

KATERYNA IONENKO

## FORMATION OF TRUST IN THE INVESTMENT SAVINGS BEHAVIOR OF POPULATION

Civilizational processes take important and poorly investigated till recent time place in development of financial system. Among these processes we can single out the problem of trust, importance of which begins to show itself very distinctly in the context of transformative economy. In this context the necessity of maintaining trust towards financial and economic institutions regarding their ability to function effectively becomes vital as well as to activate investment savings activity of population.

Classical economic theory doesn't operate the category of „trust”. Apparently there won't be fundamental objections that it is because of the term trust belongs to the sphere of spiritual life. Though, from the point of view of formal logic such an explanation cannot stand fundamental criticism, because political economy treats economy as relations between people, which emerge due to production, distribution, exchange and consumption. It is possible that explanation of this phenomenon would be more precise if we mention that trust factor didn't have significant impact not only upon world and national economy upon the economy of a separate household.

Absence of worked out theoretical basis of trust in the system of economic science doesn't mean that this category is not studied at all. John Keynes is among the first to study trust. What is more important is that he studied it from the point of view of improvement of economy surmounting the crisis. He viewed trust as the factor without of which one cannot ensure growth of real production under the circumstances of crisis. „The following reflections

refer to the technique of recovery itself, the target of which is growth of national product and employment of population, – John Keynes wrote in his open letter to the president of the USA Franklin Delano Roosevelt. – In contemporary economic system everything which is produced, issued for sale and the economic output depends upon spending capacity. That is why production cannot grow until at least one factor of three starts to work. This motive can emanate from the world of business or from growing trust towards future or from low interest rate: and everything is for making additional current profit of the employees. And that is what happens when wage or nonwage capital of the country grows. Governmental authorities can be involved as well to give assistance in assuring additional profit by means of expenditure of borrowings or cash emission. In difficult times one cannot expect that the first factor will be significant. The second factor will begin to work as the second wave of attack of consequences of crisis after that when recapture at the expense of governmental authorities begins. That is why we can await initial main impulse only from the third factor”<sup>1</sup>.

Significant contribution to the theory of trust in economic science was made by Francis Fukuyama who was the first to make complex research of trust, which appears forms and develops beyond the family. He highly estimates the role of these relations for business and defines them as firm basis of social capital<sup>2</sup>. The problems of formation maintaining trust in the contemporary society are studied by Adam B. Seligmen<sup>3</sup>, John Coleman<sup>4</sup>, Martin Peldem<sup>5</sup>, etc. It is pleasant to admit that Ukrainian scientists pay attention to problems of increasing the role of trust of population towards financial and credit institutions as a growth factor of investment activity. S. Yuriev and E. Saveliev admit that „new financial civilization is based on philosophy of trust”<sup>6</sup>.

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<sup>1</sup> J. M. K e y n e s. *An Open Letter To President Roosevelt*. New York Times, 16 December 1933 // <http://newdeal.feri.org/keynes2.htm>.

<sup>2</sup> Ф. Ф у к у я м а. *Доверие. Социальные добродетели и путь к процветанию*. Пер. с англ. / Ф. Фукуяма. – М.: ООО «Издательство АСТ»: ЗАО НПП «Ермак» 2004. – 730 с.

<sup>3</sup> А. С е л и г м е н. *Проблема доверия* / Пер. с англ. И.И. Мюрберг, Л.В. Соболевой. М.: Идея-Пресс 2002. – 265 с.

<sup>4</sup> J. C o l e m a n. *Foundations of Social Theory*. Cambridge, Mass.: Belknap Press of Harvard University Press 1990. – 993 с.

<sup>5</sup> M. P a l d a m. *Social Capital: One or Many? Definition and Measurement* // Journal of Economic Surveys. – 2000. – Vol.14. – Issue 5. – С. 629-654.

<sup>6</sup> С. Ю р і й. *Час «Ч»: Радикальні економічні реформи* / С. Юрій, Є. Савельєв. – Дзеркало тижня. – 2008. – 27 грудня. – № 49 (728). – С. 10.

Thus, taking into consideration significant growth of trust factor in current results of economic activity of population and in trends of overall national economy, as well as in forming and effective functioning of global world economy, there is a vital necessity of developing of corresponding theoretical and methodological basis. Right now we don't know for sure how trust in investment savings behavior of population is formed, how it is transformed into individual decisions about investment of personal savings.

**The purpose** of this paper is to study some methodological problems of research of trust in savings and investment behavior of population, as well as to study influence of different sources of information on forming individual investment strategies and defining basic trends of forming trust under the conditions transformative economy.

Increase of role of trust in the system of economic relations is not occasional today. Mankind is on its way of the new type of development of civilization, in which to limit oneself by the target „to live wealthy” is not enough. Now another target is added „to live in culture”. Meanwhile the final and acceptable term for theoretical basis of a new type has not been worked out, but we can name the most frequently used – postcapitalistic and post industrial. What is essential that economic matrix alongside with traditional component (market, investment, income) there are civilizational (moral norms, partnership trust, social justice). And, finally, trust is put into basis while forming new world economic order.

Trust as its core has cultural roots which develop in early period of life of a person in the form of interpersonal trust. This early socialization in some time transforms into the ability of homo economics to create and maintain trust in the system of production and business relations. Finally trust appears as a component of human capital assets. If to regard trust as an element of human capital assets, in such case its accumulation needs some time and as a rule a lot of time. It cannot be invested at once. It needs constant prove of its truth by reached agreements, keeping the agreements, especially in extraordinary situations which are connected with risks and when economy is in crisis phase. At the same time trust in the system of economic relations can be lost instantly and for a long time, even forever.

Contemporary theories in socioeconomic sciences regard trust as key characteristic, which discriminates between advanced society and others. It has wide scale in that context that it resides not only on the level of separate individuals, but in the sphere of social and governmental institutions. Finally the category of trust rises up to the level government as a special organization of society and its intergovernmental relations.

Trust is a special factor in the system of forming of human capital assets. An individual can develop most qualities connected with culture and science independently. Unlike these qualities one can win trust or develop mutual trust only in the system of social relations. Francis Fukuyama states the following conditions to win trust: honesty, responsibility, ability to cooperate and a sense of duty towards others<sup>7</sup>.

Investment savings behavior of population is interpreted in economic theory basin on several assumptions. Firstly, a person is rational, informed and is able to make decisions in this sphere independently. Secondly, savings are formed as difference between individual income and consumption, that is functionally depend on income. On the other hand, the necessity to secure trust of the population towards government and institutions of financial market (to stimulate investment savings activity) is obligatory emphasized on.

For population to have ability and desire to invest money to financial and credit institutions abstract trust towards government or to someone else which is understood as correspondence of the given institution to value system of an individual. Such abstract trust must be supported by his/her confidence of acting right or in economic terms corresponding risk calculation and profitability of investments. However, a common investor, being a non-professional, is not able to collect and analyze information, needed to understand situation in the financial market to the full extent and adequately, to asses risks and profits and to act ideally according to portfolio-balance approach in the theory of assets allocation.

That is why in everyday life a person makes investment decisions basing on investment behavior of other people of whom a person thinks to be fundamental and rational on the assumption of the worldview that a person believes is true. According to this worldview a person predicts, ranges facts into facts of primary importance and facts of secondary importance, true and false, risky and safe. Achieving goals, predictions that come true strengthen confidence of a person of his/her adequate understanding of the world. Failures make a person update his/her behavior. If the true picture is not formed and an individual cannot understand what is happening to the full extent, cannot estimate the degree of causality or non-causality of events, feels discomfort because of uncertainty, act at random or is inactive. Forming a concept of the surrounding world is a social, cultural, collective phenomenon. Two social

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<sup>7</sup> Ф. Ф у к у я м а. *Що таке соціальний капітал?* / Ф. Фукуяма. – День. – 2006. – № 177. – 17 жовтня. – С. 4.

networks play important role in it: public, which is connected with mass media and communication, and private, in which personal experience and friend's opinion is very important.

In the beginning of 2010 as part of finance and information Internet project<sup>8</sup> there was a polling of population about the determining factor while investing temporary free money (fig. 1).

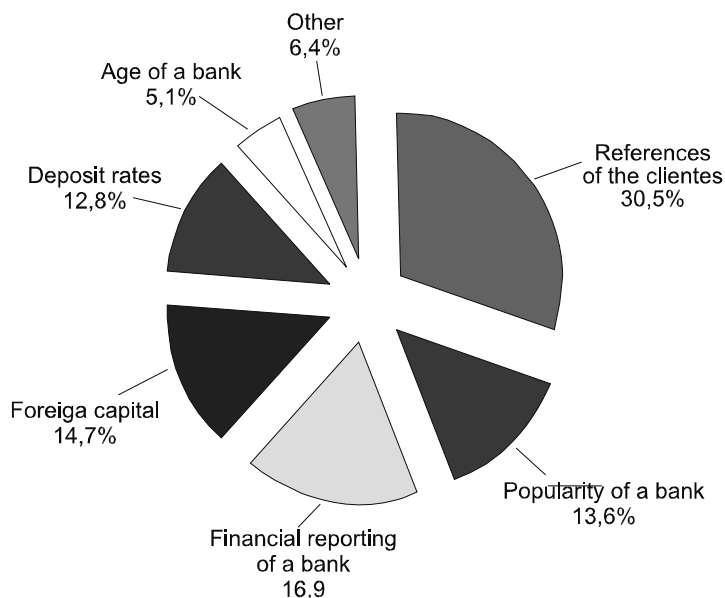


Fig. 1. Results of polling: „What is the most important for you while choosing a bank to deposit?“, which was held on the web site [www.vkladchik.in.ua](http://www.vkladchik.in.ua).

Polling „What is the most important for you while choosing a bank to deposit?“ showed 30,5% of respondents consider references of the clients to be the most important while choosing a financial and credit institution and 13,6% – popularity of a bank. So more than 44% of population while making individual investment strategies are guided by the facts which are based only on trust towards government, financial institutions, opinion of other individuals. We are concerned about the fact that only 16,9% of respondents pay attention to the state of financial reporting of a bank.

<sup>8</sup> <http://vkladchik.in.ua/index.php/contact-us>

Trust as the basis for market exchange which produces uncertainty demands understanding (interpretation) of motives and actions of counterpart and not only individual, but typical motives. Thus, even if the result of distribution of available assets may be described as maximization of usefulness while minimization of risks, the calculation itself cannot be restricted to calculation on the basis of „objective” market rates and is presented as a complicated process of coordination and recoordination of individual decisions in accordance with the change of individual concepts of surrounding social and economic reality; and collective concepts, which finally change into economic indicators of the market (rates, profit, etc.) which makes quantitative analysis possible.

If to suppose that rationality of individual investment decisions largely depend upon that in what more general limits of collective concepts they are enclosed, then inevitably arises a question under influence of what the pictures of general trust are formed. The notion of generalized trust was introduced into scientific circle by A. Giddens<sup>9</sup> and is based upon Hoffman’s concept *Umwelt'a* – a system of relevancy, which shapes the life of an individual in the contemporary world, allows him/her to differentiate between essential and non essential events or make plans for future. This system is usually rather stable, because only significant events of the surrounding world, which disagree with the concept of it, can break protective cocoon *Umwelt'a* and lead to creating a new true picture. Insignificant nonconforming information about phenomena is more often disregarded as false and the events themselves are considered occasional. With the steady course of life the concept of it may be unchanged quite for a long time making an impression of exclusiveness. And in critical times their alternativeness and relativity of any strategies becomes evident.

Thus, collective concepts influence greatly the process of formation of trust of population towards finance and credit institutions. These collective concepts are formed on the one hand in the public circle, which is connected with mass media and communication, and on the other hand in private sphere, where the significance of personal experience and the opinion of friends are very high. According to the way an individual bank and the situation in general are presented, the system of risk indicators and safety is formed and the circle of trustworthy information sources is determined and the strategy of dynamic actions is made up.

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<sup>9</sup> Э. Гидденс. *Социология* / Пер. с англ. / Э. Гидденс. – М.: Эдиториал УРСС 1999. – 703 с.

Use of traditional and work out of new methods of gaining, maintaining and reconstruction of trust becomes the basis in economic system both in terms of national economy and in international terms. Underestimation of this civilizational and cultural factor leads to different crisis phenomena, especially when distrust takes total form. In the report of the National Bank of Ukraine is stated „the situation has been strongly influenced by artificial provocation of distrust of population towards financial state of individual banks and towards banking system in general and cash outflow”<sup>10</sup>. Moreover trust in Ukrainian market becomes a more significant factor of growth of crisis phenomena than in other countries with developing markets. An impression is created that Ukraine can become a classical country which has a growth of distrust towards the whole banking system, including the National Bank of Ukraine, governmental and commercial banks. It is strengthened by actions of all governmental management – the President Administration, government, the majority and the opposition in parliament. Not all actions are taken by the banks themselves to regain trust of the population. Scientist V.M. Geets believes that in Ukraine because of lack of public trust towards government, the state failed to bring from the shadow at least \$ 50 billion (40 % of GDP) and to attract about \$ 60 billion from population<sup>11</sup>.

Recessions of the XX-XXI centuries proved that problems on the financial markets are caused by loss of trust towards financial and credit institutions. This statement was proved by Ukraine during the last world crisis. In particular the medium currency rate of hryvna to dollar during 2006 – 2007 and the first half of 2008 was on the level of 5,05, in the second half of 2008 its devaluation began. Specialists claim that „psychological barrier” to which it was impossible to let to devaluate was 6 hryvnas to one dollar. But the National Bank of Ukraine failed to keep currency rate in that limits. In October and December of 2008 the currency rate suffered a 58,4% decrease and from the beginning of 2009 – 52,5%<sup>12</sup>. It shattered trust towards state institutions which are responsible for money and credit policy significantly and led to decline on financial market. In October and December of 2008 the general

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<sup>10</sup> Національний банк України. Річний звіт. – 2008. – [Електронний ресурс] / Режим доступу до ресурсу: [http://www.bank.gov.ua/Publication/an\\_rep/A\\_report\\_2008.pdf](http://www.bank.gov.ua/Publication/an_rep/A_report_2008.pdf).

<sup>11</sup> В. Г е ц ь. *Антикризові заходи Тимошенко приречені на невдачу* / Геєць В. // Режим доступу: <http://zakarpattyua.net.ua/news/38779.html>

<sup>12</sup> Національний банк України. Середній курс гривні (до 1996 року українського карбованця) до іноземних валют. – [Електронний ресурс] / Режим доступу до ресурсу: [http://www.bank.gov.ua/KURS/last\\_kurs1.html](http://www.bank.gov.ua/KURS/last_kurs1.html).

volume of deposits in national currency was reduced by 13,7% and in foreign currency by 8% (in dollar counterpart).

There could be quite contrary situation if methods of promotion of maintaining trust between the subjects of economic relations were implemented. In The neighboring Poland the National Bank could invent and implement reliable means of maintaining financial stability, monitoring the crisis by means of regulating of discount rates. Due to that they could reduce the price of credit resources and moderate consequences of changes in the currency rate. According to the assessment of the National Bank of Poland, the Polish population has trust towards banking institutions and feels crisis only in the aspects of crediting<sup>13</sup>.

A drastic method of bringing back trust towards banking system is a reformative one. It should be connected with making up a new banking model, where in the aspect of tasks of returning trust the mechanisms of functioning of the system with the minimal risks must be broadened. At the same time renovation of the banking system is impossible without quite a new organization of the information system which would be oriented on public. It should be highly professional and understandable for nonprofessionals. The latter should understand not only the functions of the system but its reliability as well. For this banks should work out such systems of financial service that would provide deep understanding by the clients the essence and possibilities of the offered services. In the nearest future the demand of trust will increase. Everyone will try to find an answer to the question „Whom can we trust?” It means that all subjects of commodity-money relations will need qualitative information about reliability of financial and credit institutions.

Search of new methods of forming trust especially actively takes place under the conditions of transformations in economy. The last financial world crisis is especially illustrative in this respect. It is especially true for banking institutions, which cannot maintain normal activities without relieving psychological tension connected with processes of money flow and overcoming of total distrust towards the system. Institutions which represent market infrastructure are involved into the search of ways of bringing back trust and increasing the level of financial stability. In this regard the experience of rating agency „Rating Credit” is very demonstrative<sup>14</sup>, which began to esti-

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<sup>13</sup> С. Ч и г и р. *Чому поляки довіряють банкам, а українці – ні? / Чигир С. // Економічна правда, 07.04.2009 – <http://www.epravda.com.ua/publications/49daffbcaff1f/>.*

<sup>14</sup> <http://credit-rating.com.ua>



mate of banking deposits actively. The fundamental factors of rating are: liquidity indexes, structure, concentration and stability of resource potential, diversification and quality of assets, effectiveness of work, and the level of sensitiveness of the bank to negative economic or political factors, availability of support and attraction of resources. The agency is very careful about publishing the ratings that is done only at will of the banks. Of course all the banks want to share information about them not to provoke early concerns. That is why only the leaders of the banking business agree to such transparency. Another banks use this information only for internal needs.

In the context of the problem of trust in the economic literature attention is more actively paid to organization of information flows in the Internet. In general scientists agree that „trust” is usually perceived as a synonym to the words „truth” or „credibility”. Attention is paid to that the notion „trust” distorted by disinformation by means of spreading gossip or information that is meant to deceive others. That is why the need of assessment, control and filtering the network information arises. Let us note that The Internet and economy are united by global scale and necessity of communication systems. Among the factors which allow to asses and trust it important place is given to the middlemen. Their task in the present intensive and branched information flows is their ability to choose qualitative information.

Forming trust towards banking system we should take into account that this task cannot be accomplished fully out of financial and legal sphere. A special place in the financial system is taken by insurance and governmental institutions. The increase of role of trust in securing stable functioning of financial and credit system needs to create a corresponding market infrastructure. If to speak about Ukraine lack of trust refers more to the government than to banks. And this is when guaranteed payments of deposits increased from 500 hrn in 1998 to 150 000 hrn since November 2008<sup>15</sup>. The majority of population is not sure that Deposit insurance fund will be really used to support the banking system and in the interests of depositors. According to the law there are different limitations which make it more difficult to get money in case there is a need for them. In particular it is foreseen that Deposit insurance fund pays deposits only in case of closing-down a bank, but not in case when the client cannot get them in the credit institution. Despite the fact that deposit insurance is a fundamental step towards

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<sup>15</sup> Закон України «Про Фонд гарантування вкладів фізичних осіб» [Електронний ресурс] № 2740-III від 20.09.2001 р. – Режим доступу: [www.rada.gov.ua](http://www.rada.gov.ua)

increasing of trust of the population, we should admit that the mechanism of insurance arrangements should be constructed with high demands of transparency and clearness. While orienting it on creating trust towards banks the general level of financial culture in the country should be taken into consideration. And the level of culture is such that even the depositors who have higher education very often are not aware even of that fact that their deposits in the amount of 150 000 hrn are protected by the government. The conditions of getting back the deposit is even more obscure for them.

Trust in the sphere of investment and savings behavior of population is not only the product of institutional policy of state and activity of some institutions. To the large extent it is determined by common human relations and drawbacks. Especially dangerous situation is artificial provocation of panic. Conditions for such a situation are created by not sound and careful declarations of analysts experts who provoke panic. It is high time that legislation to regulate responsibility for spreading unchecked information about the state of financial market should be implemented. In some cases it should be regarded as the reverse side or one of the types of disclosure of banking security.

In such a way one can state that trust should be regarded as one of the more important factors investment and savings behavior of population. The development of contemporary economy in the conditions of trust of population towards government and confidence in reliability of national and more over global economic system will significantly decrease the necessity of floating assets that are needed for business processes. Trust is a must for optimization of expenditures on insurance against risks and cost of measures taken to overcome crisis. Vice versa, under the conditions of decrease of trust towards government, massive unemployment, growing salary debt, the so-called collective measures of banks towards their borrowers may result quickly in negative consolidation of the least protected social strata. With increase of trust on financial market investment activity of its participants will grow and the economic growth will begin. On the other hand the less level of trust towards financial and credit institutions are the more rational and restrained its participants become even if it is more rational to act decisively. Such a situation finally results in decline of tempo of investment and economic growth and on significant scale of distrust it results in crisis. Really as was noted by American researcher William Sidman „If you show discrimination

in our financial system, you understand that it is based on trust on nothing else... Undermine trust and you can easily destroy the rest of the system”<sup>16</sup>.

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<sup>16</sup> Мысли великих о самом существенном // <http://dovgel.ucoz.ru/index/0-173>

FORMATION OF TRUST  
IN THE INVESTMENT SAVINGS BEHAVIOR OF POPULATION

S u m m a r y

The article deals with basic characteristics of trust as an economic category. It describes the defining role of trust in forming of investment savings behavior of population. The article also provides the analysis of influence of various sources of information upon making individual investment strategies. And the basic directions of how to support trust of the population towards financial and credit institutions in transformative economy are suggested.

**Key words:** trust, savings of the population, investment savings activity of population.

KSZTAŁTOWANIE ZAUFANIA  
W OSZCZĘDNOŚCIOWYCH DZIAŁANIACH SPOŁECZEŃSTWA

S t r e s z c z e n i e

W artykule przedstawiono główną charakterystykę zaufania jako ekonomiczną kategorię. Zaufanie odgrywa istotną rolę w edukacji z zachowania inwestycyjnych oszczędności ludności. Omówiono analizę wpływu różnych źródeł informacji na stworzenie indywidualistycznych inwestycyjnych strategii. Zaprezentowano, w jaki sposób podtrzymywane jest zaufanie ludności do finansowych i kredytowych instytucji w gospodarce, oraz co poddaje się transformacji.

**Słowa kluczowe:** zaufanie, oszczędności ludności, działalność inwestycyjnych oszczędności ludności.