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FORMATION OF RESERVE CAPITAL AS A METHOD OF MINIMIZING ENDOGENOUS RISKS IN THE FINANCIAL ACTIVITIES OF HOUSEHOLDS

The most important endogenous factor affecting financial stability is the size of household income: its reduction as a result of the loss of working capacity of household members negatively affects financial stability and vice versa. Loss of working capacity can be temporary or permanent. Let us consider the impact of the endogenous risk of temporary loss of income and the tools for overcoming it by forming a household reserve capital.

According to Ukrainian labor market researchers [1] and data from the State Statistics Service of Ukraine [2], the average duration of job search for unemployed persons is six months. Therefore, in order to minimize the risk of not being able to support a household due to loss of income during this theoretically possible period of time, an appropriate reserve (or insurance) capital should be established to restore employment. That is why it is proposed that the amount of such a capital be set at 6 months' household income (Rc).

The value of the Rc index in the amount of 6 months of household income is taken as 1. Accordingly, if it is within the range of ≥ 1, this will indicate a high level of financial stability of the household and effective risk management. Therefore, the criteria for assessing financial stability within our approach can be formulated as follows:

1) a reserve capital equal to 6 months (or more) of household income (Rc ≥ 1,0) – absolutely stable financial condition;

2) a reserve fund amounting to 4-6 months of household income (0,7 ≤ Rc ≥ 1,0) – mostly stable financial condition;

3) a reserve fund amounting to 1-3 months of household income (0,2 ≤ Rc ≥ 0,6) – unstable financial condition;

4) a reserve fund amounting to up to one month's household income (0,2≤ Rc) – critical financial condition.

The advantages and disadvantages of forming reserve capital as a method of minimizing the endogenous risks in the financial activities of households are summarized in Table 1.

As shown in Table 1, the main disadvantage of forming a reserve fund as a method of minimizing the endogenous risks in the financial activities of households is that it does not take into account the impact of specific factors on the increase or decrease in the degree of risk. At the same time, the advantages include the ability to assess overall financial stability using a simple mechanism for comparing the size of the reserve fund formed with its optimal value.

Table 1

The advantages and disadvantages of forming reserve capital as a method of minimizing the endogenous risks in the financial activities of households

Advantages	Disadvantages
1. Ability to identify the object characterized by the highest degree of risk – household income. 2. Conducting a general assessment of financial stability and the corresponding risk. 3. No costs for conducting a risk assessment.	1. The sources of risk are not analyzed; risk is accepted as a whole, i.e., the multiple components of risk (the causes of unemployment, its objective or subjective preconditions) are ignored. 2. Failure to take into account the factors that give rise to the risk of future income loss.

Source: proposed by the author based on [3, p. 64]

The main requirement for instruments used to form reserve capital, the purpose of which is to ensure the current livelihood of households in the event of a risk of loss of income due to unemployment or temporary disability, is reliability. Trends in household savings in Ukraine [4, p. 21] allow us to identify deposits in financial institutions with the possibility of free replenishment and withdrawal of funds as the most suitable instrument for forming household reserve capital. Our position is based on the following considerations:

a) it is a low-risk instrument with a known income;

b) deposits in financial institutions with the possibility of free replenishment and withdrawal of funds allow you to quickly and fully ensure the livelihood of the household in the event of risky events;

c) the return on using the instrument at the level of inflation allows avoiding the depreciation of the national currency.

We consider it appropriate to determine the degree of formation of reserve capital by Ukrainian households as a method of minimizing the risk of loss of their own income on the basis of their self-assessment (survey). An alternative method for households to create a reserve capital using their own financial resources is to form collective insurance funds.

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