INTRODUCTION

Risk
Risk is the latent of losing something of worth, considering next to the possible gain of something valuable. Values (such as social status, financial wealth, emotional well-being, or physical health) can be achieved or lost when taking risk ensuing from a given deed, activity and/or inaction, expected or unexpected. Risk can also be interpreted as the intentional contact with doubt.

Financial Risk
In finance, risk is a chance that an investment's definite return will be unlike than anticipated one. This comprises the opportunity of losing some or all of the prototype investment. A basic thought in finance is the association between risk and return. The better the potential return one might seek the superior the risk that one usually presumes. A free market reveals this principle in the value of a device: strong demand for a secured instrument guides its price higher (and its gain is respectively lower), while weak demand for a riskier instrument guides its price lower (and its would-be return gain thus is higher). For instance, a zero-risk investment, such as a U.S. Treasury sanctuary, has a low rate of return, while a stock in a start-up has the prospective to make an investor very affluent, but also the possible is to lose one's complete investment. Particular types of risk are easier to measure than others. To the degree that risk is experimental, it is usually considered as the average variation on an investment's average gain.

The odds that shareholders will definitely lose money when they endow in a company that has obligation is there if the company's liquidity proves inadequate to meet its financial compulsion. When a company uses debt funding, its creditors will be paid off prior to its shareholders if the company goes bankrupt. Financial risk also means the likelihood of a corporation or government non-payment on its bonds, which would prompt those bondholders to lose money.

Financial Risk Management: A Selective History
No forum of financial risk management is absolute without a short look at financial market history. Even though this history is by no means whole, it demonstrates events and features of the past several hundred years.

Early Markets
Financial derivatives and markets are frequently measured to be modern developments, but in several cases they are not. The initial trading implicated possessions, since they are very significant to human existence. Long before industrial development, informal possessions markets functioned to aid the buying and selling of goods. Marketplaces have continued living in small villages and larger cities for centuries, permitting farmers to trade their products for other matter of value.

These marketplaces are the antecedent of modern exchanges. The later development of dignified future markets allowed producers and buyers to assure the price for sales and purchases. The capability to trade product and assurance of the price was mainly significant in markets where goods had restricted time of survival, or where products were too large to transport to other market a lot. Forward agreements were used by Flemish traders during medieval trade market just since the twelfth century, where letters adroitness was used to identify future delivery. Other reports of contractual accord date back to Phoenician times. Futures contracts also made it easy trading in valued tulip bulbs in seventeenth-century Amsterdam during the iniquitous tulip mania era.

In seventeenth-century Japan, rice was an essential product. As farmers began to trade rice tickets for cash as a result a secondary market embark to flourish. The Dojima rice futures market was built in the business center in the Osaka during 1688 with 1,300 recorded rice traders.
Dealers of rice possibly will sell futures in proceed of a harvest in expectancy of lower prices, or on the other hand buy rice for later contracts if it looked as if the harvest may be bad and prices were high. Rice tickets stand for moreover warehoused rice or rice that would be yielded in the future. Trading at the Dojima market was attended by a slow-burning rope in a box balanced from the roof. The day’s trading finished with completion of the burning rope. The day’s trading might be disregarded, but, if there were no trading price when the rope stopped burning or if it finish before time.

**Developments in North America**
In North America, growth of futures markets is also directly attached to agricultural markets, in exacting the grain markets of the nineteenth century. The instability of grain price made business difficult for both merchant buyers and farmers. The Chicago Board of Trade (CBOT), established in 1848, was the initial ordered futures exchange in the United States. Its trade was deviant in grain forward contracts. Lacking a central clearing organization, but, some participant’s evasion on their contracts, leaving others hurled. In reaction, the CBOT erupt futures contracts with consistent terms and the obligation of a performance bond in 1865.

**Financial Markets Turbulences**
In the time during 1970s, turbulence in world economic markets ensued in several important developments. Regional war and disagreement, constant high interest rates and inflation, weak equities sell, and agricultural crop stoppage formed major price unsteadiness. Among this instability came the opening of balanced exchange rates. Soon after the United States finished gold convertibility of the U.S. dollar, the Bretton Woods concord successfully ended and the exchange of major industrial countries shifted to floating rates. Even though the money market is a fundamental one, it is the largest market, and London vestiges the most significant center for foreign trade. Trading in interest rate futures instigate in the 1970s, displaying the gradually more unpredictable markets.

**Automation and Growth**
The first computerized trade embarked neither in New York nor in London but at the International Futures Exchange in Bermuda in the year 1984. In spite of its attractive location and the prudence to automate, the exchange did not stay alive. On the other hand, for exchanges nowadays, automation is often a means to endurance. New resources are producing their way into trading and electronic order matching systems, upgrading efficiency and falling trading costs. Some exchanges are completely virtual, substituting a physical trading floor with consistent dealers all around the globe.

In October 1987, economic markets were weathered in an enormous impartiality economic turn down, most of which held on the place over a couple of days. Some chief exchanges experienced single-day declines of in excess of 20 percent. Futures trading volumes skyrocketed and central banks drive cash-flow into the market, sending interest rates lower. New York Stock Exchange trading volumes were three times than of the CBOT.

Later, some spectator recommended that the futures markets had supplied to the panic by spooking investors. Exchanges consequently implemented new price limits and constrict presented ones. Some dealer’s credit held futures traders with the last-minute recoil in stock prices. The meeting that began in the futures depths gradually increase into other markets, and depth and cash flow returned. The lessons of 1987 were not gone astray on controller and central banks. The financial market turmoil and events displayed solemn amenability in the financial system and fear about systemic risk. In many cases, expansions have taken years to organize globally but have conveyed lasting effects.

**New Era Finance**
The 1990s got the development of new imitative goods such as weather and catastrophe contracts, as well as a broader reception of their use. Augmented use of value-at-risk and alike tools for risk management enhanced risk management discourse and methodologies. Some spectacular sufferers to interrupt the decade, together with the descend of esteemed Barings Bank, and major losses at Daiwa Bank, Long Term Capital Management and Orange County (California). No longer was offshoot losses were big news. In the new era of finance, the exciting losses were designated in millions of dollars.

In the year 1999, the euro, new European money, was implemented by The Netherlands, Austria, France, Spain, Ireland, Germany, Italy, Luxembourg, Belgium, Portugal and two years later, Greece. The move to an ordinary currency considerably condensed foreign exchange risk for organizations doing business in Europe as balanced with running a dozen different currencies, and it embarked a wave of bank concentrate. As the long worth of mega market that had constant during much of the preceding decade lost steam, technology stocks arrive at a final stunning top in 2000. Ensuing rejects for some equities were inferior to those of the post-1929 market, and the corporate stoppage that pursues the boom made history. Soon later, the terrorist attacks of September 11, 2001 tainted many viewpoints on risk. Valuable metals and energy merchandise became ever more striking in an all the time more disturbed geopolitical environment. New frontiers in the development of financial risk management comprise new risk modeling ability and trading in derived such as environmental (pollution) credits, weather, and economic indicators.

**Origin of Financial Risk**
Financial risks takes place during countless transactions of a financial nature, as well as sales and acquire investments and loans, and various other business activities. It can happen as a effect of legal dealings, mergers and acquisitions, new projects, the energy component of costs, debt financing, or through the activities of management, opponent, stakeholders, weather or foreign governments. When economic prices alter radically, it can augment costs, decrease revenues, or else unfavorably contact the
productivity of an organization. Financial fluctuations may make it more hard to plan and budget, price goods and services, and assign capital.

The type of financial risk/credit risk are portrayed and clarified below-

![Financial Risk / Credit Risk Diagram]

Exchange rate risk is also described as exposure rate risk. It is a form of financial risk that happens from a possible alteration in the replace rate of one country's currency in relation to another country's money and vice-versa. For e.g. shareholder or businesses face an exchange rate risk moreover when they have property or operations afoot national borders, or if they have loans or borrowings in a foreign currency.

Recovery rate risk is a frequently deserted feature of a credit risk analysis. The revival pace is usually desired to be appraised. For e.g. the predictable revival pace of the finances kind (given) as a loan to the clientele by non-banking financial companies (NBFC), banks, etc.

Autonomous risk is the jeopardy connected with the government. In such a risk, government is not capable to meet its loan obligations, go back on (to break a promise) on loans it assurance, etc. Settlement risk is the risk when counterparty does not carry a refuge or its value in cash as per the accord of trade or business.

Risk Management

Risk management is a central part of setting up for businesses. The process of risk management is considered to decrease or eradicate the risk of definite types of events occurring or having an effect on the business.

Risk management is a course for recognize, review, and prioritizing risks of various types. Once the risks are acknowledged, the risk manager will produce a plan to diminish or eradicate the effect of negative events. A diversity of strategies is offered, depending on the type of risk and the type of business.

Financial Risk Management

Financial risk management is a procedure to deal with the doubts ensuing from financial markets. It engages the review of financial risks facing an organization and increasing management strategies reliable with internal precedence and policies. Addressing financial risks proactively may offer an organization with a viable advantage. It also makes sure that management, operational staff, stakeholders, and the boards of directors are in contract on key issues of risk.

There are three major reasons of financial risk:

1. Financial risks occur from an organization’s experience to alter in market prices, such as exchange rates, commodity prices, and interest rates.
2. Financial risks comes up from the actions of and transactions with other organizations such as customers, counterparties, and vendors in offshoot transactions.
3. Financial risks consequential from in-house actions or stoppage of the organization, systems processes and particularly people.

2. CORE DRIVE OF THE PAPER

Reasons for manage Financial Risk

The subsequent reasons are presented by financial economists as good reasons for risk management:

1. Risk management can lessen the costs of bankruptcy and financial distress.
2. Risk management can be utilized to lessen the firm’s estimated tax payments.
3. Risk management can be utilized to lower the payments required by a wide range of corporate stakeholders and decrease the risks of rigorous ownership in firmly held firms.
4. Risk management can be utilized to support the welfare of management with those of the owners of the company.
5. Risk management can be used in aid firms in increasing funding programs and financial plans.

Some Important Steps to Reduce Financial Risk

Investing, by its very nature, brings with it various types of risk. Because of modification in inflation rates, currency exchange rates, interest rates, and executive distinction among companies, one will constantly look at the risk that an venture will drop one’s money or that it will grow much more gradually than likely. To decrease financial risk one must learn how to direct investment portfolio well. There are numerous techniques which firms & investors can use for effectual portfolio management.

Steps for it

Be familiar with the unusual types of risk.

Most economic jeopardy can be classified as methodical and non- methodical. Methodical risk affects an entire market and all of the businesses within it; an example of methodical risk would be suffering due to a recession. Non- methodical risks are those that differ amid companies or industries; these risks can be evaded entirely throughout careful planning.

Establish the level of risk connected with different investments.

Before decreasing risk, one must recognize how much risk he can anticipate from all kinds of venture. Stocks are some of the most high-risk investments, except it can also offer the highest return. Stocks carry no assurance of repayment, and altering investor confidence can make market instability, driving stock values down. Bonds are less chancy than stocks. Because they are liability instrument, repayment is certain. The risk level of a bond is then dependent on the credit merit of the issuer; a company with shakier credit is more likely to evasion on a bond repayment.
Cash-equivalent investments, such as savings accounts, government bonds or money market accounts are the least risky. These investments are also extremely liquid, but they offer low returns.

Conclude the level of risk one is willing to shoulder.
When choosing on an in general level of risk, one desires to evaluate how he wants to use the money from his investments in the upcoming time.

If one is setting up a big expenditure in the near future (such as a house or tuition), or one is retiring shortly one should try for a relatively low-risk portfolio. This will help make sure that market instability doesn’t grounds reserves to drop a lot of price.

If investor is young at age and if spending for a future goal, more risk is fitting. Future goals permit him to remain out store price shift and understand high returns above the long run.

Reduce portfolio’s risk level by assigning assets broadly.
The first key to lowering risk is to assigning money among different investment classes. Portfolio should comprise bonds, cash equivalents, stocks, and perhaps other ventures for instance real estate. The amount of these share will based on the degree of risk investor desires to bear in general.

Assigning assets extensively evade alongside the risk that certain benefit classes will execute well while others perform poorly. For instance, if many investors start buying corporate stocks, stock prices will increase; though, those investors may be advertising bonds to fund their stock purchases, because bond prices to fall. Diffusion investments amid stocks and bonds will guard against the risk of each category performing badly.

Lower each asset type’s risk during diversification.
Diversifying portfolio involves buying a single type of benefit from many different companies. This encloses adjacent to the risk that a single company or industry will execute poorly or go bankrupt.

For instance, if you buy stocks in 30 different companies, it is not probable that all 30 will execute poorly or go bankrupt at once, excepting an economy-wide recession. Though, if you used the equal amount of money to invest in only 1 company’s stock, the company may do poorly and heave your complete stock portfolio along with it.

Study of Financial Risk Management in HDFC (Ergo) General Insurance
Risk Consulting Services
Risk Management Services as presenting along with insurance products and solutions is comparatively new to the Indian General Insurance Industry. Risk Management has unspecified significance with entrance of classified common insurance corporations in the Indian market. Our business has been one of the found in contributing this tune-up in the Indian Insurance Market to our Commercial Customers.

The remark ‘management’ can be explained in terms of organizing of activities and calculating the use of resources in such a manner as to accomplish some favored objective. For an industrial or commercial firm the objective may be to utmost profits, to amplify revenue, to increase net worth or mixture of different objectives.

Risk Management as a topic concerned with the planning, arranging and controlling of activities and resources in order to reduce the effect of uncertain events. Risks arising out of insecurity can be declared as financial risks environmental risks, production risks, personnel risks and marketing & distribution risks.

Several methods are used for conducting risks.
Avoidance –
It is the most radical way of managing risks. It totally limits to go by risk including definite activities which are measured to be ‘risk prone’. For example, if a factory uses some inflammable substance for developed product, one could think of not creating that product at all, so that the risk of fire is avoided.

Risk Reduction –
It covers all methods working to decrease each the likelihood of loss producing events occurring, or possible size of losses that do happen. This is a more positive advance of looking at risks. For example, if a factory has a spray painting section using combustible paints and thinners, it could look at changing to power coating.

Risk Retention –
Once the risks are recognized and the costs of possible events are determined, the next phase is how to handle such risks. One choice is to maintain the risk to one’s identity, which is to compensate for them as of one’s own income when they happen. This is recommended where the effect of risks is as expected small, deliberate precisely and do not pressure the business.

Transfer –
Different way for reduction of risk is to shift the activities which make the risks on to someone else as a substitute of doing it oneself, for instance, delegate of activities connecting handling of highly inflammable materials to third parties. Though, the most important and practical form of risk reassign is ‘insurance’, whereby a professional risk carter such as a Non-Life insurer is demand to carry the remaining risk at a deliberation, called the premium.

3. CONCLUSION
Financial risk management is not a current issue. Financial risk management has been a difficult for as long as there have been price fluctuations and markets. Financial risks occur from an organization’s contact to financial markets, its business with others, and its dependence on processes, people and systems. To comprehend financial risks, it is practical to believe the factors that involve financial rates and prices, as well as exchange rates, commodities prices, and interest rates.

The vital conclusion of the paper is consequently that any system of directive that is intended to protect alongside financial risk in wants to offer a high level of assurance that the firms which are manage are able to survives any sensible combination of stress shocks to their income with their capital adequately whole to make sure that they can persist in business long sufficient to allow suitable corrective action to be full moreover by the firm itself or by the controller.
REFERENCE