

Development of the Financial Services Market in the Conditions of Economic Turbulence

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Abstract

The article is devoted to the study of the development of the financial services market in conditions of economic turbulence. The concept, essence and approaches to its understanding are clarified. Stabilizing and destabilizing factors that affect the development of financial services market are identified. In order to study the development of financial services market in conditions of economic turbulence, the article focuses on its essence and leading manifestations. For the purpose of effective functioning in the conditions of economic turbulence the process of detection of turbulence and development of the corresponding actions taking into account preconditions, the reasons and catalysts of turbulent processes is offered. The main turbulent processes that negatively affect the development of the financial services market are identified, including: occupation of part of the territory, hostilities and further escalation of the conflict, political instability, devaluation of the national currency, deteriorating macroeconomic situation, reducing the number of financial services market participants. These processes are considered and their impact on the development of financial services market is outlined.

Key words:

financial market, financial services market, development, turbulence, economic turbulence.

1. Introduction

Financial services market in modern conditions significantly affects the level of economic development and quality of life. It combines various forms aimed at the organization, accumulation and movement of funds from free circulation to the investment sphere of their application with the help of financial intermediaries. Much of the financial services market is represented by a large number of such entities as: banking institutions, insurance companies, investment and private pension funds, stock exchanges, credit unions, pawnshops, etc., which offer their services aimed at effective lending to small and medium-sized businesses and individuals, conducting operations to raise funds and investment resources, which leads to a reduction in the cost of market agents, as well as

their risks through such operations, saving on their scale and improving the process of valuation of financial assets.

Currently, the real full-fledged functioning and development of the financial services market is hampered and hampered by a number of problems, among which the following should be noted: relatively high level of distrust in the banking system and its activities by individuals and legal entities and low awareness, which negatively affects demand for services; imperfection of the regulatory framework on these issues; lack of consumer protection mechanisms; lack of capitalization of national institutions. In addition, business processes in the financial market are currently taking place in very difficult conditions and circumstances, characterized by economic and political instability, and tense events, external aggression and a number of other negative causes that create a turbulent environment for financial institutions and financial services markets in general. The above problems and causes have a destructive effect on the formation of a strong and stable basis for the functioning of the financial services market and its development. Thus, the prospects for the development of financial services market and the range of problems that lead to negative consequences of the financial system of our country, as well as hinder the use of its potential for economic growth, require new approaches and mechanisms in this area, which led to this article.

The purpose of this study is to determine the impact of turbulent processes in the economy on the development of financial services market based on a study of their nature.

2. Literature review

The issues of financial services market development in unstable, turbulent conditions of economic development are currently being actively studied by scientists, given the importance of such a market for the development of the national economy. These include the following: Dubyna M. (2017) [1]; Zhavoronok A., Popelo O., Sadchykova I. (2018) [2]; Kholiavko N., Shkarlet S. (2017) [3];

Uiliamson O., Khodakivska V., Bondarenko E.P., Soloshkina I., Kotler F., Mullin T., Zhuk O. (2018) [4]; Fedyshyn M. (2019) [5]; Grigoraş-Ichim, C. (2018) [6]; Bobrov Ye. (2007) [7] and others.

Features of the transformation of economic systems, including and the financial services market, in the new conditions of the digital economy are considered in the works Tulchynska, S. (2021) [8]; Bazhenkov, I. (2021) [9]; Vovk, O. (2021) [10]; Shkarlet S. (2017) [11]; Cosmulese, C. G., Grosu (2019) [12]; Shaposhnykov, K. (2021) [13]; Djakona, A. (2020) [14]; Margasova, V. (2021) [15]; Tkalenko, N. V. (2011) [16]; Ivanova, N., (2011) [17]; M. Butko (2016) [18]; Samiilenko H., (2021) [19]; Garafonova, O. (2021) [20] and others.

In [7] the functioning of the financial services market in different conditions of economic development of the state is studied. Particular attention is paid to the specification of the financial services market, the specific features of the interaction between financial institutions and their customers.

The article [21] analyzes the development of the financial services market in complex and unpredictable circumstances that arise quickly and strongly affect the development of financial institutions, the behavior of economic entities in the financial services market. Analyzing the peculiarities of the development of the outlined market in Ukraine, the authors state the main turbulent processes that took place in the development of the financial services market had a negative impact on its development. Such processes include the following: the difficult political situation and the occupation of part of Ukraine, a significant devaluation of the national currency, the deterioration of the macroeconomic situation, reducing the number of banking institutions.

In [2], researchers conducted a detailed analysis of the development of the financial services market in European countries. Scientists note that such a market is currently actively developing in the vast majority of developed countries and plays a key role in the development of the entire financial system. Particular attention is paid to the description of the development of such a market in modern internal transformation processes taking place in the financial services market in general, and related to the use of new information technologies. Partially outlined issues were also considered in [22; 23].

The main purpose [24] is to study the processes of formation and development of new institutional conditions for the development of the country's financial market. In particular, the analysis of the transformation of classical institutions within the market, which takes place in a changing environment in which such a market is developing, and which are largely due to digitalization of financial services, gradual change in the interaction of producers and consumers of financial services.

Interesting is the study [25], in which the authors conduct a study of changes in credit behavior of

households as a result of the introduction of modern information technology in the activities of financial institutions. The authors note that the new changes, which are already objective in nature, are gradually changing the lending process, allow lenders to more clearly determine the creditworthiness of borrowers, taking into account a wide range of different factors. Scientists note that such changes have become possible because both financial institutions and regulatory authorities in this area are most interested in the use of digital technologies, as their use is important to minimize the risks of individual banking and non-banking institutions and the overall level of systemic risk within the market of financial services of the state, and minimizes the occurrence of destructive phenomena in the development of such a market. Research in this direction was also conducted by scientists in [26; 27].

3. Methodology

The methodological basis of this study are the leading provisions of finance theory, economic cycles, the concept of the new economy, as well as such general and specific methods of scientific knowledge as analysis, synthesis, generalization, systematization, etc., which were used to study understanding and essence of financial services market; identification of factors that affect its development in many ways; to study the essence of economic turbulence and its main manifestations; to find out the process of detecting turbulence and developing appropriate measures, taking into account the preconditions, causes and catalysts of turbulent processes; identify turbulent processes that affect the development of financial services market.

4. Results

Financial services market - the sphere of activity of participants in this market in order to provide and consume certain financial services [28]. This is a place where independent participants join the exchange relations [29, p.165]. Financial services market is inherent in the property of dualism. Thus, on the one hand, it is a set of relationships that emerge to meet the needs of both consumers and society as a whole, but on the other - a set of services to attract, place and dispose of funds, both physical and legal persons. Currently, the scientific community does not have a common understanding of the concept of financial services market. A number of researchers believe that the concept of financial services market is identical to the concept of financial market. Based on this, they understand the financial market or financial services market - a set of financial assets that relate to the sale of financial assets and the relationship that arises between their sellers and buyers [30]. This approach is due to several reasons. First, the historical

aspect of the development of the financial market, which in today's globalization, the emergence of new types and ways of transforming money into money capital, contributed to the emergence of specific areas of professional activity aimed at meeting the needs of owners of capital and financial services. The emergence of a new relevant market. Secondly, it is to some extent the similarity of the participants in these markets, a significant difference between which should be seen in the object of financial relations: in the financial market - it's financial assets (securities, cash, debt, etc.), while financial services market - financial services provided to individuals and legal entities, or for the benefit of others in transactions with financial assets. Thus, the objects of financial services market can be non-cash payments, bank loans, securities, etc., and the subjects - its participants (consumers of financial services and financial institutions) [31]. Contrary to the first approach to understanding financial services market, there is another, whose representatives share the concept of financial services market and the financial market, believing that the first definition is broader and includes the second. The main task of the financial market is seen in the concentrated funds and their transformation into investment resources [32, p. 36].

Thus, based on the above, we note that the financial market is a complex, multifaceted entity with a complex structure, which includes a set of certain areas and segments of the national economy, while financial services market is a separate share, a segment of the financial system and under which should understand the component of the financial market [33, p. 155]. The difference between these categories is primarily in the functions and tasks they perform and in the objects and subjects of economic relations. As for the subjects of both concepts, they are similar, but implement different functions and have different essences: financial services market subjects play the role of intermediaries in the financial market in order to implement financial transactions to meet the needs of consumers. Financial market objects are financial assets, and financial services market objects are financial services as a mechanism to meet the needs of customers of these services.

In modern conditions, the financial services market as a complex multifaceted system is influenced by a large number of different factors that are both stimulating and destabilizing (Fig. 1).

The large number of environmental factors that are constantly changing today, often unpredictable and have a multi-vector impact on financial services market, leads us to the need to consider its functioning and development in today's economic turbulence. In order to investigate its essence and main manifestations.

In a general sense, turbulence is a manifestation of such a well-known phenomenon as self-organization,

which results in permanent or chaotic transitions from disorder to order and vice versa. Economic turbulence should be understood as a particularly complex and unpredictable direction of movement, both the national economy as a whole and its individual segments, spheres of activity, markets, companies in a turbulent and rapid vortex of events and various changes in which they have to stay, survive and do steps forward. Turbulence is characterized by the highest level of instability of the economic system at the global level, when the probability of reaching a turning point is too high. Turbulence is accompanied by an increase and spread of risk in all spheres of activity: both financial and real, which can lead to the decline and even decline of the system. Under such conditions, powerful changes in the economy are possible. Economic turbulence, accompanied by chaotic processes, has two main consequences: the identification of weaknesses in order to protect or eliminate them; and the emergence of new opportunities that can and should be seized. However, most market participants are either almost or completely unprepared for such developments, they cannot develop a timely model of behavior and be effective in conditions of economic turbulence, which in most cases is unpredictable. The consequence for such businesses is the inability to respond quickly to turbulent processes, which leads to chaos, in which all weaknesses become open and unprotected, which ultimately affects their bankruptcy. At the same time, in the presence of timely and adequate actions aimed at counteracting turbulence and chaos, there are new opportunities to use the latest methods of detecting turbulence, as well as to develop timely patterns of behavior when it occurs, which will achieve efficiency in such economic conditions.

Based on the above, it is necessary to identify the main turbulent processes that have influenced and continue to affect the development of financial services market. The most difficult and unpredictable turbulent process, in our opinion, is the occupation of part of our country, hostilities and continued aggression by Russia against the background of a difficult political situation. All this has negative consequences for the financial services market, so due to the loss of territory, banking institutions have suffered significant losses of assets, which significantly reduced their profitability.

The next turbulent process, which has an extremely negative impact on the development of the financial services market - is the almost permanent devaluation of the national currency, which impoverishes the population and destructively affects all socio-economic spheres. With the sharp and unpredictable devaluation of the hryvnia, a large number of businesses began to experience low levels of capitalization, which is a threatening factor for the stable functioning of the financial system as a whole.

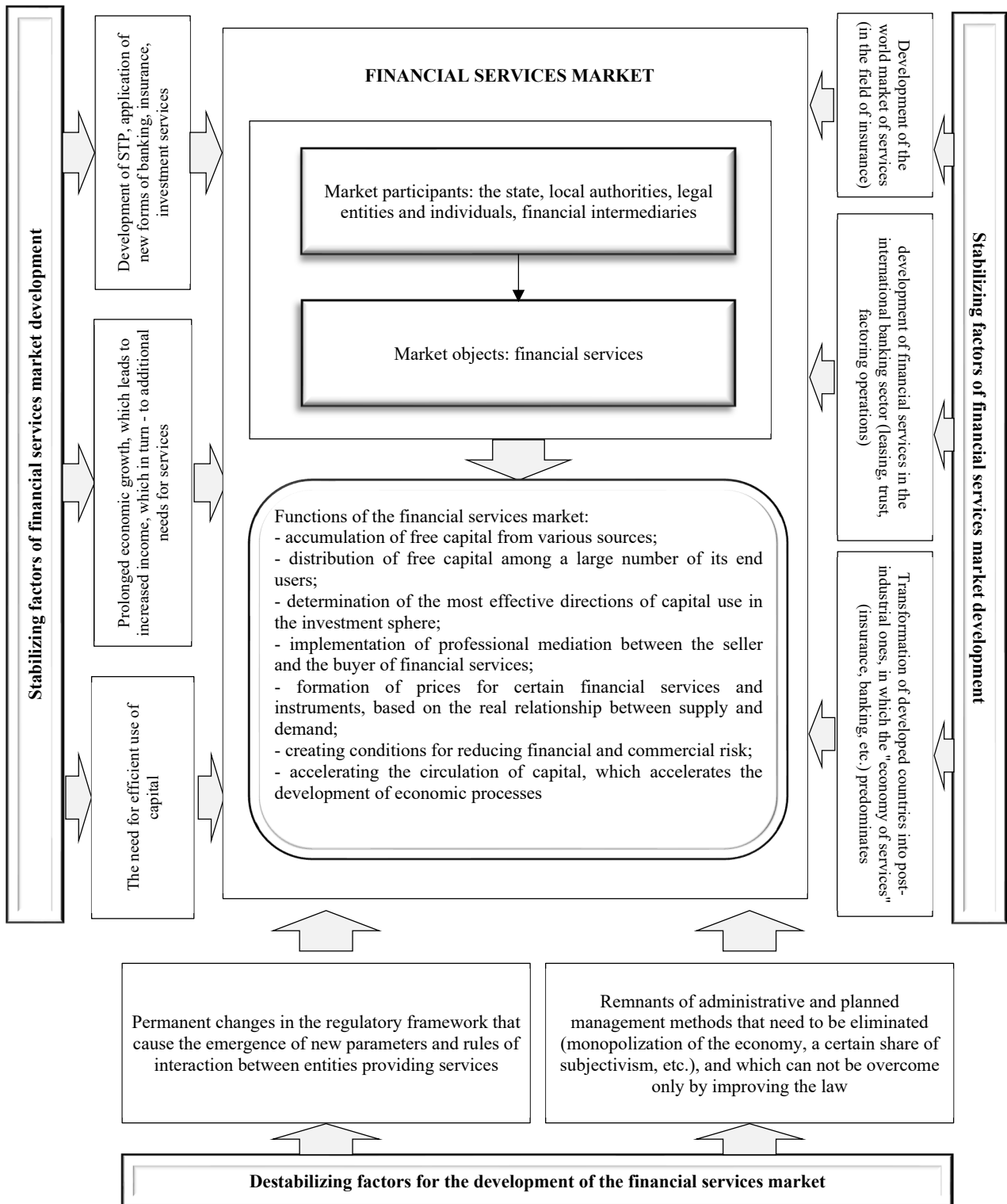


Fig. 1 Financial services market and factors that positively and negatively affect its development in modern conditions
 Source: formed by the author on the basis [21, 34].

Also, the turbulent process, which negatively affects the development of financial services market, includes the deterioration of the macroeconomic situation, which is caused not only by the devaluation of the hryvnia, but also the economic situation in the country as a whole. The devaluation of the national currency has exacerbated the difficult economic situation in the country, which has led to accelerating inflation, which has a destabilizing effect on both the development of the economic system as a whole and the financial services market.

Among the turbulent processes that have a direct impact on the financial services market (Fig. 2) is the

reduction in the number of its participants. This applies to both the banking and non-banking sectors. This trend is one of the most devastating for the financial services market of Ukraine. Adherence of the National Bank of Ukraine to the policy of achieving stability of the banking system led to the liquidation of all banking institutions that did not meet the criteria of financial stability, regardless of their scale, volume of deposits, etc. Accordingly, not only small banks were liquidated, but also leading, system-forming banking institutions, which led to a shock situation for the financial services market and its members.

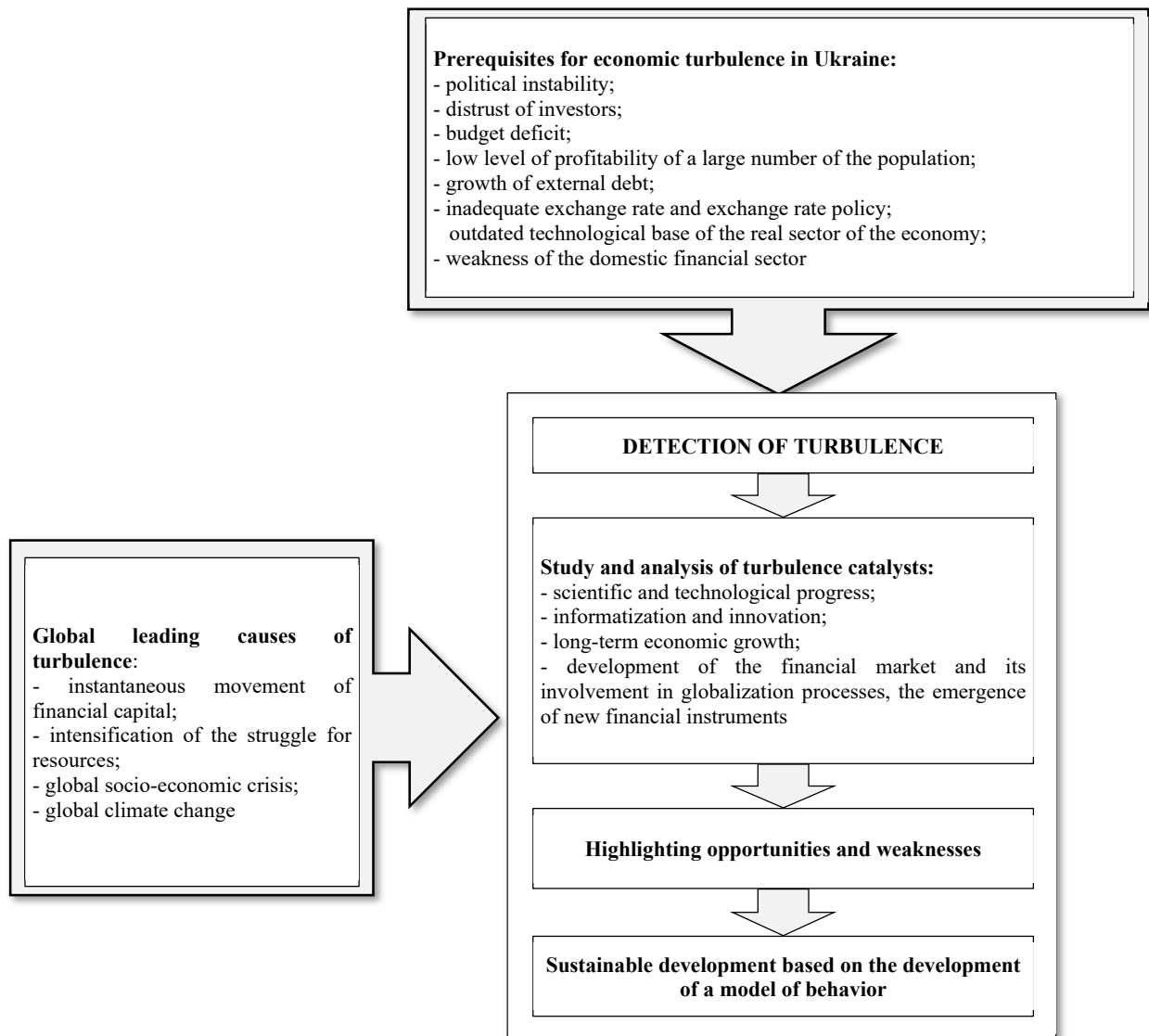


Fig. 2 The process of detecting turbulence and developing appropriate measures taking into account the preconditions, causes and catalysts of turbulent processes

Source: formed by the author on the basis of [35, 36].

In the Table 1 presents data on the number of banks in Ukraine, including those with foreign capital, as well as structural units of banking institutions, the number of which decreased significantly due to territorial losses and the introduction of a new NBU policy in banking

regulation. These events have negative results for the majority of both legal entities and individuals. Only banks with foreign capital had a positive effect, but their number has also decreased in recent years due to the negative macroeconomic situation.

Table 1: Quantitative data on market participants in banking financial services

Indicator	2007	2009	2011	2013	2015	2017	2018	2019	2020	01.09.2021
Number of operating banks	175	182	176	180	117	82	77	75	74	71
- of them with foreign capital	47	51	53	49	41	38	37	35	33	33
Dynamics of the number of operating structural subdivisions of Ukrainian banks	21089	207770	20257	19290	11871	9489	8509	8002	7134	6685

Source: formed by the author on the basis of [37, 38].

It should be noted that the current situation has a negative impact on the functioning of other financial institutions and the non-banking financial sector (Table 2), which has a very destabilizing effect on the development of financial services market in general. The liquidation of a large number of banks by the NBU caused the unavailability of financial resources of insurance

companies, credit unions and other financial companies, which led to a decrease in their number in recent years, significantly impaired their functioning and reduced financial stability [1]. Some increase in their assets is explained not by intensification of activities, but by inflationary moments, rising prices for services, etc.

Table 2: Number of non-banking financial services market participants and size of their assets

Participants in the financial services market	Performance indicators	2017	2018	2019	2020	01.09.2021
Insurers	Number of companies	294	281	233	210	169
	Assets, UAH million	57 381	63 493	63 866	64 920	65 636
Credit unions	Number of companies	378	358	337	322	289
	Assets, UAH million	2170	2218	2510	2317	2438
Financial companies	Number of companies	677	940	986	960	971
	Assets, UAH million	107 534	125 322	162 197	186 501	190 704
Pawnshops	Number of companies	415	359	324	302	283
	Assets, UAH million	3 764	3 721	4 265	3 867	4 205

Source: formed by the author on the basis of [39].

Thus, the turbulent processes reflected in the article, which affect the development of financial services market in Ukraine, showed their negative impact, which led to critical consequences for the functioning of financial institutions and a sharp decline in public confidence in their activities, which should be considered one of the biggest losses recovery of which is a daunting task in conditions of economic turbulence.

4. Conclusions

Today, achieving economic development is impossible without a reliable and effective financial

services market and ensuring its sustainable development. The need to achieve the successful operation of financial services market in conditions of economic turbulence, manifested in the permanent emergence of new and significant transformation of the nature and direction of the impact of existing factors influencing the functioning of financial institutions, justifiably and logically provides grounds for updating implementation of their model of behavior and appropriate measures. To this end, it is necessary to conduct an analysis to identify opportunities and weaknesses of market participants, which will allow to respond in a timely manner to the manifestations of turbulent processes and achieve efficiency and further development under these conditions.

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