

# RESEARCH OF THE INFORMAL FACTORS ROLE IN THE DEVELOPMENT OF THE FINANCIAL SERVICES MARKETS



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## Abstract

Within the article essence of the informal factors and their role in the development of economic entities, in particular in the functioning of the financial services markets, was analyzed. The essence of such market was defined. As well the factors, that influence on the defined markets, were divided into two groups: global and national, among which national factors were researched in more details and they were ranked into such



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groups: political, social, economic, informational, historical and psychological, the factors of each of the group were determined. Special attention is paid to the defining of the essence of informal factors and their nature. To their number the following were related: **trust, customs and traditions**, civic culture, stereotypes, lifestyle, ethics, level of economic thought, mentality. Deep at-

tention was paid to the influence of trust on the development of the financial services.

**Keywords:** *thefinancialservicesmarket, financialintermediary, informalfactor, formalfactor, financialservice.*

## ИССЛЕДОВАНИЕ РОЛИ НЕФОРМАЛЬНЫХ ФАКТОРОВ В РАЗВИТИИ РЫНКА ФИНАНСОВЫХ УСЛУГ

### Аннотация

В рамках статьи были проанализированы сущность неформальных факторов и их роль в развитии экономических объектов, в том числе в функционировании рынка финансовых услуг. Была определена сущность такого рынка. Также проанализированы факторы, влияющие на данный рынок, которые были разделены на две группы: глобальные и национальные, среди которых более подробно рассмотрены национальные факторы, которые были распределены на следующие группы: политические, социальные, экономические, информационные, исторические и психологические, определенные факторы каждой из групп. Значительное внимание уделено определению сущности неформальных факторов и их природа. К их числу отнесены следующие: доверие, обычаи и традиции, гражданская культура, стереотипы, образ жизни, нормы поведения, уровень экономического мышления, менталитет. Углубленное внимание уделено влиянию доверия на развитие рынка финансовых услуг.

**Ключевые слова:** *рынок финансовых услуг, финансовый посредник, доверие, неформальный фактор, формальный фактор, финансовая услуга.*

## ფინანსური მომსახურების ბაზრის განვითარებაზე მოქმედი არაფორმალური ფაქტორების როლის კვლევა

### ანოტაცია

სტატიაში გაანალიზებულია არაფორმალური ფაქტორები და მისი როლი ეკონომიკური ობიექტების განვითარებაში, მათ შორის ფინანსური მომსახურების ბაზრის ფუნქციონირებაში. განსაზღვრული იქნა ასეთი ბაზრის არსი. ასევე გაანალიზებულია ფაქტორები, რომლებიც მოქმედებენ მოცემულ ბაზარზე და რომლებიც დაყოფილნი იქნენ ორ ჯგუფად: გლობალური და ეროვნული, რომელთა შორის უფრო დაწვრილებით იქნა განხილული ეროვნული ფაქტორები, რომლებიც განაწილდა შემდეგ ჯგუფებად: პოლიტიკური, სოციალური, ეკონომიკური, საინფორმაციო, ისტორიული და ფსიქოლოგიური, თითოეული ჯგუფის განსაზღვრული ფაქტორები. მნიშვნელოვანი ყურადღება დაეთმო არაფორმალური ფაქტორების არსის და მათი ბუნების განსაზღვრას. მათ რიცხვს მიეკუთვნებიან: ნდობა, ადათები და ტრადიციები, სამოქალაქო კულტურა, სტერეოტიპები, ცხოვრების წესი, ქცევის ნორმები, ეკონომიკური აზროვნების ღონე, მენტალიტეტი. განსაკუთრებული ყურადღება დაეთმო ნდობის გავლენას ფინანსური მომსახურების ბაზრის განვითარებაზე.

**საკვანძო სიტყვები:** *ფინანსური მომსახურების ბაზარი, ფინანსური შუამავალი, ნდობა, არაფორმალური ფაქტორი, ფორმალური ფაქტორი, საფინანსო მომსახურება.*

### Introduction.

The financial services market is an important component of the national economy because within of such market the volumes of investment and credit resources are formed, that are used by economic entities for further functioning and thus the development of the national economy in general goes on. Besides, the financial services market, which is a part of the economy of the country, is also an important component of our lives. It is difficult to imagine the society without

the activity of the financial intermediaries, that are the producers of the financial services and it is acceptable to relate to them banking establishments, insurance companies, credit unions, investment funds, nongovernmental pension funds and other establishments.

The financial services market develops especially dynamically in the epoch of the economy globalization, integration of the financial markets and financial establishments of the world, intensification of the international movement of goods, capitals, services, labor resources, information, technologies. Evolution of these factors, changing the mechanisms of international competition, has long-term character, stipulating difficult processes in their financial systems [5, p. 1].

Transformation processes, that are taking place today in society, can't but not affect the development of the financial services market in general, and its separate components: approaches to customer's servicing change, new products are created. New economic reality demands also transformation of the financial services market, adaptation of its conditions of economic activity. Thanks to its potential for the development and influence on the general economic processes, the financial services market as an economic entity of the research is quite important one from the sight of its investigation. It allows to conduct continuous analysis of new tendencies of its development, clarify new problems which arise in range of its functioning concerning their solution.

Taking into account all the above mentioned it can be affirmed about the importance of the investigation of the financial services market, deepening theoretical, methodic and methodological aspects of its functioning. It gives the possibility to cognize better the nature and essence of the defined market, to investigate modern transformation processes, which take place on it and on this base to form efficient prerequisites of its further development. Dynamic functioning of the financial services market is directly connected with the growth rate of the country and welfare of its citizens.

**Analysis of the latest investigations and publications.** Investigations of the peculiarities of the financial services markets functioning and studying of their nature and essence as an economic entity were made by many scientists among whom to our mind the following are worth noting: Belienkiy P.U., Bobrov E.A., Bondarenko E.P., Voytenko O.M., Vnukova N.M., Yeshch S.M., Kovalenko U.M., Podzygun I., Tretiakov M.M., Yurchuk O.M.,

The question of the financial services influence on the development of the national economic system are considered in the scientific works of Boldova A.A., Vyshyvana B.M., Yuriy S.I., Yashchuk V.V. But studying of the factors that influence the mentioned market functioning hasn't got proper justification in the scientific literature. In most cases the scientists focus their attention on studying the combination of different factors which realize the influence of the activity of separate segments of this market (insurance, banking, credit, fund) or such factors are investigated which define the development of separate financial establishments. In particular, for example, Malysenko K.A. researches the factors that define the peculiarities of the stock market [10], Prokopenko V.U. studies the factors that influence the demand and offer of the real estate market [12], Volokhata V.E. analyses the factors of the forming of the bank deposit resources [6], Gerasymchuk Z.V. and Gomaniuk O.K. investigate influence factors on the development of the regional markets of the banking services [7],

But there is not so many thorough and complex studying of factors combination that influence the functioning of the financial services markets using system analysis to their approach in the scientific literature. It is separately worth noting that the questions of the informal factors influence the development of this market functioning were given very little attention. Such researches are made by the scientists in the process of cognition of other economic entities and process. All the defined stipulates the objective necessity to conduct additional scientific researches of the factors system that influence the financial

services market in general and to allot among these informal factors the factors which take the important place in this system.

The purpose of the article is to investigate the role of the informal factors in the development of the financial services markets through general study of the functioning factors of such market, their systematization and detailed description.

To perform the defined goal the following tasks are targeted and successfully performed in the article: to define essence of the financial services market as an economic entity of the investigation; to identify the factors that influence such market functioning; to make classification of such factors; to select the block of the informal factors in the development of the financial services market in the general system of factors; to clarify what is the meaning of the informal factor; to select and describe the informal factors that influence the development of the financial services market.

**Economic essence of the financial services market**

So, the financial services market is essentially important component of the modern economic development of any country. In general in the scientific sphere it is considered that more developed such market is, more stable the country is, within which it functions. In general, the financial services market by its nature is an abstract economic system which comprises in its complex system separate segments that are decided to be allocated depending on many factors. The most popular is an approach of the elements identification of such market by the essence of the financial services that are performed on it (credit, deposit, fund, investment), or by nature of the financial establishments that offer their services (banking, insurance, etc.).

In general, the financial services market from the theoretical point of view can be characterized as a complex of economic relations which arise in the process of implementing the intangible results of interaction, which is inherent in the use value between the entities in the process of satisfying by one participants (producers) the needs of

others (consumers) on the base of mutually beneficial coordination of their interests on their own account, on the account of the consumers or on the account of the financial resources of other entities in accordance with the active legislation with the purpose of getting the profit, preserving the value of assets or achieving social effect from the realization of such interaction.

Thus, by operating mentioned above it can be noticed that in general as on any other market on the financial services market can be observed coordination of the customers needs and the producers of the financial services. Actually, the consumers of the financial services create the demand for such services, i.e. they form the definite demands that as on any other market and the financial intermediaries try to satisfy them. But, sometimes the producers of such services themselves create the financial services and then they impose them as necessary ones to their customers. That allows the financial establishments to increase volumes of their own income.

It is also should be noted that actually from the consumers to the producers of the financial services go temporarily free financial re-sources which they don't need at the present moment and which they agree to transfer in temporarily control to the financial companies but on the definite terms. From the producers to the consumers together with the financial services also the financial resources move, but of the credit and investment character, and the users of such resources shall pay for them additional costs.

Taking into account given results of the investigation of the essence of the financial services market let's deepen the theoretical base of the studied factors functioning that influence it.

**Factors that determine the development of the financial services market**

Investigating the financial services market as a complex system of interaction it should be mentioned that such system is characterized by quite high level of openness and interaction with other systems, that allows to admit the

existence of significant number of exogenous and endogenous factors of different nature that influence such market [4].

On scheme 1 the model of the different factors that influence the development of the given market is given. Let's perform their more detailed investigation. So, in general all factors of the development of the financial services market are divided into two large groups: global and national. We relate to the global factors all factors which arise in the global environment and influence the development of the national financial markets by the same way. The global factors can be predicted, adapted, some measures as to their change can be taken, but, on the national level you can't counteract them. This is why in that aspect consideration of the defined factors is quite an important component of the development of the national financial services markets because such factors are powerful in their power of influence and quite often correlate with the economic and political factors inside the country.

The second group of the factors is presented by the national factors that form and act inside the definite country. From that position all the complex of such factors is divided into the following groups: economic, political, social, information, historical and psychological.

The political and economic factors are usually considered in the context of investigation the economic entities of different nature and complexity. The financial services market as a complex system also depends from a large number of the factors of political, economic and social character. The efficient and qualitative normative base of the financial intermediaries functioning, protection of the financial services consumers, stable economic situation, no surge of panic on the financial services markets, all the defined has a significant weight to create the conditions for the development of that market.

Also in our opinion the considerable influence have the historical factors which in general create the base of the development of the financial services markets, put its base and define specific characteristics of the development

of the defined market in future. In particular, the historical factors influence the creation of the model of the financial services market, define the development of the most influential financial intermediaries in future. In particular, in Ukraine the bank-centric model of the development of the financial market and the financial services market has been created. That state is conditioned by presence of the bank establishments also in the Soviet period of the financial intermediaries functioning. In the years of independence other financial establishments started to be created, but banks got definite privileges because the customers trusted them more and traditionally invested money in such establishments.

Quite intensive influence this time on the quality and dynamics of the development of the financial services market is made at the present moment by the information factors, that define the level of transparency of the financial intermediaries functioning, level of implementing new technologies in sphere of the financial services providing, increase the level of the information accessibility about the defined market and its separate segments. Nowadays, in the epoch of the information technology which is built on the base of the data of different nature, the financial services market can't act not considering modern tendencies of the development of information components of the modern society functioning.

The psychological factors are quite important in the complex of the total factors complex of the development of the financial services market. In the traditional scientific researches of that market in the part of the factors studying that influence on the that market the greatest attention is paid to the traditional factors studying, which we've looked through above. But, taking into account that the financial services market partially in its functioning develops under the pressure of the decisions made by different economic entities, it is logical to accept that not only economic, social or political factors influence it, but as well the psychological factors caused by a number of individual characteristics of the individual. In the economic literature by studying the objects

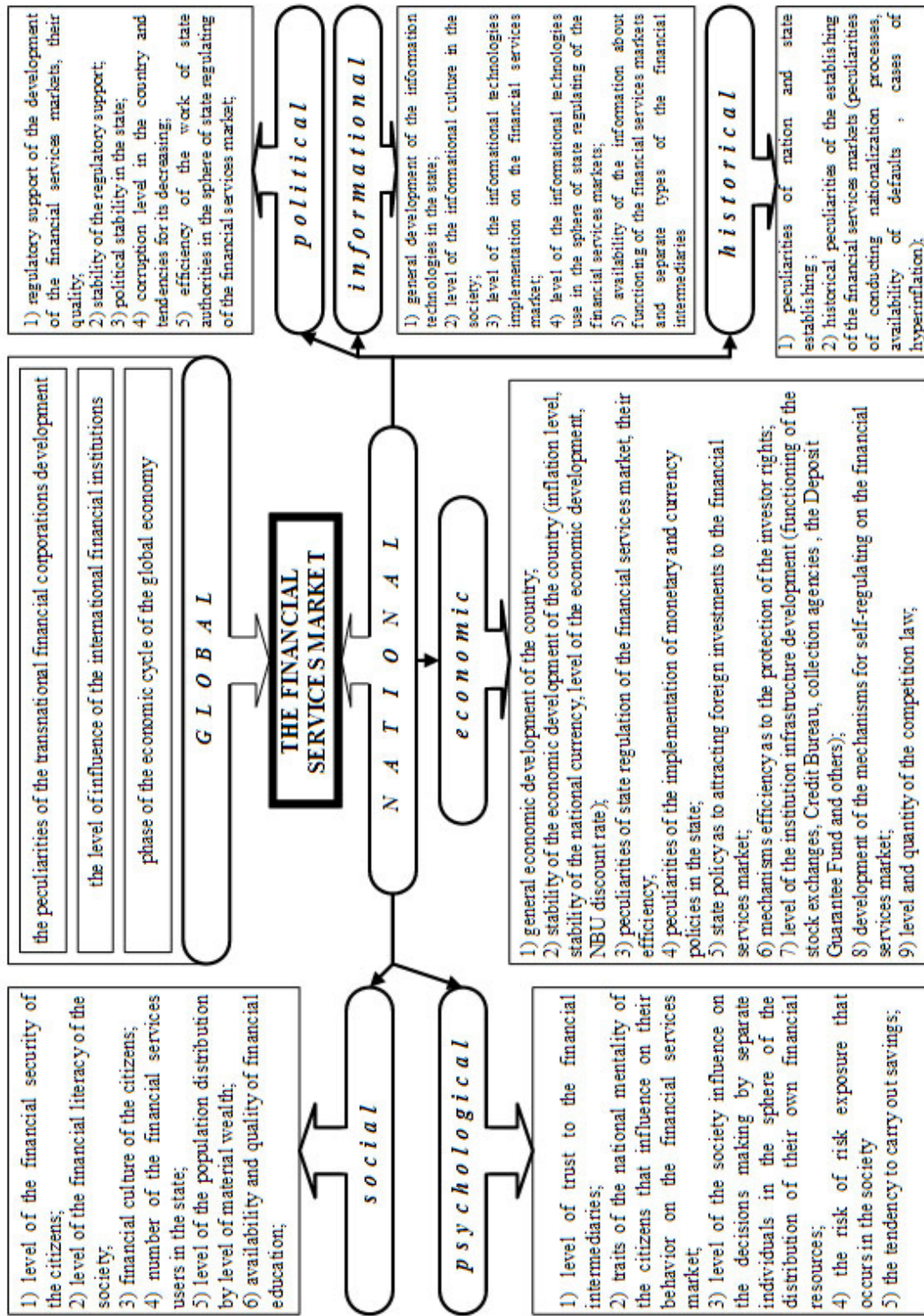


Fig. 1. Factors affecting to the financial services market development

and processes which are influenced by such factors not sufficient role is paid to their role, because it is difficult to conduct their research from the position of these factors measuring and mathematical calculation of their influence on the investigated objects. Considering that, the psychological component of the development of the financial services market is quite weighty in comparison with other spheres and branches of the national economy. Panic on the financial market, deposits withdrawals from accounts, not repaid loans, all described in their base have definite psychological factors, which should be investigated and there should be an attempt made to predict them. It is in the part of the psychological factors the informal factors of the economic entities development usually appear, which are difficult for classic economic analysis and it is difficult to quantify their impact on the object under investigation.

Let's analyze in details the psychological factors of the development of the financial services market in the light of their consideration as the informal factors influencing the defined market.

#### **Essence of the informal factors in the economic entities development**

Reality shows that neglecting the informal factors of the development of the investigated events doesn't allow to conduct really detailed and comprehensive scientific research. It is well known that human behavior on the financial services market is not determined purely by the economic and political factors, on the desire of a person to submit his money to the availability of the financial intermediaries the considerable influence is made by such factors as a personal attitude to the financial establishments, position as to economy, certain mental traits, religious beliefs, etc. As a rule in the theory of institutionalism the defined factors are related to the informal factors of the economic entities development. Let's investigate their essence in details.

We support the thought of Kolota A. and Kravchuk O., who note that "purely economic postulates further appear less as a construction

material, from which present and future economic life of the country, household of each person can be built. At the same time non economic factors further should supply as a construction material – moral and spiritual associated with consciousness, eternal human values both individual and collective, society character [9, p. 18]. As a prove of the scientific interest increase to the non economic factors studying which influence the development of economic processes are as well advanced researches recognized by the international scientific community. In particular, in 2015 the Nobel Prize in Economics was awarded to Angus Deaton, who devoted his researches to the issues of consumption, poverty and welfare. „To create economic policy which would favor welfare and decrease the level of poverty, at the beginning we should understand how each individual consumer chooses, - is stated in the note of the Swedish Royal Academy of Sciences" [11]. So, considerable attention in the researches is paid not only to the economic component but as well to the psychological, behavioral aspects, and that doesn't change the vector of the investigation itself and demands the creation of the new methodology of studying such phenomena, defined interrelations and correlations, deepening the theoretical base of their functioning.

Thus the issue of identification of the essence of the informal factors and institutions, which are active at the present moment in range of the national economic system, becomes actual. In particular Ukis U.O. notes that informal institutions are the mechanisms that regulate people's behavior with the help of definite stereotypes, standards and social conventions that are not defined by the legislative and normative acts [3, p. 7]. From the other side those factors which cannot be considered as formal ones can be related to the informal factors. Kovalenko U.M. notes that "informal (traditional) norms-mental stereotypes, customs, traditions, not unwritten codes and codes of behavior, economic ethics, rites, taboos, religious, moral, ethic and social standards, sociocultural background – are deprived of hard automatism

and provide opportunities for flexible adaptations to conditions” [8, p. 58]. Thus, spectrum of the informal factors types can be very wide and their influence is not always clear and visible. But in comparison between different national economics their role increases greatly, which leads to the need to consider these factors in the study of different objects and phenomena. It is worth noting that such peculiarity of the informal factors influences on these factors investigation, demands using the other means of investigation. Studying of the informal factors is also connected with the possibility to build the system of their identification, measurement and implementation of the definite level of management the creation and their influence on the investigated objects. But nature of the informal factors causes quite a complicated process of their creation and accordingly correction with the purpose of strengthening positive influence on the economic processes.

Referring the financial service market it is worth noting that the informal factors role of such market development at the present moment is quite weighty because it is caused by the behavior specific of its main entities, that is formed under the pressure of the big number of such factors. We are convinced that to the informal factors which influence the financial services market the following should be related: trust, customs and traditions, civil culture, stereotypes, way of life, ethics, level of economic thinking, mentality. The defined informal factors by their nature are abstract and complex formalized, but useful from the position of the development of the financial services market, modelling its functioning in future. We'd like to note that sometimes it is difficult to put lines between the defined factors taking into account their interpretation and content.

The financial services market as a complex economic system develops under the pressure of the massive of different factors and the informal factors play the key role in their complexity. Quite a controversial from the scientific point of view is the issue concerning correlation between the formal and informal factors themselves,

their completeness, in other words mutual complementarity and interplay. It is logical to admit that trust, for example, of customers to the financial intermediaries functioning will partially depend on stability of the economic system in the state, the efficient functioning of the system of the state regulating the financial institutions activity, presence of the active mechanisms of the customers rights protection, their right to return their money in case of bankruptcy of the financial institutions. But from the other side without trust in general the development of the financial services market on the initial stages of their development isn't possible, when there is no institutional base of its functioning, there is always definite level of trust which is not confirmed by any economic or political factors, it is only based on the psychological and mental peculiarities of the citizens.

Let's investigate in more details the influence of trust on the financial services market because we consider that this informal factor by its nature is the result of the influence of many factors on the development of this market. Trust availability, especially in the range of the economic systems, is a powerful basis of their development because functioning of such systems becomes easier, the interrelations nature between the main economic entities changes, that speeds the circulation of goods, services, money, information. Trust availability favors quicker goods production, their sale and money receiving, allows to decrease transaction fees which positively influence on the economic state of the economic entities, allows to decrease costs of the state for the construction and maintenance of a significant number of civil servants in the regulation of economic relations on the financial services market in general.

Generally, trust is a phenomenon which arises in the process of interrelation of separate entities as a result of that such interrelation arise between them and they can be characterized as reliable, confident, honest, decent, which give the possibility to predict further actions of the participants of such interrelations, provides confidence in their future actions [14, p. 58].

It is very difficult to create confidence in the



society and it is even more difficult to create the mechanism of its support and increasing its level. Trust is quite an abstract meaning, increasing level of which demands using huge efforts from all sides of the economic process: state, citizens to long term and difficult process, which demands methodological, consistent implementation of the mechanisms of support in different spheres especially in the part of the development of the financial services market and the financial intermediaries functioning.

It is very easy to lose the customers trust but to return it is extremely hard task. In limits of the defined market functioning trust is a resource of stability and normal functioning of the financial establishments. Decreasing the customers trusts level to the financial intermediaries leads to withdrawal of fund resources, liquidity decreasing of the bank system, deterioration of the financial state of the credit, investment and deposit establishments in general as to the economic recession, or, in worse case to the economical fall in limits of the state. That's why the issue of research of the informal factors is actual because good governance by them allows to create actually stable base of the economic development and prosperity of the state. It is well known that for the development of the state it is worth implementing economic reforms but in our point of view they should compulsorily consider influence of the informal factors which already exist in the society. Ignoring such factors doesn't allow to create efficient measures of further development of the national economy, provide its development in long term perspective.

**Conclusion.** So, within the article the essence of the informal factors and their role in the development of the economic entities, in particular in the financial services market, was analyzed. In particular, within the article essence of such market was defined and interpretation of its as nonmaterial form of the interrelation results was suggested, which are characterized by consumer price between the entities in the process of satisfying by the participants (producers) needs of the others (consumers) on mutually beneficial reconciliation of the interests

on their own account, on the account of the customers or on the account of attracted financial resources of other entities in accordance with the active legislation with the purpose to get profit, preserving the value of assets or achieving social impact from the realization of such interaction.

Within the article also the factors that influence the defined market were analyzed and which were divided into two groups: global and national among which the national factors were studied in details and which were ranked in such groups: political, social, economic, informational, historical and psychological, the factors of each one were defined. In the process of this research special attention was paid to the psychological factors of the development of the financial services market and their relation to the factors of the informal action was reasoned.

Special attention within the conducted research was paid to essence of the informal factors and their nature. In particular, importance of such factors considering in the process of the measures creation of the economic entities development and the financial services market in general were noted. To the informal factors that influence on that market the following ones are related: trust, customs and traditions, civil culture, stereotypes, way of living, ethics, level of the economic thinking, mentality. The deepened attention was paid to the influence of trust on the development of the financial services market.

In general conducted research gave reasons to believe in the significant scientific potential of studying the informal factors role in the development of the economic entities. Issues of the methodologies development to study the impact of such factors, their listing and typology need to be researched additionally. Particularly relevant and interesting is the application of mathematical tools to study the defined impact.

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