**Training Fiche**

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| **Title** | Risks and Dangers of Finance | |
| **Keywords** | Risks of finance – dangers of finance – investments – portfolio diversification – identification of frauds | |
| **Provided by** | IDP + IHF | |
| **Language** | English | |
| **Objectives** | * **Familiarize with the concept of Financial Risk** * **Recognize typical risks for your own finances** * **Implements simple countermeasures** | |
| **Learning outcomes** | * **Definition and basic taxonomy of financial dictionary** * **Make better informed financial decisions** * **Strategizing plan *Bs* and safety nets** | |
| **Training Area** | Financial Literacy Alphabet |  |
| Finances for Good | X |
| Financial decision-making and management |  |
| **Content index** | Course: Risks and Dangers of Finance  **Unit 1: What does Financial Risk mean?**  Section 1: Seeking for a definition  Section 2: Four main cluster of financial risks  Section 3: Breakdown of typical financial risks  **Unit 2: How do you mitigate the financial risk?**  Section 1: A four-dimension approach | |
| **Content development**  **(1.500 words max.)** | **Unit 1: What does Financial Risk mean?**  **Seeking for a definition**  By Financial Risk, we usually refer to a form of risk emerging from an event, situation, dynamic that might negatively impact people’s financial status quo.  The cluster of potential events from which the financial risk might arise from are numerous and very diverse among each others.  Specialised literature offers many different taxonomy to describe the most typical types of Financial Risk. In the content of this module, the taxonomy of risk is structured so as to guide learners throng the most common risks that one might experience while managing his / her personal finances  **Four main clusters of Financial Risks**   1. ***General Financial Risk***   When we talk about General Financial Risk, we refer to any event that might generate a loss. This type of risk is essentially related to the origin and source of the triggering event.   1. ***Individual Financial Risk***   This Risk pertains to the person very own finances and it might be generated by poor judgements and / or and overestimation of favorable trends and dynamics   1. ***Time-based Financial Risk***   Financial Risks can be also categorized based on the timeframe involved and considered. There is no easy way to estimate their impact, and as in some cases, their likelihood at all   1. ***Impact-based Financial Risk***   Depending on the domain interested by the risk, people might face several negative outcomes that again might be simple consequence of bad luck, or poor judgement  **General Financial Risks**  ***Systemic Financial Risk***  In broad terms, Systemic Financial Risk generates from events that affect and impact all people and from which you cannot *escape from.*  As the term implies, Systemic Financial Risk stems from triggers that impact the socio-economic ecosystem as a whole (i.e., instable political climate) and translates topically into increased Market Volatility (less capacity to foreseen and “decode” future market trends), increased interest rates (less capacity to access the credit market), increased taxes (less purchasing power).  ***Non-Systemic Financial Risk***  In this case we refer to events that might potentially affect the person only – or its closest groups of reference (the organisation he works for, family, etc.).  Typical Non-systemic financial Risk scenarios are represented by a sudden illness, a sudden malfunctioning of a machinery, etc.  **Individual Financial Risks**  ***Income Risk***  Income Risk might relate to a series of event that affect work-ability of the person, and ultimately his / her capacity to earn an income  Typical instances of Income Risk emerge in case of:   * Physical disability * Dismissal * Any other event excluding a person from the labor market   ***Expenditure Risk***  More simply, when the expenditures that arise in a given period exceed the money available to cover them (when there is no sufficient money to meet the financial / economic needs)  ***Investment Risk***  In this category we include any event related to depreciating of the asset owned by a person so much so that its value goes below the original price payed for its purchase  ***Debt Risk***  The typical case is when people remains trapped to debts with high interest rates, or more in general, when they are no more able to afford the repayment of their debt  **Time-based Financial Risks**  ***Short-Term Financial Risk***  That’s the type of financial risk that arise in a relatively short period of time and that is difficult to predict (i.e., any sudden expense that is not included the budget).  Short-term financial risk requires typically the full disposal of a certain money in a very short and concise period of time, weakening the personal savings of a person and the very same availability of this money for other purposes (i.e., saving, investment, etc.)  ***Long-Term Financial Risk***  We talk about long-term financial risk impacts the long-term financial sustainability of a person and has much greater consequences for his / her economic stability.  This is the case for instance when families lose their main and only source of income due to the sudden (or gradual) inability to work of the only person responsible for the (economic) sustainment of the family.  Please note that the term “long-term” refers to the temporal horizon of the effects and impact of the event, and not its actual happening in time.  **Impact-based Financial Risks**  ***Speculative Risk***  This is the typical case of any sort of investment: people commit a certain among of money to a certain thing, in the hope that, at some point, this thing will generate more money that what it actually costed.  In general the elements of risk is inalienable from any type of investment, and it exists by default. The real issue come into play when either it is underestimated, not duly consider, or more simply ignored.  ***Fundamental Risk***  When the events generating from the risk impact one person specifically, and the people around him / her at max, we talk about “specific risk”, meaning: the negative outcomes of the event has not negative repercussions outside of the people directly involved.  Examples of fundamental risks are more common for instance when managing household expenses.  ***Static Risk***  Static Risk refers to a financial loss that might be caused by any non-economy related / systemic event. The triggering event happens in the *here* and *now* and it is typically covered by an insurance  ***Dynamic Risk***  It depends on macroeconomic events which have a direct impact on one’s personal finances – whatever he / she likes it or not…(i.e., inflation, higher cost of raw materials)  **Unit 2: How do you mitigate the financial risk?**  **A four-dimension approach**  Where there is a risk, there is also a countermeasure. To some extent, many forms of Financial Risk can be predicted, or at least estimated.  Risk Management is first of all a matter of planning: being aware of the risk is halfway through the opera of covering and safeguarding yourself from unpleasant and disrupting scenarios.  For an effective Risk Management, one must intervene on the five key financial elements from which the risk might arise:   1. REVENUE 2. EXPENDITURE 3. ASSETS/INVESTMENT 4. DEBT vs CREDIT 5. SURROUNDINGS   **Revenue Management**   * **Diversify your income**   Be ready for a plan B…   * **Monitor your revenue stream(s)**   Do not forget to set up a safety net so as to face with relative ease all short-term risks.   * **Subscribe an insurance**   An insurance is the most robust and reliable resource that one might consider to delegate to others his / her own financial risk.  **Expenditure Management**   * **Budgeting**   A domestic budget will help you to plan more carefully all expenses, cutting wastes away if necessary.   * **Planning an emergency gateway**   A safety net helps you to contain the negative impact of a unexpected expenditure, an emergency fund is unlocked, indeed, in cases of emergencies – so to say, when no other option is available.  **Asset/Investment Management**   * **Be careful where you put your money on…**   As redundant as it sounds, this remains the most crucial & critical recommendation – do you really know, and own, the necessary knowledge regarding that specific asset that you are betting own?   * **Set a goal and aim for it**   This goes back to the fundamental need of having an adequate medium-long term oriented plan for investments: monitor your progresses and keep track of suitable fine-tuning measures.  **Debt/Credit Management**   * **Get familiar with the financial flows**   Become proficient with the distinctive features of credit and debt (i.e., interest rate)   * **Know when to deep-dive into the ocean of debit**   If you are not ready to go into debt, do not go into debt – even more if the need for credit is motivated by futile needs. Assess your exposure in advance, and evaluate you capacity to cover your repayment plan.  **Social awareness of the surroundings**   * **eMail Fraud**   Do not reply to suspicious eMail, let alone downloading their contents and attachments. Fraudulent eMail are the most common means used by cyber-criminals to infiltrate the victim’s personal and sensible data.   * **Debit and Credit Card Fraud**   Fraudulent activity that involves a theft taking the number of a credit or debit card – do not share sensible information unless strictly, check as frequent as possible outgoing / incoming flows of money from / to your account.   * **Internet Fraud**   Internet fraud happens when someone uses the internet as a tool to take advantage of someone else through fraud. Online internet schemes nowadays are the most common type of frauds, stealing millions of dollars from victims each and every year. | |
| **Glossary** | **Fund:** A sum of money saved or made available for a particular purpose.  **Investment:** The action or process of investing money for profit.  **Portfolio Diversification:** The process of investing money in different asset classes and securities in order to minimize the overall risk.  **Liquidity**: Liquidity refers to the efficiency or ease with which an asset or security be converted into ready cash without affecting its market price. The most liquid asset of all is cash itself.  **Fraud**: An intentionally deceptive action designed to provide the perpetrator with an unlawful gain or to deny a right to a victim. Types of fraud include tax fraud, credit card fraud, wire fraud, securities fraud, and bankruptcy fraud.  **Scam**: An illegal plan for making money, especially one that involves tricking people. | |
| **Self-evaluation (5 multiple choice queries and answers)** | 1. The inability of a borrower to repay a loan in accordance with the terms of a contract is called:  **a) Credit risk**  b) Liquidity risk  c) Market risk  2. When there are lots of sellers but few buyers, this is a condition known as:  a) Funding Risk  **b) Market liquidity risk**  c) Operational Risk  3. Finance is defined as:  a) A sum of money saved or made available for a particular purpose.  b) The action or process of investing money for profit.  **c) The management of money.**  4. Which of the following is the most common type of fraud:  **a) Internet fraud**  b) Mail fraud  c) elder fraud  5. If I split my savings and invest them in different ways, what am I doing?  **a) Portfolio diversification**  b) Building an emergency fund  c) Learning about investments | |
| **Bibliography** | None | |
| **Resources (videos, reference link)** | None | |