

The research of households financial risks as a factor of regional sustainable development

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Abstract — The article contains an analysis of the household economic activities, which is associated with the characteristic of financial risks. In a market economy, households face risks that have a greater negative impact on the economy. Currently, there is an objective need for risk analysis, it will allow to model and distribute the household budget correctly.

The consequences of household financial risks for the regional socio-economic situation are manifested in reduced demand for labor (in particular, unemployment), a sharp decline in household incomes, increased family spending, and a lack of social status in society.

Lately in Russia the number of people with incomes below the standard of living has been decreasing, incomes are growing, and the rate of decline in incomes is slowing down.

So there is a clear link between the financial risks of households and the economic development of the region. The risk of material insecurity has been increasing (later bankruptcy of a household member) in conditions of instability as a result of a sharp decline in income for objective reasons.

Keywords - financial risks, insurance, household, steady growth of regions, establishment of limits

I. INTRODUCTION

In modern conditions, households and its members need a insurance protection due to financial and insurance illiteracy, due to imbalances in consumption of credit, savings, pension and insurance products by household, due to ineffective state and non-state pension insurance and many other negative reasons.

The number and volumes of financial fraud with participation of citizens has been increasing in such conditions

that provokes financial unstable the majority of households. The financial risks has been growing, they become more difficult and are more diverse, they cause more damage to budgets of separate households and to all households of Russia in general. So there is relevant a research of the nature and essence of the financial relations of households of Russia in terms of effective management of their financial risks and insurance protection against these risks.

The control system of financial risks is often used for large and medium business. The theoretical developments of domestic scientists in the risk management sphere appeared in the end of the 20th century. The problems of risk management are investigated in the works of Sevrjuk V.T. [16], Rogov M. A. [17], Hohlov N. [18], Bakanov M. I. [19], Balabanov I. T. [20], Buyanov V. P. [21], Vyatkin V. N. [22], V.M. Granaturov [23], Gracheva M.V. [24], Glushchenko V.V. [25], Kovalev V. V. [26], Kleiner G. B. [27], Tapman L.N. [28] et al.

The circumstances that affect the probability of transitions between elements of the risk structure and/or the way they are implemented are called "risk factors".

The risk of decrease and/or loss of household income is determined by the influence of such factors:

- the ratio of active labor incomes of household members (the ability of household members to earn money by working for someone, or by self-employment);

- the ratio of passive forms of income (income not from labor activity). There are factors: social transfers and public goods that affect the income of a household member; use of assets (rental income of movable and immovable property, income from the assets sale) and investments (investment income).

The risk of reducing and / or losing savings and investments is determined by endogenous factors: the level of inflation; the financial intermediary fraud; changing in the promotional or limitationary government policy of private savings and investments, including tax policy; level of the population socio-economic status. The exogenous factors: the income and expenses level and structure which allow or do not allow saving and investing; the subjective attitude of household members to savings and investments; the availability and transparency of savings forms and investment instruments for household members; the level of financial literacy of household members. The risk of household assets decline/ loss arises from endogenous factors: the catastrophes and negative events frequency (fires, floods, tornadoes, hurricanes, storms, military conflicts, technological disasters, thefts, embezzlement, hooliganism, willful and unintentional property damage, etc.). In this case the exogenous factors are characterized by the objects of property (material, condition) and by the actions of the owners or third parties with these objects (precautions, protection, observance of safety rules in operation, etc.).

The risk of increase in household expenses is set by endogenous factors: deterioration of the population economic and social situation, economic crises, increase in prices (for example, inflation or growth of an exchange rate), change of state tax policy in the indirect taxation of the population consumption (the growth of excises, the rates of value added tax, property taxation, etc.). The exogenous factors are connected with emergence of contingencies because of change of number of dependents (the birth of children, retirement of household members, diseases, death and so forth), because of transition to a new stage of family life and of new expenses (a wedding, children education, purchase of the house and so forth), because of unreasonable consumer behavior of household members.

In 2018, rising inflation and rising prices caused more financial risk to households. The index of possible inflation perception among household members in February-May 2018 was low and stood at 29 points, and by June this index had reached a 38 points. The similar situations in terms of growth rates and fears were observed, for example, in December 2017, July 2017. The prices rise have continued to be a threat to the population, and with an cost increase of some goods and services in consumer markets, households are wary and they expect a significant price increase in the future. The reasons for the decline in population real incomes in 2018 were the bank deposits profitability fall, the rising inflation, the increasing real estate taxes, the rising mortgage payments, etc. According to Rosstat, in 2018, real income decreased by 0.7% compared with 2017 [29]. The increase in financial risks caused by these economic factors adversely affects the regional economy.

The risk of households obligations increase is caused by similar factors to expenses growth risk, but it has significant addition - these factors influence a settlement of liabilities of households members. So the loss or reduction of income can lead to difficulties in fulfilling of obligations. Here there is an interconnection and interdependence of financial risks of households.

The objective of research is to prove need of overcoming of households financial risks for wider insurance on the basis of a risk management system.

II. MATERIALS AND METHODS (MODEL)

The studying and the analysis of households financial risks were carried out with use of comparison and the financial analysis of statistical data methods.

III. RESULTS AND DISCUSSION

The households are an important development source of the regional financial potential, therefore consideration of the household from the standpoint of financial risk is of particular importance.

The financial risk is an inevitable negative result of the financial activities of household members, it is associated with the unplanned situations and leads to financial and health losses in the current period and a decrease of funds in a future period. So the financial risk is led to losses not only of households members budget money, but also to costs of health recovery.

It should be noted that badly structured financial and economic activity of households are subject to risk. The household members are make financial decisions in the context of incorrect and incomplete information, based on the market needs and the complexity of the situation. In this case, the decisive role is played not by mathematical models, but by a person's ability to make decisions in a crisis.

The main risk reduction strategies are:

1) the diversification, which can reduce barriers to welfare growth by increasing income, by improving housing conditions, by revising and optimizing household budget expenditures. The diversification of household financial activity is a factor of the increase in household members' budget revenues.

2) the cost of purchasing additional information is calculating as the expenses difference under different information conditions;

3) limiting is the restrictions establishment in financial activities. Limiting is an important technique for the risk level reducing and applies by the households when they sell goods on credit and determine the amount of capital investment, etc.;

4) insurance is the creation of a financial airbag and the protection of property and of other households interests, is compensation of insurance costs. The financial risk insurance can help in financial and business activities:

- in the risk management of household members (the risks of the households are interrelated, and if some risks increase, the likelihood of other risks also increases);

- for a competent and rational financial behavior in the insurance market. The use of insurance products should be comprehensive and include financial planning of the household;

- to increase the insurance competence and financial literacy of the household.

5) reservation is storage of financial resources with the purpose of their use in the future financial period.

For households, not all financial risk management methods are applies. «After identifying the risk, the household chooses one or more methods of risk management. Voroshilo V.V. determines the risk avoidance, the damage prevention, the risk taking, the risk transfer. Among these risk management techniques, the financial system plays the largest role in transferring some or all of the risk to others.»[1].

«The choice of risk management methods is reduced to the calculation of the economic and mathematical model, where the economic and probabilistic characteristics of risk are perform as the criteria and constraints (determined at the first stage of the risk management). But there may be added other technical or social parameters.» [1]. The ways to reduce household risks are shown in Table 1.

TABLE I. The risks of household and ways to reduce them

Criterion / classification basis	The type of item of household finance	The ways to reduce risks		
		The risk of decline	The risk of increase	The risk of loss
The incomes of household				
The form of Income	Monetary income/ Non-monetary income	Diversification of income sources	+	Diversification of income sources, Insurance (including benefit of earners and dependents)
The currency of monetary income	Monetary income in national currency / Non-monetary income in foreign currency			
The income from a source	Hiring revenue / entrepreneurial income / Investment income (including insurance compensation) / Income from asset sale (income from property) / Rental asset income (from property) / Income in the form of social transfers (pensions, benefits, subsidies) / Income in the form of credit, loans, debts			
Regularity of income	regular income/ irregular income (including one-time income)			
Income in dependence of the recipients activity	Active income (entrepreneurial income, rental income) / Passive income (investment income, rental asset income (income from property))			
Recipient of income	Individual income of households member			

Criterion / classification basis	The type of item of household finance	The ways to reduce risks		
		The risk of decline	The risk of increase	The risk of loss
/ Family income				
The expenses of household				
The form of expense	Monetary expense/ Non-monetary expense	+	The creating of unforeseen expenses reserves	+
The currency of a monetary expense	Monetary expense in national currency / Non-monetary expense in foreign currency			
The regularity of expense	regular expense / irregular expense (including one-time expense)			
The inevitability of expenses	obligatory expenses/conditionally obligatory expenses			
The priority of expenses	prime expenses/ non-prime expenses			
The directions of expenses	consumer expenses (consumption) / non-consumer expenses (savings and investment)			
The consumer expenses by the level of needs	The expenses of necessities / The less needed expenses / The luxury expenses			
The direction of consumer expenses	The expenses on mandatory payments and taxes / The expenses on communal payments, rental / The expenses on loans payment, insurance / The food expenses/ The clothes expenses / The durable goods expenses / The property maintenance expenses (including repairs) / The charity expenses and help to relatives / The business expenses, etc.			
The level of expenses individuality	family expenses / personal (individual) expenses			
The liability Insurance The Credit Obligation Insurance				

Notes:

* - usually savings are made in accordance with the algorithm - savings and then their use;

** - the contract savings are carried out according to an algorithm - the use of savings, and then their accumulation (the purchase of goods, works and services on credit);

+ - there is no need to reduce the positive financial risks.

It is necessary to investigate the financial risks of households, because they affect the results of financial and

economic activity and the financial stability of the household and limit their activity.

According to statistics, the real household incomes in May 2018 slowed down and reached 0.3% compared to May 2017. In February 2018 the budget revenues of household members increased by 4.4%, in March by 5.7% in April - by 4.7%. In the past four years there was a decline in household incomes (in 2017 they decreased by 1.7%, in 2016 - by 5.8%, in 2015 - by 3.2%, in 2014 - by 0, 7%).

In the five months of 2018, «household savings increased by only 1.3%, or 330 billion rubles. (corrected to the ruble exchange rate). It was the lowest inflow of individuals money on the deposits in January-May of 2014, for the entire time of the outflow of funds. At the same time, retail debt to banks increased by 883 billion rubles (or 7.1%). The difference between the increase in debt on loans and deposit growth reached 553 billion rubles»[2].

TABLE II. The risks of household and ways to reduce them (Part II)

Criterion / classification basis	The type of item of household finance	The ways to reduce risks		
		The risk of decline	The risk of decline	The risk of decline
The savings of households				
The organized savings / the unorganized savings	The creation of reserves The diversification of savings Insurance	+	The creation of reserves The diversification of savings Insurance	
The forced savings / the voluntary savings				
The traditional savings* / the contract savings**				
The savings for the durable goods purchase, for property, for business / The savings for income				
General household, personal (individual) savings				
The investment of household				
The financial investments /The non-financial investments (including real estate investments)	The creation of reserves The diversification of savings Insurance	+	The creation of reserves The diversification of savings Insurance	
The aggressive investments / the conservative / the moderate investments				
The investments in securities / the investments in banking products / the investments in business /the investments in human capital (education, health) /the investments in real estate / the investments in				

Criterion / classification basis	The type of item of household finance	The ways to reduce risks		
		The risk of decline	The risk of decline	The risk of decline
antiques and art objects / the investments in precious metals and stones				
The investments bringing regular income (rent) / the investment changing in the times / the investments bringing regular income (rent) and changing in the times				
The profitable investment/ the unprofitable investment				
The family investment/ the personal investment				

The household debt load, «the risk of losing savings and investments is determined by factors: low financial literacy and irrational financial behavior of household members, their savings and investment activity, the transformational conditions of the financial market functioning». [3]

The regional banks that operate within a single region or federal district cannot diversify region-specific risks. The banks which operate in regions more sensitive to macroeconomic shocks should have more capital, less risk appetite, and households should have a lower debt burden. In the event of a shock, the loss of banks with increased "risk-appetite" or without capital will be greater. It can have negative consequences for the financial condition of households.

In the modern market, the household is one of the most important elements in the country's economic life. The strengthening of households financial position by minimizing financial risk will allow coping them with their financial obligations.

IV. CONCLUSION

The authors believe that it is necessary to investigate the financial risk in the context of households economic activity. As a result of the study, the authors came to the conclusions:

- A. The financial risk is inevitable and adversely affects the households activities.
- B. The financial risk leads to losses not only of money of households members budgets, but also to the costs of health restoring.
- C. The main thing when making financial decisions is not mathematical models, but the ability of a person to make decisions in a crisis conditions.

D. The main ways to reduce the risk:

- 1) the diversification;
- 2) the cost of purchasing additional information ;
- 3) the limiting;
- 4) the insurance;
- 5) the reservation.

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