial and economic security and minimize the financial risks. Besides, the stages of minimization of financial risks and mechanisms of their neutralization were generalized. Furthermore, the main problems which don't allow making a full estimation of the effects of minimization of the influence of a certain type of risk on the effectiveness of functioning and development of the economic entity are determined, the solution of which will become a subject of future researches.

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