

CREDIT RISKS AND FEATURES OF THEIR SAFETY

The article reveals the essence of credit risks, substantiates the necessity of their security in modern conditions, and also proves that the credit risk insurance should focus on protecting borrowers from risks that threaten their solvency.

In the course of the study, different approaches to the division of the credit risk insurance are analyzed, and it is established that credit risks are a kind of financial risks which are a component of business risks, and the concept of “credit insurance” is identical to the concept of “insurance of credit risks” and includes the concept of “loans insurance”.

The article substantiates the classification of the credit insurance based on the allocation of various types of credit relations which are formed both with banks-creditors and between economic entities in the process of product sales, as well as makes the division of insurance services which are included in the credit insurance by types of loans.

The research also offers the division of the credit insurance for various branches of insurance, the form of insurance, the duration of insurance contracts, and the method of organization of insurance protection. According to the research, it is concluded that a detailed study of the content and structure of the credit insurance has not only theoretical but also practical value, as it allows comparing different types of insurance coverage of credit risks and choosing the most optimal insurance.

Keywords: loans, credit risk, risk management, credit insurance, loan insurance.

JEL classification: G22, G32

Introduction and research problem. In the absence of working capital and investment resources, practically all business entities and individuals use loans in their activity. Any credit transaction is accompanied by a risk of non-repayment of a loan, which together represents a serious threat to the financial stability of the creditor. Therefore, when issuing loans, banking institutions examine the borrowers' solvency and require a surety or a pledge to ensure the repayment of credit funds. However, borrowers may not always provide sufficient guarantees to secure credit transactions, and creditors take on the risk of their non-repayment or non-payment of interest by the debtors and form a system of counteraction to credit risks and their consequences.

In conditions of overcoming the financial and economic crisis and reforming the Ukrainian economy, problems of the development stability of business entities gain increasing importance. Therefore, with the development of credit relations and the formation of a competitive environment in various spheres of the economy, the role of a system of precautionary measures for the protection of credit operations, one of which is insurance, is growing.

Insurance is one of the most effective financial instruments to ensure the continuity of the social reproduction process by financing the losses of subjects of credit relations. Insurance companies under certain conditions undertake to repay loans and interest on loans in the event of identified insurance cases. Therefore, in today's conditions, the role and importance of the credit risk insurance and its impact on the economy development significantly increases.

Recent publications analysis. A significant contribution to the formation of the theory of the credit risk management and the development of effective measures for their security was made by numerous scholars: V. D. Bazylevych, O. D. Vovchak, S. V. Volosovych, T. P. Garska, A. T. Govorushko, L. M. Gorbach, M. S. Klapkiv, M. N. Mnykh, S. S. Osadets, T. A. Rotova, T. V. Yavorska and others.

Unsolved parts of the problem. However, the discussion remains about the definition of the structure and content of the insurance coverage of credit risks, as well as the improvement of the organization of the insurance protection of credit risks of both banking institutions and economic

entities in various spheres of the economy. This requires studying modern approaches to the delimitation of certain components of the credit insurance and creating a system of its classification, which would correspond to modern trends in the insurance market development.

Research goal and questions. The basis of the study is to determine the economic substance of the credit risk and disclose peculiarities of the insurance coverage of credit risks which arise not only in the activities of financial and credit institutions but also in the process of economic entities functioning in conditions of the financial and economic instability.

Main findings. An integral part of the modern system of financial relations is lending as the main form of bank borrowing, which is actively used by individuals and legal entities. The commercial (commodity) lending, when a product or item is delivered to a buyer with an agreed delay in payment, is also used in commercial practice.

A credit is a loan in cash or commodity form on a return basis provided by a bank or a legal entity, a creditor, to another person, a borrower who pays interest for the use of a loan [3].

The word “credit” has a Latin origin from the word *credium* – a loan, a debt, and the word *credo* – I believe [3], that is, by issuing money, borrowers are trusted in the matter of returning cash loans. However, with the development of monetary relations and the growth of the intensity of the movement of loan capital, the number of cases of non-justification of trust of creditors and non-repayment of loans by borrowers increased. As a result, the failure of borrowers to fulfil their obligations to creditors began to have a negative impact on the results of their activities and there was a need for a system to counteract credit risks. Creditors began to analyze the likelihood of non-repayment of the loan, which gradually became supplemented by more advanced methods for assessing and managing credit risks.

In current conditions, credit risks are considered one of the most significant financial risks, and the credit risk management becomes increasingly popular in terms of both theory and practice. Despite the fact that to date, banking institutions have powerful risk management, automation tools, and a rigid system of external control, the credit risk management is of particular interest because it threatens the lender with financial losses and even bankruptcy.

In order to form an effective system of securing credit risks, it is necessary to identify the features and factors that influence their occurrence.

The probability of non-fulfilment by the borrower of the terms of the loan agreement, which is the threat of a partial or complete loss of creditor’s

funds and interest for the use of funds, is understood under the credit risk. The risk arises in the process of making a decision on granting a loan or shipment of goods in debt by a creditor.

The credit risk is determined as a risk of default by the borrower on its obligations to the lender, as well as the possibility of a borrower refusing to pay interest on a loan and/or returning the loan itself [3].

It is also argued that the credit risk is a loss due to the inability or unwillingness of the other party to pay for its obligations [1].

The credit risk by its nature is a business risk because, as a result of successful lending transactions, the bank or the vendor receives profit that has a fixed value. Therefore, credit risks are financial risks that are included in business risks and represent the probability of financial losses to the creditor due to the default by the borrower of its obligations due to its insolvency.

From the given definitions of credit risks, it can be concluded that the risk of non-repayment of a loan may cause both objective reasons that affect financial capabilities of the borrower, as well as a subjective factor – the borrower’s decision to refuse to pay the debt. Therefore, when considering the credit risk in the process of organization of insurance protection, in its structure, it is necessary to allocate two parts:

- 1) non-repayment of the loan and / or interest on the loan;
- 2) in solvency of the borrower.

When securing credit risks it is necessary to proceed from the factors that influence the onset of borrowers in solvency and form the insurance protection in case of the iron set.

Also, the credit risk can be considered both from the position of the credit institution and the borrower, and from the position of the vendor, which lends to the buyer and the buyer who receives the goods with a delayed payment.

The most widespread approach is to disclose the essence of credit risks from the position of the credit institution, since it is the banks that purposefully manage credit risks and form their own methodological basis.

The peculiarity of credit risks is that the source of their occurrence is not only the activity of financial and credit institutions, but also the commercial and financial activity of economic entities of the real sector of the economy. In this case, the credit risk represents the probability of financial losses because of failure to pay or untimely settlement for the goods shipped on credit ready products. This credit risks accompany the activities of business entities in providing commercial (advance) loans to customers. In addition, in the process of conducting the activity

by economic entities, other credit relations also arise: export credits, leasing, factoring, concessions, etc.

Credit risks and ways to reduce them by their nature and sequence of management do not differ significantly from other types of risks. Therefore, risk management of credit risks includes the following steps:

- identification and qualification of credit risks;
- quantitative quantification of credit risks;
- creation of a sequential risk response plan;
- avoiding, minimizing, or limiting credit risks;
- financing of credit risks.

The main tasks in managing credit risks are the following:

- determining the reasons that may be caused by the inability of borrowers to meet their debt obligations;
- choice of the risk financing option.

Insurance is a means of protecting against unforeseen emergencies, natural disasters, disasters in market conditions, which also helps to secure credit interrelations between different actors. Credit risk insurance is aimed at avoiding, reducing and financing credit risks.

The importance of the credit risks insurance is emphasized by the fact that the Law of Ukraine “On Banks and Banking” provides for the obligatory securing of all credit operations issued by banking institutions. In addition, the Law of Ukraine “On Insurance” provides for voluntary insurance of loans (including liability of the borrower for non-repayment of the loan) and insurance of issued guarantees (surety) and guarantees accepted, as well as obligatory insurance of the subject of mortgage from the risks of accidental destruction, accidental damage.

At the same time, it should be distinguished between the concept of “credit risk insurance,” “credit insurance” and “insurance of loans”, despite

the fact that these concepts are fully or to some extent identified by scientists.

For example, some scholars believe that the concept of “insurance of credit risks” is synonymous with the concept of “credit insurance”, others identify the concept of “insurance of loans” with the notion of “credit insurance” [5].

When considering the insurance coverage of credit risks, it is necessary to distinguish between the concept of “credit insurance”, which is identical to “credit risk insurance” and “insurance of loans”. “Credit insurance” is a broader concept and includes not only insurance of loans, but also many other objects, whereas “insurance of loans” is one of the types of the credit insurance that is associated with direct insurance coverage of the amount of debt. Therefore, in the process of considering the peculiarities of securing credit risks, it is necessary to elucidate in more detail the essence and structure of the credit insurance.

Credit insurance is a set of insurance services that provide insurance protection of the property interests of the creditor, associated with the risk of non-repayment of credit, due to insolvency of the borrower. Credit insurance is based on the risk of non-payment because of insolvency of the borrower, which arises in the process of lending. For a full description of the credit insurance, it is necessary to consider its classification on various grounds.

First of all, types of credit insurance are divided depending on the system of relationships that are formed between the two parties of the loan agreement. When granting various loans, certain types of insurance are envisaged with the appropriate list of insurance services used to secure them. Thus, it is possible to group the types of insurance and insurance services depending on the types of loans provided by both banking institutions and economic entities in the course of their activities (Table 1).

Table 1. Division of the credit insurance by types of credits

Type of the credit	Types of insurance services used for security of credit risks
Financial (bank) credit	Insurance of loans (the insured is a lender) Liability insurance of the borrower for non-repayment of the loan
Commercial or advance credit	Insurance of commercial (commodity) credits Insurance of export credits Insurance of leasing objects Factoring insurance Insurance of the property transferred to the concession
Guaranteed credit	Mortgage insurance: – Insurance of pledged property – Life insurance (accident insurance) – Title insurance Insurance of issued guarantees (surety) and accepted guarantees
Consumer credit	Consumer credit risk insurance: – Life insurance – Insurance in case of unforeseen loss of income – Unemployment insurance
Investment credit	Risks insurance of investment credits

The listed loans are divided into bank and commercial loans, and bank loans are divided into loans provided to legal and natural persons, the relevant division also applies to credit insurance. Classification of insurance services for the credit risk insurance can be carried out on the object of insurance.

Taking into consideration the list of insurance services types used for securing credit risks, the credit insurance can be divided into short-term insurance for one year and long-term – five years or more, depending on the duration of the loan agreement.

Objects of the credit risks insurance may be property interests that are related to causing harm to life, health, disability or property of the borrower (creditor) or third (injured) person. Therefore, insurance services used to secure credit risks include both property and personal insurance and liability insurance. If the object of insurance is property interests related to non-repayment of credit, pledge or loss of ownership of property, then the insurance service belongs to the property insurance if the object of insurance is the property interests related to the liability of the borrower for non-return a loan, then it is liability insurance, and if the object of insurance is the life, health or performance of the borrower, then the insurance service refers to personal insurance (Table 2).

Credit insurance is also divided depending on the method of organization of insurance coverage of credit risks, that is, depending on which entity of insurance relations acts as the policyholder. This division provides for the separation of delcredere and guarantee insurance [4; 7].

In case of delcredere credit insurance, the role of the insured and the policy holder at the same time is played by the creditor, who acts as the initiator of the conclusion of the insurance contract. In the case of the guarantee credit insurance, when a mortgage in the form of an institution or mortgage is used, the insurer is the borrower who concludes an insurance contract with the insurer in favor of the lender – the insured person [4; 7].

Conclusions and propositions concerning further research. Lending is an important component of financial relations, which increases the efficiency of the use of economic and financial resources. Creation of safe terms of using loans has a significant impact on the economic activity of economic entities and their effective development. Therefore, the study of the economic nature of credit risks and the peculiarities of their security has both theoretical and practical value and provides for the formation of a reliable system of insurance protection of all aspects of credit relations and the stable development of economic entities.

Table 2. Division of the credit insurance by branches of insurance

Branch of the insurance	Types of insurance services used to secure credits
Property insurance	Insurance of credits (the insured is a lender) Insurance of commercial (commodity) credits Insurance of export credits Insurance of the leasing object Factoring insurance Insurance of the property transferred to the concession Insurance of pledged property Insurance of financial guarantees (sureties) Title insurance
Liability insurance	Liability insurance of the borrower for non-repayment of the loan
Personal insurance	Life insurance Accident insurance

References

- Vasil'eva, E. E. (2015). Credit risk: Topical issues of modeling. *Finance and Credit*, 7 (631), 45–53.
- Volosovych, S. V. (2012). Economic essence of credit insurance. *Actual Problems of Economics*, 2 (128), 250–255.
- Zagorodniy, A. G., Voznyk, L. G., & Smovzhenko, T. S. (2002). *Financial dictionary*. Kyiv: Tovarystvo "Znannia".
- Klapkiv, M. S. (2002). *Insurance of financial risks*. Monograph. Ternopil: Ekonomichna dumka, Kart-bash.
- Prikhno, I. M. (2015). The current trends in credit insurance in Ukraine. *Bulletin of the East European University of Economics and Management*, 2 (19), 153–160.
- Panchenko, O. I., & Kalchenko, O. M. (2018). Insurance of export credits as a basis for the activation of foreign economic activities of enterprises. *Scientific Bulletin of Polissia*, 1 (13), 169–175. doi: 10.25140/2410-9576-2018-1-1(13)-169-175
- Osadets, S. S., Artyikh, T. M., Gamankova, O. O. et al. (2007). *Insurance services: Work book*. Kyiv: KNEU.
- Yavorska, T. V. (2008). *Insurance services*. Educational tutorial. Kyiv: Knowledge.

Базилінська О. Я., Панченко О. І.

КРЕДИТНІ РИЗИКИ ТА ОСОБЛИВОСТІ ЇХ УБЕЗПЕЧЕННЯ

Метою статті є визначення економічної сутності кредитного ризику та розкриття особливостей організації страхового захисту кредитних ризиків.

У статті розкрито сутність кредитних ризиків, обґрунтовано необхідність їх забезпечення в сучасних умовах, а також доведено, що страхування кредитних ризиків має орієнтуватись на захист позичальників від ризиків, які загрожують їхній платоспроможності.

У процесі дослідження проаналізовано різні підходи щодо поділу страхування кредитних ризиків і встановлено, що кредитні ризики – це вид фінансових ризиків, які є складовою підприємницьких ризиків, а поняття «кредитне страхування» є тотожним поняттю «страхування кредитних ризиків» і містить у собі поняття «страхування кредитів».

У статті обґрунтовано класифікацію кредитного страхування на основі виділення різних видів кредитних відносин, які формуються як з банками – кредиторами, так і між суб'єктами господарювання в процесі реалізації продукції, а також здійснено поділ страхових послуг, які входять до кредитного страхування, за видами кредитів. Враховано поділ кредитів на фінансові (банківські), комерційні (товарні), споживчі та гарантовані кредити та перелічено види страхових послуг, які використовуються для їх забезпечення.

У процесі дослідження також здійснено поділ кредитного страхування за різними галузями страхування, формою проведення страхування, тривалістю договорів страхування та способом організації страхового захисту.

За результатами дослідження зроблено висновок, що створення безпечних умов використання кредитів суттєво впливає на економічну активність суб'єктів господарювання та на їхній ефективний розвиток, а детальне вивчення змісту та структури кредитного страхування має не тільки теоретичне, а й практичне значення, оскільки дає змогу порівняти різні види страхового захисту кредитних ризиків та обрати найбільш оптимальне страхування. Отже, дослідження економічної сутності кредитних ризиків та особливостей їх забезпечення сприяє формуванню надійної системи страхового захисту всіх сторін кредитних відносин і стабільному розвитку економічних суб'єктів.

Ключові слова: кредити, кредитний ризик, управління ризиками, кредитне страхування, страхування кредитів.

Матеріал надійшов 29.04.2019