

RISKS IN THE INVESTING

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Abstract. Risk is a possible danger of performance. It is necessary to choose and make a decision in production, economic activity, which is always burdened with risk. Therefore, the risk is a normal phenomenon, a consequence of the actions of a variety of reasons that give rise to its various species. Risk management involves optimal use of all possible or allowable means of avoidance, or reduce the risk degree associated with significant losses; risk control, optimization of risk or maximum possible decrease in volumes and probability of possible losses. Investment risk is the risk of an investment project, which is defined as the probability of obtaining a possible loss from its implementation. The investment risk of industries is characterized by the level of uncertainty in the forecast of profit from investments. The risk is possible only when the controlled economic system functions in conditions of uncertainty, and the person who makes the decision is interested in the final result.

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1. Introduction

In modern conditions, investment attractiveness is associated with the objective economic category of risk, which presupposes future events. Investment risk is the risk of an investment project, which is defined as the probability of receiving a possible loss from its implementation. However, this definition is not specific enough to quantify project risk. So, at a loss, you can take a full or partial non-return of invested funds, or receiving less than planned profit, or getting a profit from the implementation of the project less than some necessary profit.

Risks arise when there is uncertainty, that is, the presence of incomplete or inaccurate information for making a decision. Uncertainty is one of the causes of risk. When choosing an investment object, a variety of future investment projects is required, which will assume the likelihood of reducing the investment risk. The investment risk of industries is characterized by the level of uncertainty in the forecast of profit. The risk is possible only when the controlled economic system functions in conditions of uncertainty, and the person who makes the decision is interested in the final result.

2. Investment risk

Investment risk as a category is determined by the following elements: the subject of risk, the object of risk and the source of risk (Figure 1).

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Investment risk can be viewed as the uncertainty in obtaining a total profit or in obtaining the amount of return on investment that the investor expects. When investing, the investor sets the maximum risk level of the invested capital, taking into account the risk assessment. The object of risk in the investment process is an investment project, that is associated with the effectiveness, efficiency of the project in conditions of uncertainty. Reducing the level of risk implies reducing the likelihood and volume of losses in the agrarian and industrial complex. In the agrarian and industrial complex, it is agriculture, the efficiency of which is largely predetermined by natural and climatic conditions, is the most risky sector of the economy for an investor. Investment risk is a factor influencing the formation of investment attractiveness of sectors of the economy, in particular agriculture. The indicator characterizing the degree of risk is defined as a relative value.

3. Risk reduction methods

As practice shows, the optimal risk coefficient is 0.3. It is possible to determine the principles for choosing a specific risk reduction method:

- the consequences of the risk need to be determined;
- the risk should not be greater than the amount of equity capital;
- not risk a lot for the sake of little.

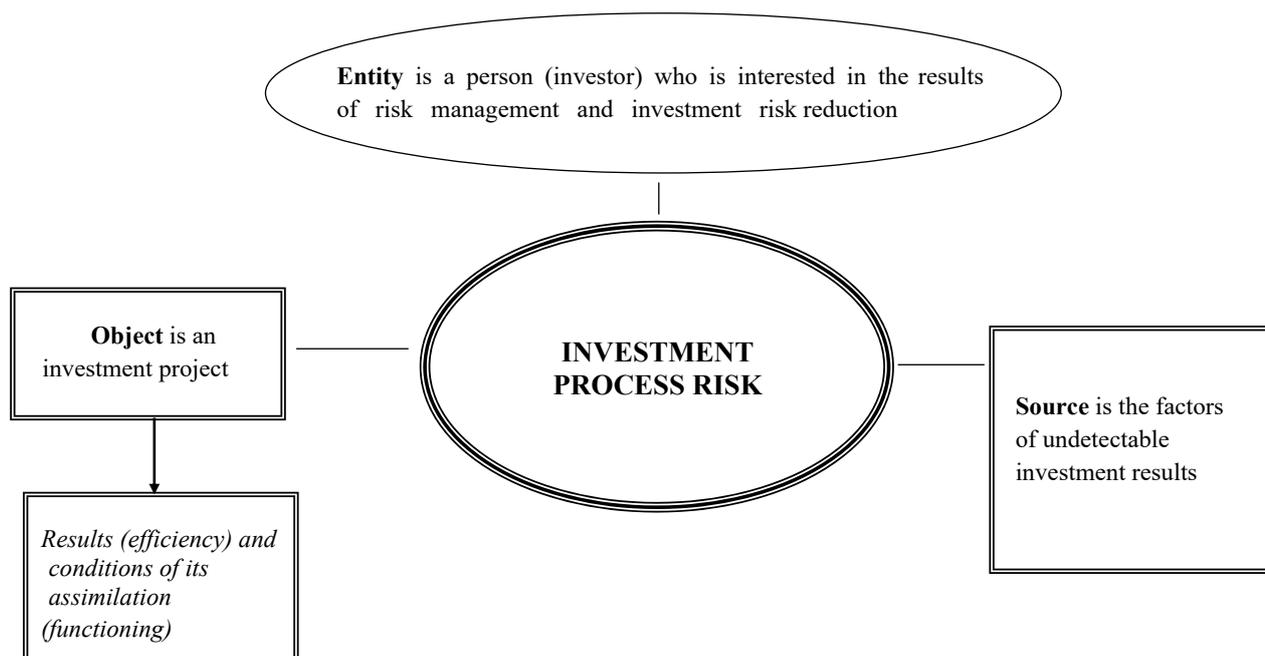


Figure 1. Elements of investment risk

Risk reduction techniques include:

- elimination from activities (circumstances) containing risk;
- transferring responsibility for the risk to another party;
- carrying out own measures (control systems, security, etc.) to reduce the risk;
- responsibility for risk.

To select a risk reduction method, the required funds for risk reduction are compared with contributions from damage prevention. Reducing the degree of risk depends on different methods of protection: insurance, hedging, guarantees, limiting, reserve funds, collateral, and others. The source of risk is the factors influencing the investment and contributing to the uncertainty of the results. The set of methods allows to determine and assess the risk at different phases of the project development, find ways to reduce it and influence the main parameters of the project. Depending on the results of the completed risk analysis, as well as on how risk-averse the investor is, the latter decides to accept, change, or reject the project.

For example, an investor, based on his appetite for risk, would do the following with a risk of more than 30%. If the risk indicator, or normalized expected loss, exceeds or is equal to 30%, then in order to accept the project, it is necessary to implement proposals to reduce the risk. Risk mitigation suggestions are any actions to change data that can reduce the risk without exposing the project to loss. For these purposes, the rules developed in advance are used, providing for the appropriate actions of the participants in case of certain changes in the conditions for the

implementation of the project; the projects may provide for specific stabilization methods that ensure the protection of the interests of the participants in the event of an unfavorable change in the conditions for the implementation of the project (including in cases where the objectives of the project will not be fully achieved or not achieved at all) and prevent possible actions of the participants that threaten its successful implementation.

In one case, the degree of the risk itself can be reduced (due to additional costs for creating reserves and stocks, improving technologies, organizing labor, smoothing its seasonality, reducing production accidents, material incentives for improving product quality), in the other, the risk is redistributed between participants in the form of price indexing, the provision of guarantees, various forms of insurance, including crops, property pledge, a system of mutual sanctions.

As a rule, the use of stabilization mechanisms in a project requires additional costs from the participants, the amount of which depends on the conditions for the implementation of measures, the expectations and interests of the participants, and their assessments of the degree of possible risk. These costs are subject to mandatory consideration when determining the effectiveness of the project. If at this stage it is possible to reduce the risk so that LEU becomes less than 30%, and there is a choice among this kind of project options, then it is better to choose the one with a lower coefficient of variation. If it is not possible to reduce the risk to the specified level, the project is rejected. Projects with a risk of less than 30% (LEU <30%) require insurance. It is proposed to create an insurance

fund in the amount of a certain share of the principal investment amount. You can take this share equal to the value of the risk indicator (normalized expected loss). That is, if the risk is approximately 25%, then it is necessary to provide for deductions from retained earnings during the implementation of the project or conclude an agreement with an insurance company in the amount of 25% of the principal investment amount and send these funds to the reserve, to be used only in case of critical situations associated, for example, with natural and climatic conditions and natural disasters, with the unplanned expenditure of free funds, as well as other problems in order to normalize the financial and economic situation.

Investment risk management is carried out through the following functions:

- planning (forecasting) and identification of risks;
- development of methods for responding to risks;
- control of response to risks.

Formation of investment attractiveness is associated with investment risk management. It is the art and formal methods of forecasting, analysis, assessment, prevention of the occurrence of risk events, taking measures to reduce the degree of risk throughout the life cycle of an investment project and distribution of possible damage from risk between project participants. All projects and most aspects of a project are risky to varying degrees. They can be exposed to financial, organizational, social, political and other types of risk. Considering risk as a factor or function, as an uncertainty affecting the return on investments, it can be managed as a type of activity, that is, using various methods, measures that allow one to predict risk and determine methods to reduce it.

4. Classification of risks

In the economic theory, a generally accepted classification of risks has not been developed. The conceptual and classification apparatus of the risk theory has not yet been sufficiently systematized. Investing, like the entire financial system, is associated with a variety of risks. In this regard, consideration of the methodological aspects of risk classifications is an urgent issue. Risks can be systematized by grouping principle.

The effectiveness of the organization of risk management largely depends on the systematization of risks to achieve the set goal. Scientifically based classification of risks allows you to clearly determine the place of each risk in their overall system. Each risk has its own management system and applies to almost all sectors of the economy (Figure 2). An opportunity is created for the effective application of appropriate methods and techniques of risk management. So, the algorithm of the method of expert assessment of the risks of an investment project includes:

- a complete list of all possible risks at each stage of the project (or phase of its life cycle);
- expert determination of the importance of risks;
- rating (ranking) of risks according to the degree of their importance for the project;
- search, organization of work to reduce the degree of risks and their management.

Depending on the results, risks can be divided into two groups: pure and financial. The net risks in the agricultural sector include environmental, political, transport, production and trade risks. Financial or speculative risks include banking risks: credit, currency, interest, liquidity, inflation, bankruptcy and others related to financial and credit transactions. Depending on the place of manifestation:

- external (international), national;
- internal.

By type of production:

- risks of the main production;
- risks of auxiliary and service industries.

By the form of exposure:

- risks of direct losses;
- risks of consequential losses.

By complexity:

- private (local) risks;
- systemic risks (that is, those caused sequentially initiated by a chain of local risks);
- aggregate risk (that is, the risk that takes into account the actions of all types of private risks).

Due to the occurrence:

- risks of accidental events;
- planned risks.

By the degree of predictability:

- predictable with a high probability;
- predictable with low probability;
- unpredictable.

By the time of manifestation:

- retrospective;
- the current period;
- future (distant) period.

By the degree of control:

- controlled risks that can be avoided or their consequences reduced;
- partially controlled risks, which can only be partially avoided or their harmful consequences reduced;
- uncontrollable risks that cannot be avoided or their harmful consequences cannot be reduced.

Security:

- insured risks;
- uninsured risks.

The classification of risks also includes groups by regularity:

- systematic (regularly recurring);
- unsystematic.

Systematic risks affect performance. This group includes the following types of risk: political, which can be international (external) or internal (national);

financial and economic, which are manifested in the economic downturn, inflation, etc.; legislative ones related to political instability affecting the legal regulation of economic activity; force majeure associated with extraordinary circumstances (natural disasters, etc.).

Non-systematic or individual risks that appear for each investment object are associated with mistakes in the choice of production technologies – innovative; the sales market of the planned production output – market; terms of execution – production. Based on the study of the classification of investment risks, a block diagram of risk management is proposed. The risk management model includes a sequence of actions to maintain the necessary balance of types of risk, investment attractiveness and the effect of investment.

The basis of any risk management model is the risk management technology, which is unchanged, including such elements or stages as the formulation of the problem associated with the hypothesis of investment risk management, its verification by risk criteria. Based on the hypothesis, methods of risk reduction are determined, that is, to reduce the loss of risk management. Their mobility during investment will allow the investor to obtain the greatest effect, both material and social. It should be noted that for each object of investment in the agricultural sector, risk factors have a certain significance and require individual analysis. For an investor, a bank must be attractive to investors. Let us consider more specifically the essence of banking investment risks associated with portfolio investments.

In any economic activity, especially in the agro-industrial complex, there is a danger of losses arising from the specifics of business operations. It is a commercial risk. Commercial risk means uncertainty about the possible outcome and its uncertainty. An integral part of commercial risks are financial risks associated with the likelihood of losing any sums of money or not receiving them in certain conditions. An investor, making a venture capital investment, knows in advance that only two types of results are possible for him or her: income or loss. A feature of financial risk is the likelihood of damage occurring as a result of any operations in the financial, credit and exchange spheres, transactions with stock securities, that is, the risk that arises from the nature of these operations. The leading principle in the work of commercial banks in the transition to market relations is the pursuit of as much profit as possible. It is limited to the possibility of incurring losses. In other words, risk is the value of a probabilistic event leading to losses. The higher risks the higher the chance of making a profit. It is possible to make a profit only if the opportunities to incur losses (risks) are foreseen in advance (weighed) and insured. Therefore, the problems of economic risks in the activities of commercial banks should be given priority

attention. The main problems include the development of a classification of banking risks, assessment bases and methods for calculating economic, political and other risks of a bank, an individual borrower, a group of enterprises, an industry, a country.

Risks for arbitrary banking operations include credit, interest rate, foreign exchange, portfolio risks and the risk of lost financial gain. Credit risk is associated with urgency and repayment. It poses the danger of non-payment by the borrower of the principal debt and interest to the lender for the use of the loan in the terms specified in the loan agreement. Credit risk management is a system for making decisions by a bank arising from approved policies and procedures that are aimed at minimizing the bank's costs. Interest rate risk is the danger of losses by commercial banks, credit institutions, investment funds, as a result of the excess of interest rates paid by them on borrowed funds over the rates on loans provided. Currency risk poses the danger of currency losses associated with a change in the exchange rate of one of the foreign currencies in relation to another, including the national currency, during foreign economic, credit and other currency transactions. Portfolio risk is the possibility of losses in the securities market. The risk of missed possible profit is determined by indirect or collateral financial damage (not received profit) as a result of non-implementation of any measure or termination of business activities. All of these risks are interrelated.

Credit risk can lead to the risk of liquidity and insolvency of the bank, as well as to the risk associated with the inability of the bank to reimburse administrative and business expenses. Interest rate risk is independent, as it is associated with the situation in the credit market, and acts as a factor that does not depend on the bank. The bank must adjust to changes in the level of market interest rates. The most important elements of the classification of banking risks are:

- type of the commercial bank;
- attractiveness of the bank for the investor;
- the composition of the bank's clients;
- risk calculation method;
- degree of banking risk;
- distribution of risk over time;
- the nature of risk accounting;
- the ability to manage banking risks;
- risk management tools.

Currently, taking into account the direction of activity of banks, there are three types of commercial banks:

- specialized;
- industry;
- universal.

For example, a specialized, innovative bank is dominated by increased risks associated with lending to risky enterprises, technologies, the implementation of which is difficult at first. This also requires special methods for regulating banking risk, in particular,

obtaining guarantees from the state, introducing a pledge right to real estate, etc. A holding institution specializing in the purchase of controlling stakes in securities evaluates the risk of transactions with securities, etc. Thus, specialized banks bear risks for those specific banking operations that constitute the direction of their activities. Sectoral banks are closely related to a specific industry, therefore, the range of their risks, in addition to the risks of arbitrary banking operations, depends mainly on economic, that is, external risks for the bank of the bank's clients. In the industry bank, it is necessary to calculate the size of the average industry risk to determine unused reserves at enterprises and institutions of the industry and to develop the main directions of the banks' activities. Universal banks take into account all types of banking risks in their activities. Therefore, it is advisable to develop an optimal set of types of risk for each type of the bank. The higher degree of risk in the considered options is possessed by industrial banks as medium-sized, non-mobile, serving specific industries and clients, and the least by universal banks, which have the ability to cover losses from one type of activity with income to another.

Depending on the area of origin, banking risks are classified into:

- the risk of countries, industries;
- the risk of financial reliability of an individual bank (that is the risks of insufficient bank capital, unbalanced liquidity, insufficient required reserves);
- the risk of a particular type of banking transaction.

On the other hand, risks, depending on the sphere of occurrence or influence, are divided into external and internal. External risks include risks that are not directly related to the activities of the bank or a specific client. We are talking about political, social, economic, geographical and other situations and, accordingly, the losses of the bank and its clients caused by them. The economic external risks of the bank, not directly related to its activities, include the instability of exchange rates; inflation; insolvency or bankruptcy of the bank's clients, its refusal to make payments and non-payment of the debt in due time; change in the price of the client's goods after the conclusion of the contract, errors in documents or payment for goods, abuse of clients or theft of foreign currency by them, payment of counterfeit banknotes, checks. Internal risks, in turn, are divided into risks in the main and auxiliary activities of the bank.

Risks in the main activity of the bank represent the most common group of types: credit, interest rate, currency, risk on factoring and leasing operations, risk on settlement operations of the bank and operations with securities. Risks in the bank's auxiliary activities include losses in the formation of deposits, risks of bank abuse, risks of off-balance sheet transactions, risks of loss of the bank's position in the market, loss of the bank's reputation, the composition of its clients, the risk of downgrading the bank rating, etc. They differ from the

risks of the bank's core activities in that they generally have only a conditional, indirect assessment and are expressed in lost profits. But within each of the listed types of risks, additional groups can be distinguished. For example, the emergence of new types of loans, such as: avalanche, pawnshop, position, consortium, accounting and acceptance, has created new types of risks on credit operations and various private methods of calculating them. In a market economy, the instability of the banking system is increasing, which affects the state of various sectors of the economy and enterprises. Business entities begin to reduce their own funds and reserves, this leads to a disruption in the normal circulation of credit resources and an increase in the risk of all banking operations. Therefore, at present, the most common method for minimizing risks is the allocation and compliance with prudential standards of bank liquidity.

Many commercial banks, especially specialized ones, calculate only certain types of risks in various areas of banking activity. Determination of the size of the admissible aggregate risk of a bank, an individual client, and an economic region becomes promising. Depending on the calculation methods, complex and private risks are distinguished. Complex risk includes assessment and forecasting of the bank's risk and compliance with prudential standards of bank liquidity. Private risk is based on the creation of a scale of risk ratios when weighing risk for a particular banking operation or group. The degree of bank risk or risk weighting takes into account full, moderate and low risk, depending on the position on the risk scale. The degree of banking risk is characterized by the likelihood of an event. It is expressed as a percentage or specific ratios. The liabilities of commercial banks are grouped into six groups based on the degree of investment risk and the possible loss of part of the value. Appropriate correction factors or percentages are assigned to individual categories and groups of assets.

The same risk may have a different degree depending on the possibilities of guaranteeing it, insurance and other methods of regulation. For example, long-term bank loans issued for the construction of a new enterprise have 100% risk; when insuring this amount in government agencies, the degree of risk is reduced to 10-50% (subject to insurance in the amount of 50-90% of the loan), and upon receipt of a government guarantee to zero. The peculiarity of finding the degree of banking risk is its individual value associated with taking on a specific risk for a specific banking operation. In many ways, it is determined by the subjective position of each bank.

Attempts to regulate the degree of banking risk for individual transactions should be flexible. The distribution of risk over time is an important factor in a market economy. The main operations of the bank are subject to the past and current risk (in some cases –

and the future). Operations on issuance of guarantees, acceptance of bills of exchange, documentary letter of credit operations and others are subject to the current risk. But the very possibility of paying for the guarantee after a certain time, paying bills, issuing a letter of credit at the expense of a bank loan expose these operations to future risk. When the time comes to pay the guarantee, if the bank did not take into account the likelihood of these losses, it also bears the past risk, that is, the one that the bank assumed directly when issuing guarantees. The distribution of risk over time plays a very important role in predicting losses and taking this factor into account in order to avoid the imposition of past risks and mistakes on the future activities of the bank. By the nature of accounting, banking risks are divided into risks on balance sheet transactions and risks on off-balance sheet transactions. The credit risk arising from balance sheet transactions also applies to off-balance sheet transactions, for example, in the event of bankruptcy of an enterprise. It is necessary to correctly take into account the degree of possible losses from the same activity, taking place simultaneously both on balance sheet and off-balance sheet accounts. Thus, the assessment of the degree of risk of transactions in currency options (new types of securities) should be made based not only on the currency risk, but also on the market risk on transactions with securities, as well as risks on individual off-balance sheet transactions: with treasury bonds, euro deposits, exchange indices, etc.

In terms of management capabilities risks are divided into open and closed. Open risks are not the subject to regulation, closed ones are regulated. The above

classification and the elements underlying the economic classification are intended not so much to list all types of banking risks, but to show the influence of the risk factor on the investment attractiveness of banking funds for sectors of the economy as investment objects. The balanced liquidity of the bank's balance sheet and the creditworthiness of clients are the main factors that determine the riskiness of the operations carried out by the bank and characterize its financial reliability.

5. Conclusions

In the financial activities of an enterprise, the principle of balancing risks is important, that is, risky investments must be financed from their own sources. It is necessary to include compensation for the risk of capital investments in profit (part of the profit at risk), that is, like an insurance premium to compensate for risk. Competitive risk must be within acceptable limits and must be managed. The problem of the ratio of risk and profit is one of the main ones in the investment activity of business entities. Due to the insurance protection of investment risks, the implementation of the investment project is ensured at all stages of its implementation. Investment risks insurance covers only an insignificant, about 1%, part of the domestic insurance services market. Risk assessment should be predictable in a risky business environment. In the world practice, the degree of risk of invested capital is characterized by a subjective quantitative assessment of the expected value of the maximum and minimum income or loss.

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