Financial Risk Management

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Abstract: Concerns about the financial risk is increasing. In this climate, companies of all types and sizes want a robust framework for financial risk management to meet compliance requirements, contribute to better decision making and increase performance. Financial risk management professionals working with financial institutions and other corporate clients to achieve these objectives.

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INTRODUCTION

Financial risk management is traditionally the banks and financial institutions but due to the nature of this activity, institutions are exposed to different percentages of market risk, credit, liquidity and operational, which, if properly managed, can bring substantial profits or on the contrary, if a poor management can lead to bankruptcy of the bank or financial institution.

Management insurance, as in all fields, aims to create better conditions for economic activity and their efficiency. In addition to factors common to all areas of activity, the security specific factors involved and determine the organization and management of insurance business.

Assumes liability insurance coverage in connection with damages that have been randomly volume of claims we may be known but can only approximate calculations based on probability theory. Hence the importance of the existence of a complete information system as containing data on the frequency and intensity of risk as long periods of time. With these data, the insurance company can determine the insurance premiums, using statistical and mathematical methods.

Financial risks that arise from various sources, including: changes in interest rates, foreign exchange transactions, extensions of credit operations, equity and derivative instruments.” In turn, financial risks are divided into three categories, namely: market risk, credit risk and price risk. Is presented, comparative risk behavior of shareholders and the managers of a company through risk neutral utility function”[1].

[1] Thomas Priermeier- Finanzrisikomanagement im Unternehmen, Ed. Vahlen, Munchen, 2005

In Romania there is a implentare these standards on risk management of any kind, especially given the financial risks and financial situation currently existing national and especially at ways to prevent internațional.Aceste especially financial risk management have been made possible by the Romanian insurance market penetration of financial risk it several prestigious companies worldwide that have implemented the techniques led to an attempt to mitigate financial losses recorded in the insurance market.

Since 2009 members of financial institutions in Romania has been drawn attention to the reassessment and consolidation of financial risk management policy to address complex threats facing at present, but only 42% of these institutions have conducted or planned implementation fundamental changes in risk management processes.

IDENTIFICATION AND FINANCIAL RISK ASSESSMENT

A risk assessment is an assessment of levels of vulnerability in a company's processes and activities in key areas, which helps management make decisions on how they react to these risks. Activity is part of a broader risk management by companies making plans about the possibility of adverse events that may occur in the future and decide how they will react to these potential threats.

However, as the economy grows and the country face the competitive environment, harsher, the Single European Market, local companies will begin to know a growing number of formal evaluation exercise benefits risk. The procedure takes into account various aspects of company operations and assess the level of vulnerability that may result because of inefficiency, poor management or malpractice in a particular field. Also, the exercise targets the promotion of corporate governance principles - vibrant business practice based on integrity and efficiency, with a strong emphasis of the companies that adopt high standards in their operations, relations with state authorities and customers.

Compliance with these principles is recognized as increasingly important not only in terms of ethics, but also essential in developing a healthy business. "Companies that meet the high standards of corporate governance will gain customer confidence, trust those who provide funding sources such as banks and trust from shareholders, which will lead to better performance on the stock exchange, where the company is listed. "[2]

Risk assessment exercise is designed to help a company to maximize its potential by focusing on these objectives and by optimizing the level of risk associated with its operations. While no company operating in an environment completely devoid of risk, which is a fundamental component of the business environment, risk assessment exercise is basically the "scientific", allowing management to carefully consider the consequences and thus make decisions based on information.

A risk assessment approach can be divided into internal and external risk. External risks such as those that are not related to business activity, but should nevertheless be taken into account - changes in the economic cycle. Internal risks related to business practices, equipment, employees or otherwise. These may include loss of competitive position due to a failure of personnel or equipment in production. For

[2] Mihaela Cojocaru -Financial risk insurance in Romania. Present conditions and prospects for EU accession - PhD thesis, ASE, Bucharest, 2009

example, goods can be delivered to customers for poor quality, poorly assembled or after-sales service can be competitive, leading to loss of reputation, as well as replacement costs.

Most successful companies in international risk assessment exercise used frequently as part of advance planning and organization, once the risks have been established, management can react in one of three ways: either risk can be avoided or improved or accepted.

Exercise is frequently closely related to internal audit, in which a team independent of common management and reporting directly to the Audit Committee, gives an overview of company activities to investigate issues of efficiency and ethical principles in business. Risk assessment exercise is often supervised by the "Audit Committee, which will advise the Board on the risks that have been evaluated and how should the company to react."[3]

First, risk assessment exercise should take into account the company as a whole to determine where the main areas of risk, preserving the "memory" nature of the business enterprise. Then the company will continue assessing the level of risk and defining sections by using, for example, a scale of one to five where five is the maximum risk.

The consequences of poor management in that unit would have serious effects for the entire company, while mismanagement in a subsidiary, for example, would have less severe effects on the total. However, sometimes small or seemingly insignificant part of a company may have an important risk factor, even if only one legal entity, with little or no staff.

Failure to observe this principle may lead to a "distortion of domestic prices for goods movement from one country to another in order to maximize profits in an economy with low taxes and minimize them when taxes are high."[4]

The various components of an organization that may be part of risk assessment exercise are subsidiaries or legal entities of the company. That exercise different parts of an enterprise will be compared between them is meant to create competition between departments or subsidiaries, and the results are usually not published in full or made known to employees.

An area can be evaluated is "risk individuals". Evaluators shall ensure that management is competent and follows the principles of corporate governance at the same time that the workforce is happy and stable. A sign that the risk to persons is a problem can be a high turnover of employees, which would suggest that the company pays scant attention to personal development or to maintain a high level of satisfaction among employees.

An important issue for the risk assessment refers to newly acquired companies, whose integration can pose risks. For example, systems may not be fully integrated, leading to greater probability of noncompliance. Risk assessment exercise envisages compliance with company policies, violations of internal policies related to reimbursement of delegates, the purchase of company assets without proper authorization or other such problems.

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[3] Alan Gordon- Risk and the Business Enviroment, Whiterby&Co Ltd, London, 1992

[4] Gerhard Schroeck- Risk Management and Value Creation in Financial Institutions, John Wiley&Sons, Inc., London, 2002

The frequency with which risk assessment is carried out is important. Typically, risk assessment exercise is held annually or every 18 months. It can be conducted by a national department. Alternatively, it may be conducted by the department responsible for risk management, insurance or legal department. An external consultant may be involved, if not exercising proper risk assessment, then the formulation of its structure. This can help to maintain independence and objectivity.

Professionalism risk assessment team will be very important, while the ability to identify the real risk would be much appreciated. Addressing the staff can put sensitive issues, risk assessment team is sometimes confronted with employees who have personal problems and will have to assess whether they show a really bad management or problems are simply the result of a single individual.

At the same time, risk assessment exercise will aim to ensure that there are legitimate channels for employee complaints regarding management malpractice, involving a flagrant or unethical behavior. Such a channel for complaints, which employees can make confidential and anonymous complaints, is a common tool used by U.S. companies to help employees to report unethical behavior or flagrant existing company.

PLACEMENT OF RISKS TO INSURANCE COMPANIES

Withholding on their own would bring high costs. The solution they adopt company managers in most cases is to use the services of an insurance company. Risk management provides the necessary elements to answer the complexity of risk monitoring.

The concept of risk management lies in preventing and minimizing the occurrence of events and in the identification, evaluation and quantification of them. However, risk management through several stages of development, these stages are of great utility in adopting measures to limit the losses that may arise.

The first element in the risk management process is to identify its risk through inspection, experience, analysis of questionnaires.

Quantifying risk and assessing the likelihood of expressing it occurs, and "financial impact it can have in case the one for which analysis is performed."[5]

A very important step is the recommendation and decision on how to transfer insurance risk by combining at least three elements: the best coverage, negotiated an insurance premium, an insurer able to quickly pay any damages.

Risk manager is usually the big companies, which are intended to draw attention to risks that threaten the company's business at a time, but also to develop insurance programs or other methods of prevention.

We believe that we can list four main reasons underlying managerial decision:

- Self-interest management;
- Fees to be paid by the company;
- The cost of the threats to the financial side of business;
- Capital market imperfections.

[5] Nicole Rosa, Ronan Le Glouannec – Guide pratique des assurances, Marabout, 2003

Managerial interest occurs when a person is entrusted with the task of representing the interests of another person or group of persons and such a relationship type arises mainly - agent. The relationship is based on the assumption that the interests of both parties are converging. At one point, however, the interests of both parties may become divergent. Then happens what economists call the principal and agent between the potential problem. In practice, this situation is found most often in the relationship between shareholders and managers. It happens sometimes that the latter do not represent the best possible interests of shareholders and to pursue their own interests related to salaries and benefits, sometimes taking risky decisions that would not take if it were shareholders of the company.

The solution to this problem is close monitoring of management by a well developed system consists of audits, request financial reports and other means. Another solution is by offering incentives for managers in company stock, profit sharing or other bonuses. Experience has shown that none of the solutions do not offer full guarantee shareholders that management will act only in their interest.

Fees to be paid by the company is one of the challenges a company's managers. Whereas the amount of taxes that a company is obliged to pay increases continuously with increasing taxable income, managers have the task of finding solutions is to reduce the amounts to be paid as taxes. The purchase of insurance policies, in addition to the protection offered to the business itself, accountability and the need to reduce spending with taxes, insurance premiums as expenses are deductible.

Bankruptcy is the greatest danger threatening the company. In general, the emergence of financial problems is bad and that entails a problem others, leading to high costs for the company. Thus, situations may arise with the audit and supervision costs, dictated by a court.

Insolvabiltate situation itself is expensive because it involves high costs of working time dedicated management audits, operations in connection with the liquidation and many other external costs difficult to predict. Loss of position held by the company in the market, customers that they no longer do business with firms in trouble, lack of new business and liquidation expenses are other problems often hard to quantify.

Therefore, by buying an insurance policy or a comprehensive insurance package managers protect their company and its business because of financial difficulties for loss costs to be as small as possible.

Capital market imperfections give the hassle often managers, influencing their decisions. As long as a company can finance projects from their own resources, no need to seek external funding sources. However, external sources of financing is often the solution project development issues.

All these reasons result in an under-investment. Thus, increased volatility requires the company to give up some of the investment, especially if you need to seek external funding. Priority is the need to reduce volatility management, which has the task of increasing income to shareholders. One of the most commonly used methods by which this is accomplished is the conclusion of insurance.

From what happens in practice, we can say that there are many situations where even the large corporations rule not strictly expected value to shareholders and, fixing his aim to follow the low volatility of cash flow, decide to engage in less risky projects, even

if they are not the most profitable for the company. The desire for profit, except where this leads to tax increases, or to the risk of bankruptcy, the necessity of seeking external sources of funding.

CONCLUSIONS

Risk assessment exercise is an integral part of general management. The information generated can be applied in many departments of an organization, such as insurance and legal aspects responsible for pursuing, in general, the principles or existing legislation. Risk assessment exercise has significant benefits and can give assurances that the company has an efficient and ethical performance. It will become increasingly important for Romanian companies, as they compete in the competitive climate of the European Single Market.

It is therefore essential for the credibility of this exercise risk assessment to be made by experienced professionals who have a thorough understanding of company business, identify risks and assess their impact on business in general.

Two main elements characterize the insurance business: risk sharing and mutualisation or fundraising through insurance premiums they receive by investing these funds in financial markets.

Insurance companies play an important role in resource allocation. Sums of money received from insurance premiums must be invested properly in different asset classes to enable solvency and liquidation required to pay damages and costs involved.

For the public, ie a person outside the results of insurance companies, checking solvency analysis is based on financial reports of insurers. The public knows that an insurer is financially more robust as it has a higher solvency margin, its purpose being to protect the insured.

Financial condition of insurers is determined by analyzing the balance sheet, profit and loss account and the specific financial reports to the supervisory authority, as required by law.

Insurance business is, by nature, an economic activity where risk is involved in a greater extent than in other activities. Risks they are exposed to risks insurers are not assumed, for an insurance contract that if the insured event occurs materialize, but global risks that threaten the existence of the insurer (we talk about risk management - risk being put on the insurer because of a management that is incompetent or fraudulent intentions).

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