

Methods for Managing Financial Risks in the Context of Globalization

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Abstract: In the context of globalization, the management of financial risks has become one of the most critical issues for organizations operating in both national and international markets. This scientific article explores the main methods of managing financial risks that arise due to global economic integration, volatile financial markets, and the expansion of cross-border operations. The study emphasizes that effective financial risk management not only minimizes potential losses but also enhances financial stability and organizational competitiveness in a global environment. Various techniques such as diversification, hedging, insurance, regulatory compliance, and analytical forecasting are discussed as essential tools for mitigating global financial risks. The paper also highlights the importance of technological innovations, including artificial intelligence and blockchain, in identifying, assessing, and managing risks in real time.

Key words: financial risk, globalization, risk management, diversification, hedging, insurance, forecasting, financial stability, international markets.



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Modern globalized markets expose businesses to a wide range of financial risks and uncertainties. These include currency fluctuations, credit defaults, changes in international regulations, market volatility, and geopolitical instability. Managing these risks effectively has become a crucial part of ensuring business continuity and achieving sustainable growth. Financial risk management is a strategic process aimed at identifying, assessing, and mitigating the potential negative effects of global financial exposure on an organization's performance.

The core principles of financial risk management in the context of globalization include:

➤ **Avoidance:**

This involves eliminating activities that expose a company to unnecessary financial risks. For example, an organization may decide not to enter a foreign market with extreme currency instability or political uncertainty. By avoiding such high-risk environments, the company reduces the likelihood of severe financial loss.

➤ Reduction:

This principle focuses on minimizing the potential impact of financial risks r

➤ rather than completely avoiding them. For instance, a company involved in international trade may use currency hedging instruments-such as forward contracts or options-to protect against unfavorable exchange rate movements.

➤ Transfer:

Risk can be shifted to a third party through mechanisms like insurance or derivatives contracts. For example, an exporter might purchase export credit insurance to safeguard against the risk of foreign buyers defaulting on payments, or use interest rate swaps to manage the cost of international financing.

➤ Retention:

In some cases, organizations accept certain levels of risk when the potential losses are predictable and manageable. For instance, a multinational firm may choose to retain minor market risks in exchange for the potential benefits of operating globally.

➤ Diversification:

Diversification is one of the most effective methods of managing global financial risk. By investing in multiple markets, industries, and currencies, companies can reduce their dependence on any single source of income, thereby balancing potential losses with gains from other areas.

In conclusion, globalization requires businesses to adopt comprehensive and adaptive financial risk management strategies. By combining avoidance, reduction, transfer, retention, and diversification, organizations can strengthen their financial resilience, ensure long-term stability, and take advantage of the opportunities that global integration provides.

Object effects which do not lead to the planned change in his condition, justifiably considered unmanageable. Therefore, the way to impact on the risk, built on the principles of acceptable risk, can not be controlled, rather it is risk management. With it can be addressed and successfully resolved many private security problems.

Financial risk, its parameters and factors ¹, influencing them, which define features as the control object, used in the construction of classification methods to manage them. It is therefore very important question is the choice of methods of financial risk management ².

The purpose of financial risk management can be achthat isved on the basis of the following control its parameters - the uncertainty of loss (*decrease in the frequency or probability of occurrence of damage* - □□ and the amount of damage - □□ Joint values of these parameters of risk - *the probability of occurrence of damage and the extent of damage* □ - □□ describe the possible values of the risk:

- ✓ Low (*small*);
- ✓ Average (*rather small*);
- ✓ High (*high*) risk.

Undesirability of damage, permanently inherent in the very term financial risk, selected parameters describing its value specifying the purpose and parameters of risk management as follows: The purpose of management - reducing the damage that has monetary value and

¹ https://link.springer.com/chapter/10.1057/9781403946089_3

² <https://www.researchgate.net/topic/Financial-Risk-Management>

associated with the implementation of the risk, and the main control parameters of risk - but the main operated parameters of the risk- ρ, γ . □□□□□

Practice shows that the most significant factor called "structural risk characteristics" ³ can be attributed ⁴:

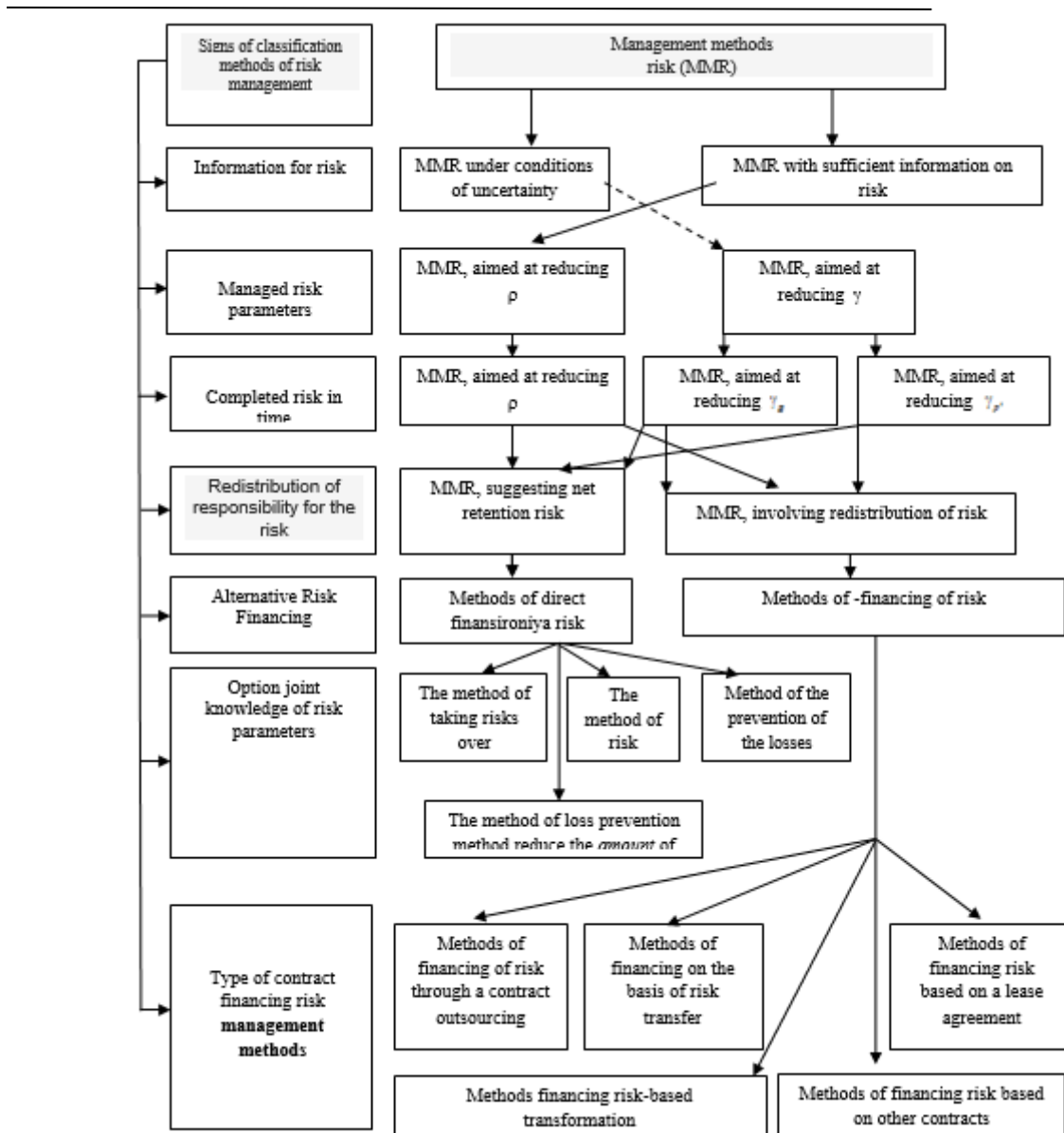
- ✓ potential threat appearance damage caused by specificity object features risk situation and nature most damage in his turn, may provoke implementation risk;
- ✓ feature situation, characterized by pregnant appearance damage. Under exposure to risk can be understood the number of units of observation;
- ✓ the degree of sale danger, reflecting intensity appearance damage. The analysis Vulnerability can be to identify the effect of factors on the risk;
- ✓ a factor that reflects opportunity sale risks arising from his bond with other risks. For example, the risk of errors designers at construction Housing complex.

If the available information on risk is not sufficient for this purpose, with respect to it shall use methods of risk management under uncertainty. Since the available information base on risk is an important factor influencing the choice of a particular method of risk management, it can be seen as the first sign of the classification of risk management methods (Fig.1).

In accordance with the values of this attribute management techniques may be aimed at reducing the likelihood of damage to ρ , and also to reduce damage to □ (see. Fig. 1). With this feature classification methods of risk management can be divided into:

- ✓ risk management techniques to reduce the likelihood of damage to □□
- ✓ risk management techniques to reduce the size of the potential damage γ_{ρ} ;
- ✓ risk management techniques to reduce actual damages γ_p .

³ <https://www.pmi.org/-/media/pmi/documents/public/pdf/certifications/practice-standard-project-risk-management>.
⁴ <https://bmcpublihealth.biomedcentral.com/>.



1. Fig. Risk management methods and their relationship.

The need for an independent revthat isw of certain management practices designed to reduce the possible damage and methods aimed at reducing the actual damage caused by the fact that the risk factors (its structural characteristics can have different effects on the predicted, the possible values γ_B and damage to its real value γ_P . Thus, the structural characteristics of the "interaction with other risks" may have a different impact on the size of the possible and the actual damage at least because when assessing the possible damage was taken into account only one version of the test interaction risk with other risks, and the implementation of risk, that is the appearance of the actual damage, the interaction with other risks resulting, for example, more damage than anticipated at the stage of the forecast, that is in determining probable damage.

In the economic literature, two common approaches to the treatment of financial risks: *in the narrow sense*, they are defined as the risk of negative financial consequences in the form of loss of assets, income, and non-fulfillment of obligations in a situation of complete or partial implementation of economic uncertainty in the environment and economic activitthat iss of the subjects. *According to the extended treatment*, *Financial risk* is the uncertain possibility of

damage, measured in monetary terms⁵. This definition implies the possibility of loss, its uncertainty, the undesirability of the possibility of damage and its monetary dimension. And be sure to measure the financial risk its manifestation is in the framework of the financial relations.

Implementation of the risk associated with potential **or** actual loss, so it is very important is the question of how and who can and will reimburse it. Solution to this problem in the first place determined by the distribution of responsibility in risk among the following subjects:

- *A subject (S_A)* is the bearer of risk and is responsible for it, such as a driver exceeds the speed on the road, is the bearer of risk and is responsible for its implementation;
- *B subject (S_B)*, which is responsible for the risk, but it is not a carrier, such as the state is responsible for the risks associated with the use of nuclear power, but direct bearers of these risks are legal entities, and work with individuals;
- *D subject (S_D)*, which does not carry the risk, but he was given the responsibility for it, such as an insurance company under a contract of transfer which has taken responsibility for the risk of an accident an individual Eshmatov SS, are carriers of the risk.

It should be noted that taking into account the features of financial risk and a reasonable selection of features allow us to construct a classification of management, which is used in the implementation of the proposed procedures for the selection of the method of management, responsible for the transfer and transformation of risks in the insurance or other activities as a whole. Currently, there is significant progress in the area of risk management. Emerging trends must be converted into an effective financial mechanism.

⁵ <https://reader.elsevier.com/reader/sd/pii>