

The Role of Informal Institutions in the Development of the Financial Services Market

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Abstract

The aim of the article is to study the role of informal institutions in the development of the financial services market. The study outlines the concepts of scholars to identify the main types of informal institutions. The mechanism of research of influence of the informal factor on functioning of economic object is developed. The main types of informal institutions are systematized. The main informal institutions influencing the development of the financial services market are considered. The application of a synergetic approach to the consideration of the impact of the institution of trust on the financial services market is proposed.

Key words:

informal institution; institutionalism; financial service; economic mentality; economic behavior.

1. Introduction

The development of the financial services market takes place in a stochastic economic environment. The delineated market is always influenced by a known number of factors that are the consequences of events both in global financial markets and in the middle of national economic systems. The financial services market is a market in which economic agents, primarily households and financial institutions, play a leading role. Taking into account the interests of the population is an important condition for ensuring the development of this market, its transformation and constant transition to a new level of development.

Households, business entities are the main consumers of financial services, and therefore have the ability to influence the development of the financial services market, shaping the demand for such services. There are already many examples in economic history when the change in demand from customers of financial institutions for their services has led to significant disparities in the economic development of countries and crises in the global financial system.

In scientific works on the study of economic, especially financial systems, scientists are increasingly turning to the analysis of not only economic but also psychological factors of their development. The process of

making business decisions by individuals is always in reality related to the peculiarities of the existing worldview of man. Knowledge, experience and information about a particular object influence the formation of an appropriate pattern of behavior. Accordingly, economic processes, the functioning of which is associated with management decisions, depend on the above factors.

The importance of the influence of psychological factors on the development of economic systems is difficult to ignore, given the growing processes of personification, individualization, which are actively developing in society and can determine the features of the further functioning of such systems. This is especially true in the field of financial services, where financial institutions try to use personal data of customers to create different conditions for the provision of financial products for them.

This only confirms the gradual growth of interest of scientists in the implementation of research in the field of analysis of specific features of the formation of human behavior as a separate economic entity. Such work becomes especially relevant in the field of financial services, where the individual has an impact on its functioning. Deepening scientific knowledge with new results in the process of studying the features of the financial services market in the system of psychological and social factors can deepen the theoretical and methodological foundations for further development of such a market. This necessitates additional research in the field of knowledge of the impact of non-economic factors on the development of the defined market.

2. Literature review

The issues of studying the influence of non-economic factors on the development of economic systems, the peculiarities of the formation of the behavior of various economic entities within them are actively studied by both domestic and foreign scientists. Among them are such: Arefieva O. (2021) [1], Bobnev M. (1979) [2], Cosmulese C., Grosu V. (2019) [3], De Soto E. (2004) [4], Derhaliuk M. (2021) [5], Dolozina I. (2019) [6],

Fedyshyn M. (2019) [7], Fukuyama F. (2006) [8], Hrytsenko A. (2010) [9], Khanin S. (2021) [10], Kholiavko N. (2021) [11], Kosach I. (2019) [12], Kovalenko Yu. (2013) [13], Kupreichenko A. (2013) [14], Lefebvre V. (2003) [15], Malyi I. (2009) [16], North D. (1997) [17], Pachkovskiy Yu. (2004) [18], Popelo O. (2021) [19], Prokopenko V. (2018) [20], Shkarlet S. (2017) [21], Shtompka P. (2012) [22], Skripkina T. [23], Smovzhenko T. (2016) [24], Stepanenko S. (2008) [25], Taleb N. (2010) [26], Thaler R. (2015) [27], Tkachenko T. (2021) [28], Tulchynska S. (2021) [29], Veselov Yu. [30], Vovk O. (2021) [31], Zhuk O. (2018) [32] and others.

The role of informal institutions in the development of the financial services market and their impact on the functioning of the national economy have been studied in the works of the following scientists: Badaruddina (2020) [33], Bastič M. (2009) [34], Bentkowska K. (2021) [35], Bondarenko O. (2007) [36], De Soto E. (2004) [4], Jiang Y. (2021) [37], Korneeva T. (2001) [38], Kovalenko Yu. (2011) [39], Polezhaev D. (2001) [40], Prushkivska E. (2015) [41], Prutska O. (2004) [42], Rachim R. (2021) [43], Roshlyo V. (2020) [44], Rysin V. (2021) [45], Tykhonova O. (2019) [46], Vasylytsiv T. (2016) [47], Veblen T. (1984) [48], Vukolova T. (2004) [49], Weber R. (2011) [50], Yevdokymenko R. (2014) [51] and others.

The researchers' article [43] is based on a study of the impact of internal factors, local government interventions, external factors and the policy of the Bank of Indonesia. The peculiarities of the influence of the Financial Services Department on profitability with external factors as variable indicators in regional development banks in Indonesia are also analyzed. The researchers used structural modeling of equations with Warp PLS in the study. The aim of the research [33] is to analyze the impact of individual characteristics and organizational climate on the career development of employees in a financial services company. According to the results of the study, the authors proved that individual characteristics have a positive and significant impact on career development.

The authors of the article [44] prove that currently the development of the financial market is closely linked with the development of financial technologies (FinTech) of financial organizations. Scholars argue that the development of the financial services market should be associated with the state stimulating the development of non-cash payments, payment infrastructure. The purpose of the research [46] is to study the essence of e-banking as a promising area of the financial services market. The authors proved that the issues of security and confidentiality of e-banking operations, ensuring legal relations in the field of bank services through e-banking and public confidence in e-banking constrain opportunities for widespread use of e-banking by customers. The study [47] is based on highlighting the features of the non-bank

institutional investor in the financial services market. According to the study, the authors of the article argue that it is necessary to improve government regulation of the studied institutions to avoid crises in their activities, increase financial stability and limit investment risks.

Researchers [50] are examining the functions of the financial services industry in the Kyoto Protocol's Clean Development Mechanism (CDM). It is investigated that the financial services industry is actively working in the CDM market. According to the study, the authors demonstrate the advantages of financial intermediation in the CDM market, as well as analyze some of the disadvantages. The article [34] is based on an analysis of the factors influencing the success or failure of innovations in emerging financial markets. The authors argue that factors such as the development of new services, service quality, organizational culture and knowledge have a significant impact. At the same time, it was investigated that market characteristics do not affect the success of new financial services. Researchers have investigated the differences between the development of financial innovation in emerging and developed markets in terms of the impact of these factors.

The authors of the study [37] aimed to empirically determine the impact of financial development, especially exports, on trade in services. The researchers used the following indicators: deposits of financial systems, liquid liabilities and private credit. The authors conducted a thorough analysis and found that financial development has a positive effect on trade in services in Central and South America, but does not have a significant impact in Asia and Africa.

Scientists [45] analyze the preconditions for the emergence and use of financial convergence by participants in the global financial services market. Their desire is based on the creation of additional competitive advantages and sustainable development by making changes in the financial market sectors. The authors of the article consider practical ways to determine the presence of financial convergence, based on a modern approach using the methodology of calculating the conversion of sigma. The authors of the article [35] investigated how informal institutions influence the response to the COVID-19 pandemic and the response to official restrictions. Scholars argue that formal restrictions can only be considered successful if they are supported by strong informal institutions. Studies have shown that in some cases they have a greater impact than official recommendations.

3. Results

Non-economic factors in the scientific literature are often considered as informal factors that influence the

development of systems of different nature. Given the specific nature of economic systems, including financial, the role of informal factors in their functioning is quite important. Historically, scientists have always paid the greatest attention to the study of the development of macroeconomic systems in a complex, however, deterministic world. Informal institutions have always been seen as additional conditions for the development of delineated systems. This situation is also due to the fact that the study of informal institutions is a more complicated process from a scientific point of view, as their clear formalization is extremely difficult. However, already today there are scientific trends, which develop concepts for the study of outlined institutions, their role in the development of both the economy and society as a whole.

The theory of institutionalism received the most attention in the theory of institutionalism. It is within its limits that scientists have attempted to formalize non-economic factors and study their role in social systems. This area of economics has made it possible to identify these factors as separate institutions and justify their informal nature. This allows us to determine their place in the overall system of factors influencing the functioning of other economic systems.

A. Chukhno notes that informal institutions include "customs, unwritten norms and generally accepted conventions", which are more characteristic of sociology and other social sciences - field research or work with historical documents. This is due to their hidden, implicit nature. Recognition of them requires giving the reforms not a purely technological but a genetic character, which means shifting the emphasis from the desired end result to the real heritage of the past" [52].

The reality shows that ignoring the informal factors of development of the studied phenomena does not allow to obtain thorough results about their functioning. Human behavior is not formed under the influence of purely economic factors, but is also determined by the action of other factors of different nature. In the financial services market, a person's decision to make his own funds available to financial intermediaries is formed taking into account his personal attitude to the activities of financial institutions, understanding of a frugal lifestyle, mental character traits, religion and more.

In scientific works, studies of informal institutions and their impact on the functioning of various systems are quite rare. More attention of scientists is focused on the study of formal systems, which is logical, given the

already established methodological basis for such research, which has been created over the centuries. Quite often, informal institutions are seen as separate aspects of ensuring the efficiency of classical economic systems. This leads to the lack of comprehensive work in determining the nature of informal institutions, their varieties, the peculiarities of the impact on systems of different nature. In Fig. 1 presents a model for studying the impact of an informal institution on the development of the economic system.

In economics, it is advisable to consider an informal institution as a system of norms, rules, relationships that arise as a result of interaction of individuals, created by evolution, formed under the pressure of objective laws of economic system, and the mechanism of its operation is not regulated by law.

In general, today there is already a set of scientific works, within which the types of informal institutions and their role in the development of other economic systems are studied. However, there is no single approach to understanding the types of such institutions. For example, Kovalenko Yu. singles out among these institutions the following: mental stereotypes, customs, traditions, unwritten codes and norms of behavior, economic ethics, cults, taboos, religious, moral, ethical and social norms [39, p. 58]. Kolot A., Kravchuk O. in turn to informal institutions include trust, solidarity, loyalty, cohesion, as well as a number of others [53].

Chelmke G., Levitsky S. argue that informal institutions are personal connections, clientelism, corruption, clans and mafia, civil society, traditional culture and various legislative, judicial and bureaucratic norms [54, p. 191-192]. Haidai Yu. refers to informal institutions of trust, mutual understanding, respect, reputation, good will, punctuality, flexibility [55, p. 33], and Lysenko Yu., Stryzhak G. - reputation, trust, customs, traditions, taboos, religious beliefs, etc. [56, p. 50]. Rybak H. – traditions, customs, contracts, agreements, voluntarily assumed norms of behavior, unwritten codes of honor, dignity, professional self-awareness, etc.) [57, p. 183].

Thus, a review of scholars' concepts for identifying the main types of informal institutions indicates a significant level of polyvariance of such approaches, due to the large range and types of informal factors themselves. This situation significantly complicates the process of studying the outlined institutions and the peculiarities of their impact on the development of economic systems.

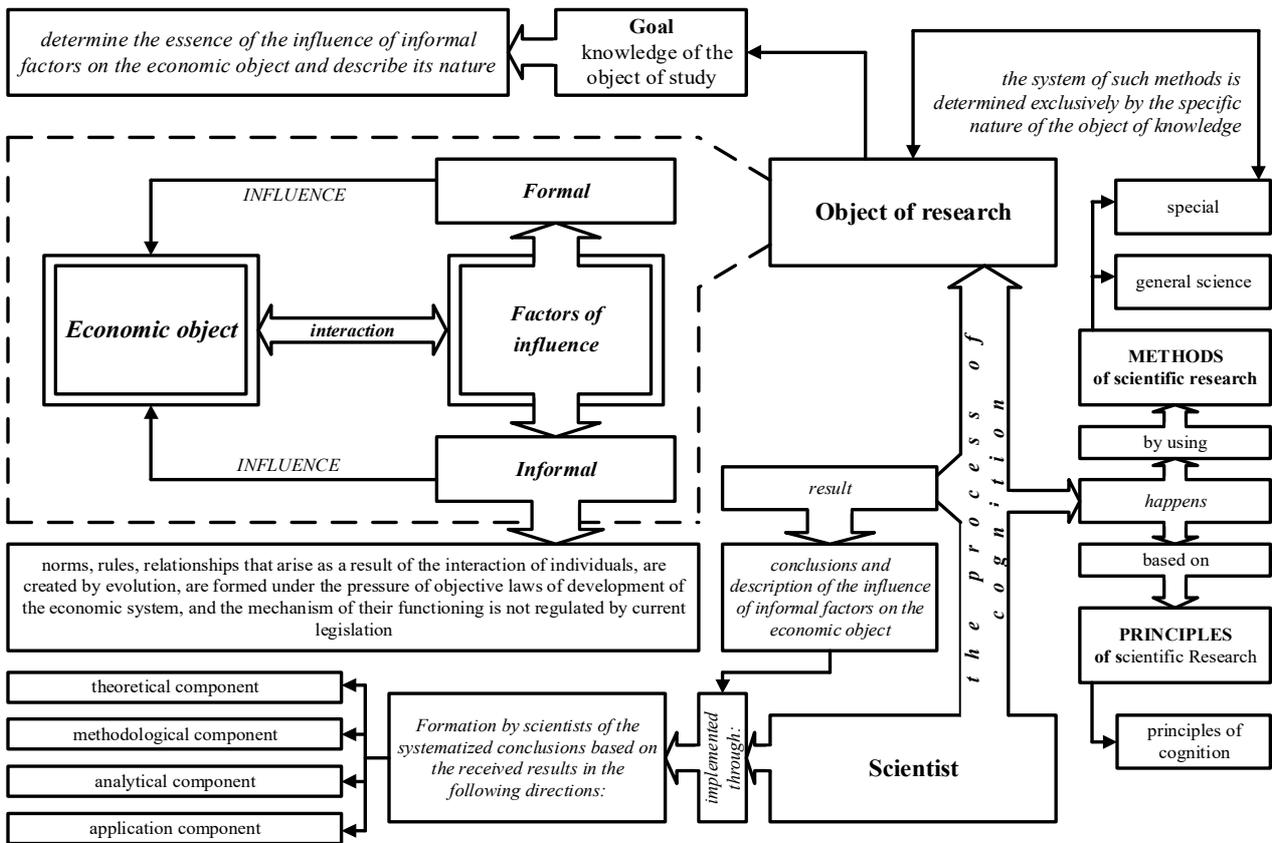


Fig. 1 The mechanism of research of influence of the informal factor on functioning of economic object.

Source: compiled by the authors

Each of the outlined types of informal institutions is a phenomenon that is difficult to study using classical methods of scientific knowledge. This necessitates the creation of a methodological basis for the implementation of such studies. Each of these institutions for its study requires the use of special methods of analysis, the choice of which must be justified by the specifics of its operation. It is also worth noting that there are large systems of informal institutions, which consist of a significant number of them. For example, culture, the shadow economy are synthesizing systems and contain a set of different informal norms.

We will systematize the main types of informal institutions. In our opinion, it is expedient to single out such groups of outlined institutions.

Individual informal institutions are institutions created by individuals. Such institutions influence the behavior of individuals, differ from each other depending on individual personality traits. They affect the process of economic decision-making, formed over a long period of time. An important role in their creation is played by

environmental factors that constantly influence the worldview of individuals.

Public informal institutions - inherent in the functioning of society as a whole and their study must be carried out in the context of the study of complex social systems and the peculiarities of their development. It should be noted that the division of informal institutions into individual and public is conditional. The first group of such institutions should be considered to analyze the attitude of citizens to certain systems, entities, ie in cases where it is necessary to know the institutions that are formed by the individual. Social institutions are created exclusively in society as a result of human interaction with each other.

Informal institutions of interaction - arise between two subjects. They are formed by individuals and function in society only through the existence of interaction between them. These institutions can be considered both from the standpoint of individuals and from the standpoint of the development of society as a whole.

Consider in detail the role of informal institutions in the development of the financial services market. It is

worth noting that public informal institutions play an important role in the functioning of such a market. In particular, the mentality of the nation, religion and cultural traditions can contribute to the transformation of such a market. However, given that the financial services market

is a system of relationships between different economic entities, it is appropriate to consider primarily the impact of informal institutions of interaction on its development. In Fig. 2 shows the main of such institutions.

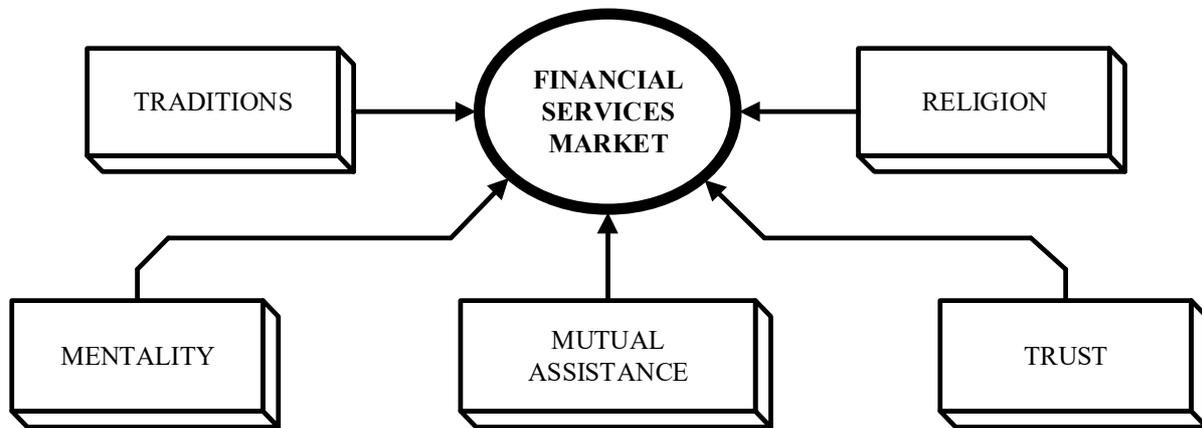


Fig. 2 Basic informal institutions, affecting the development of the financial services market.

Source: compiled by the authors

Consider the nature of the impact presented in Fig. 2 informal institutions for the development of the financial services market in more detail.

Traditions play a key role in the development of the national economy and its individual areas. The movement of financial resources in the financial services market in order to convert them into credit and investment funds is possible only through the existence of the institution of trust of their owners in financial institutions. However, an important role in this process is played by citizens' awareness of the importance of saving. For example, in the Soviet Union, it was common to set aside money "for a book". The lack of a tradition of making permanent savings is associated with the formation in society of a consumer model of economic behavior of citizens, in which all funds are spent on current expenses. This situation is mostly common in developing countries [58]. Their citizens are either unable to save due to insufficient income or are reluctant to do so due to the constant decline in the real value of such funds.

Religion as a social institution of society also has the potential to influence the activities of financial institutions. Throughout the development of society, the church's attitude to financial services has changed. In many countries, they were provided by citizens of other countries due to the existence of religious prohibitions to provide certain types of such services. Today, there are also restrictions on the activities of economic entities in this area. For example, this is the case in Muslim countries, where such boundaries are set by the Qur'an. In general,

religion indirectly affects the development of the financial services market. However, it forms the spiritual world of man, influences the processes of origin of his moral values. This contributes to the creation of appropriate behavior of the person, including in such a market.

Mentality is a set of different norms, specific features that distinguish one nation from another. The existence of such features is an important factor in the development of the financial services market. The influence of mentality on the functioning of the economic system is essentially similar to the influence of traditions on its transformation. However, the mentality is a generalized manifestation of the existence of different traditions and norms in a particular area, is formed over a long period of time and is difficult to change over time.

Ernando De Soto notes that "every person on earth has certain preferences, skills and patterns of behavior that can be considered as elements of culture. The task is to understand which of these traits are really ancestral, unchanging properties of people, and which are determined by the action of economic and legal factors. Is the illegal seizure of real estate (squatting) in Egypt and Peru the result of an Arab, ingrained habit of nomadic life and inherited from the Quechua Indians, a tradition of terraced farming in the Andes?" [4, p. 85]. Vukolova T. notes that the economic mentality is characterized by economic values and norms of behavior, characteristic to one degree or another for members of any group. The economic behavior of people largely depends on the

generally accepted values, stereotypes, relations between society and the individual [49, p. 74].

Mentality characterizes the moral and spiritual norms of society, which are determined by a set of descriptive characteristics. His research was founded by T. Veblen, a representative of the institutional direction of economic theory, who believed that attitudes, habits, lifestyle, character, temperament properties have economic significance as elements of thinking that affect the individual's habitual views on those phenomena and their properties. with which he comes into contact, thereby affecting the individual's ability to serve the purposes of production [48, p. 271].

Mutual assistance can also be seen as an informal institution that has an impact on the development of the financial services market. The presence of close

relationships between friends, relatives and colleagues in society increases the level of assistance between them when there is a need for financial resources. In this case, individuals do not turn to financial institutions for certain services. In societies where the level of such mutual assistance is low, individuals are more likely to use the services of financial intermediaries.

Trust is an institution that is formed under the pressure of many informal institutions and reflects a generalized indicator of the attitude of economic entities to each other, to economic systems, and so on. The existence of the institution of trust is an important prerequisite for the functioning of social systems, the key to their stable and rapid development (Fig. 3).

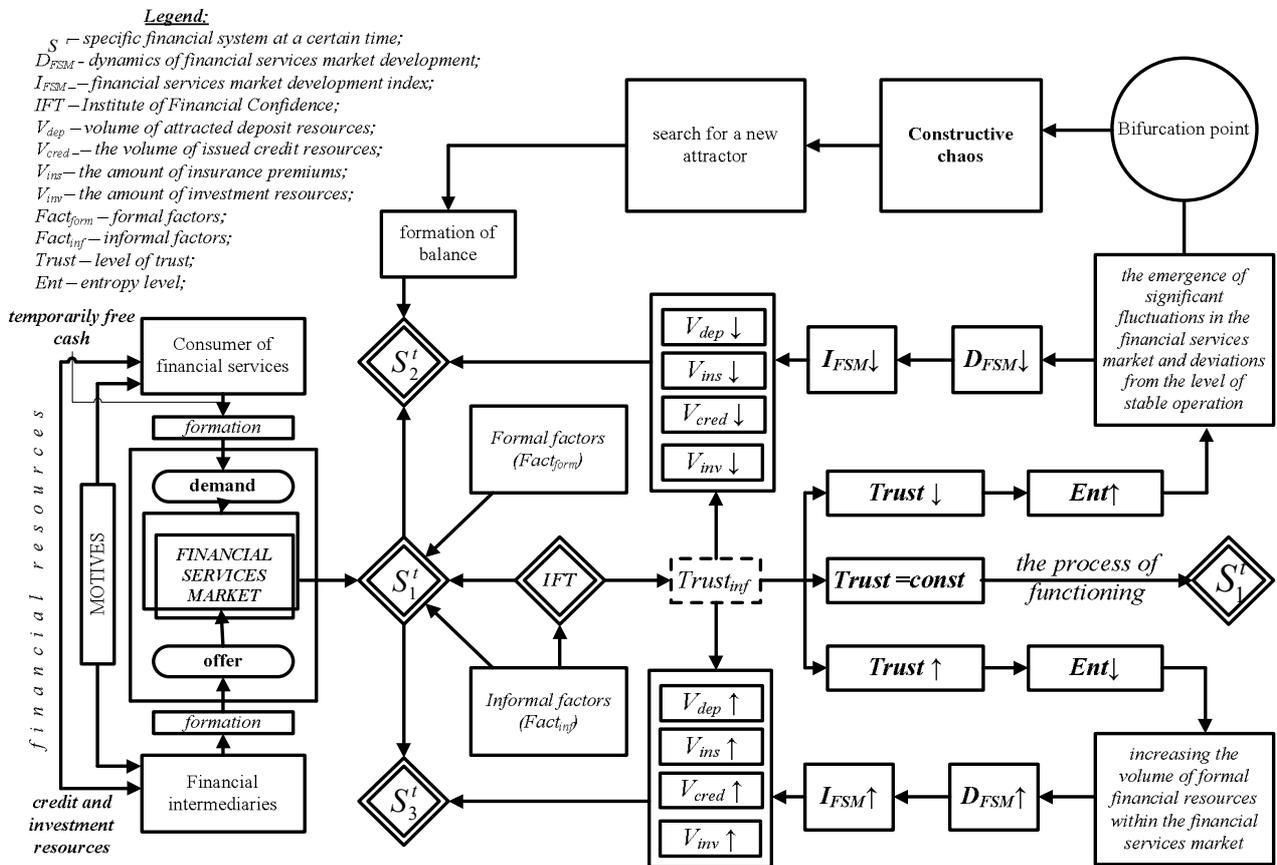


Fig. 3 Application of a synergetic approach to considering the impact of the institution of trust on the financial services market.

Source: compiled by the authors

In economic systems, where the level of trust between its main participants is high, there is a rapid movement of goods, services, money, information, innovation is introduced at an accelerated pace, transaction costs are reduced. The institution of trust also has a positive effect

on the relationship between economic entities and public authorities.

4. Conclusions

Taking into account the needs of clients of financial institutions is a difficult task, given that an important influence on the decision-making process by consumers on the use of financial services is not only economic, financial factors, but also non-economic factors. It is the knowledge of such influence, the identification of those basic informal features that have the ability to form the economic space for the development of financial services is a difficult but necessary task.

The authors analyze the main types of informal institutions that operate in society and influence the peculiarities of its development. Scholars have focused on the relevant institutions operating in economic systems and, consequently, in the financial services market.

The article systematizes the main types of informal institutions, among which the following are singled out: individual informal institutions, public informal institutions, informal institutions of interaction. The authors analyze the main informal institutions that influence the development of the financial services market, namely: traditions, religion, mentality, mutual assistance and trust. It is proved that the institution of trust plays a crucial role in the development of the financial services market, within which the interaction between the owners of temporarily free funds and those who need them is accompanied by the formation of trust.

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