“Risks and possibilities of the effect of financial inclusion on managing the financial security at the macro level”

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RISKS AND POSSIBILITIES OF THE EFFECT OF FINANCIAL INCLUSION ON MANAGING THE FINANCIAL SECURITY AT THE MACRO LEVEL

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Abstract

The financial security state of the country directly depends on the amount of resources available in the financial system. Internal sources of financing of the economic and social needs may deprive the government of the necessity seek opportunities for obtaining external borrowings, which lead the country to the loss of financial autonomy. The financial inclusion of the population and business entities into the process of using financial products and services will stabilize the situation in the financial market by obtaining additional financial resources by its professional participants. At the same time, the lack of control of this process can lead to new threats for financial security at micro and macro levels. In view of this, the purpose of the study is to specify the opportunities and risks of financial inclusion for the financial security of financial intermediaries and the state as a whole. The object of the study was the level of financial inclusion, a set of factors that affect it, and a list of the consequences that its change may have for financial security. As the theoretical basis of the study, the reporting materials of financial market regulators were used, as well as information obtained from the application of such methods of scientific research as the analysis by which the level of financial inclusion in different sectors of the financial market was established, and the expert method implemented through surveys and questionnaires. Its use enabled to get a quantitative assessment of the level of financial inclusion of the population and economic entities. As a result of the study, the possible, positive consequences, risks and challenges of financial inclusion for the financial component of economic security are specified and systematized. The practical significance of the results of the survey is the possibility of developing on their basis the mechanisms for stimulating and controlling the level of financial inclusion by the financial market national regulators.

Keywords inclusion, security, financial market, state regulator, financial institutions, management decisions

JEL Classification E44, G10, G20

INTRODUCTION

The qualitative and quantitative evolution of the financial market that largely determines the role of the country in the plane of global distribution of capital, its economic and political influence on the world scene is impossible without a constant increase in the number of the financial market's participants and resources. The level of financial inclusion shows the extent to which the population of the country is attracted to the financial processes, primarily through the mechanisms of the financial products purchase and the use of various types of financial services. The selling of financial products and services in Ukraine is made up by professional financial market participants, which are represented by a wide range of financial institutions, including banks, credit unions, insurance companies, non-state pension funds, joint investment institutions. Also, among domestic financial

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market participants are financial companies and pawnshops. The interest of the general public in using the possibilities of financial intermediaries for providing their own financial needs is a stimulant for the domestic state financial market development. Citizens' savings through financial market instruments are transformed into an investment resource that falls into the capital market and turns into assets that finance various spheres of economic life. This, in its turn, contributes to filling the state budget, stabilizing the social sphere, restoring confidence in state power. Economic development provides reserves to establish a high level of the state financial security and to achieve competitiveness in the global system of financial resources distribution. Thus, the level of financial inclusion contributes to the growth of the welfare of the citizens. It is also a catalyst for the realization of the citizens' financial interests. For financial institutions, the expansion of the boundaries of financial inclusion means increasing the number of clients, and hence increasing the financial resources in their management. The high level of financial inclusion contributes to the development of the financial market, and the effective work of its professional participants can stabilize the functional state of banking safety and security of the non-bank financial market, which are important components of economic and national security of the state. In the end, economic and social convergence with the countries of the European Union, to which the Ukrainian government strives, is impossible without raising the level of financial literacy of the population and the level of financial inclusion.

Financial instability, which characterizes Ukraine for the last few years, creates an environment for the financial services markets development, full of traditional and non-typical threats. A lot of them have the financial nature of origin. Therefore, the issue of ensuring financial security at the national level is acute in the development of strategic guidelines for further movement of the state in the economic space. Market mechanisms designed to promote the self-regulation of the financial market professional players have proved their ineffectiveness in the specific conditions of the economic and political crisis that are inherent in modern Ukraine. Thus, the search for innovative approaches to the financial security state regulation is becoming relevant. Considering the complex and tiered structure of its system, regulatory mechanisms should cover all the system's levels in order to make it stable and sustainable. One of the phenomena that now needs to be managed and monitored to have a positive impact on the state of financial security of the country is the expansion of financial inclusion. Therefore, the topic chosen for research is relevant and is just over time.

1. THEORETICAL BASIS

The problems of the financial markets functioning in the context of the expansion of the boundaries of financial globalization are so tangible to the world economic system that successful attempts to address them immediately attract the attention of the scientific community. So, in 2013, the Nobel Prize in Economics was received by three researchers-practitioners – Robert James Shiller, Lars Peter Hansen and Eugene F. Fama. They devoted their work to financial markets analysis. According to the Nobel Committee, the prize was awarded "for the empirical analysis of asset prices and tracking trends in financial markets". Laureates' scientific work proves the importance of the information, first of all, timely and relevant, for the financial market proper functioning and for making the sound financial decisions by its participants. They also prove the need to take into account the uncertainty and financial behavior of individuals when selling the financial products and services. Behavioral finance, which is at the center of James Schiller's research, is the basis of the phenomenon of financial inclusion, that is, the inclination of an individual in a form of economic system passive subject to become an active participant of the economic system's financial sector. By collaborative research, these scientists have shown that at different time frames of the financial market functioning, there are different laws: short, classic market concepts based on mathematics and logic. On the longer ones, there are psychological peculiarities of thinking and acting of people who transform a "pure" market picture. Thus, active integration of individuals into the financial market functioning is one of the conditions for its development in the long run.

In professional and scholarly literature, financial inclusion issues are considered in several contexts. Foreign scholars support the idea of expanding the boundaries of financial inclusion, as evidenced by numerous professional publications, most of which are dated in the last five years. The conceptual foundations of financial inclusion, its role and significance for the modern financial world transformation are presented in the materials of the research works of the scientific teams and individual scientists, in particular Cull, Ehrbeck, and Holle (2014), Damodaran (2013), García-Herrero and Turégano (2015), Lal and Sachdev (2015), Mader (2018). The supranational significance of financial inclusion and the need for its activation by means of state policy are emphasized by Aggarwal and Klapper (2013). While investigating the policy of financial inclusion, Ashenafi and Kingstone (2016) raise the gender issue, pointing out the differences in the financial behavior of men and women. Chowa, Masa, Ansong, Despard, Wu, Hughes, Osei-Akoto, Afranie, Mark-Sowah, Ofori-Acquah, Lee, Johnson, and Sherraden (2015) consider the person's integration into the financial system not from the point of view gender, but from the point of view of age. The methodological basis for measuring the level of financial inclusion is formed in the works of such scientists as Ambarkhane, Singh, and Venkataramani (2016), Park and Mercado (2018). Sarma and Pais (2008) analyze the financial inclusion in the context of economic development at the interstate level, and scientific team, which includes Sahay, Čihák, N'Diaye, Barajas, Srobona, Kyobe, Mooi, and Yousefi (2015), considers financial inclusion as a means to achieve macroeconomic goals set at the state level.

Taking into account the subject of this study, of particular importance for its performance are the works in which the issue of expanding the boundaries of financial inclusion was associated with the effectiveness of financial services markets state regulation process (Claessens & Rojas-Suarez, 2016). At the level of global regulatory standards, the issue of financial inclusion is explored by Magaldi de Sousa (2015). In the context of attempts to solve the problem of ensuring the state's financial security, it is worth to pay attention to the research works of the scholars who link the concept of financial inclusion and financial stability (Morgan & Pontines, 2014; Ozili, 2018).

Among the achievements of domestic scholars in the direction of forming the foundations of financial inclusion is the article by Akimova (2015), which considers financial inclusion in the context of financial monitoring development in Ukraine. In the materials of her research, we find confirmation of the thesis about the existence and necessity of strengthening the connection between the participants of the financial system and the control of the condition of the financial sectors and their participants at the level of state power. Naumenkova (2014) compares financial inclusiveness and problems of ensuring the access of the population to basic financial services in Ukraine, as well as clarifies the economic content and approaches to the financial inclusiveness measurement. According to Kozmenko and Roienko (2016), among the ways of expanding the boundaries of financial inclusion, the most promising and suitable ones in domestic realities are distribution of insurance companies services and credit unions services. Without prejudice to the achievements of foreign and domestic researchers whose publications laid the foundations for this scientific work, we must note that the problem of the possibility of manifestation of the risks and threatening consequences, which in terms of financial markets and its participants security, unregulated and uncontrolled expansion of the financial inclusion's limits at low level of the population financial literacy and the unsatisfactory financial discipline of financial products and services consumers, is still unsolved means.

In view of this, the purpose of the study was to determine the list of opportunities, risks and challenges of expanding the boundaries of financial inclusion for the financial security of the state, financial market, financial institutions.

The fundamental information background for the study was the information contained in the papers devoted to the main aspects of the spread of financial inclusion and the regulation of financial security. The statistical basis for the article was formed by the processed results of respondents' surveys and authors' own observations.

The modernization of the theoretical basis for the study of financial inclusion demanded that the authors specify the essence of financial inclusion and the concepts associated with this category. Using

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the abstract-logical method and the method of theoretical analysis, the author's concept of financial inclusion was formulated. In it, it is proposed to understand this notion as the of individuals and legal entities active and voluntary use of financial products and services that are involvement sold by professional participants in the financial market; their integration into the financial system for the purpose of realizing their financial interests through the use of financial instruments.

A necessary stage in conducting a study of the current state of financial inclusion is the elaboration of reports from national financial market regulators, such as the National Bank of Ukraine and the National Commission, which performs state regulation in the field of financial services markets. The use of the tools of the graphic method and the tools of infographics, as well as the generalization and comparative analysis, will make it possible to confirm or refute the theory that the domestic financial system is bank-oriented, and that the highest level of financial inclusion is observed in the banking segment of the financial market.

The study of the theoretical basis for the conceptual framework formation for the dissemination of financial inclusion has made it possible to establish the lack of information on the present and possible consequences of the impact of financial inclusion on the state of financial security of the country and on the state of professional participants in the financial market. As a result of the study, the authors presented the information obtained in the process of using the expert method, which was implemented in the form of questioning. It provided relevant information about the level of the population and business entities involvement in the process of financial products and services use, and identified the reasons for the refusal from financial inclusion and the factors that motivate the population and business entities to enhance their own participation in the processes of financial market functioning.

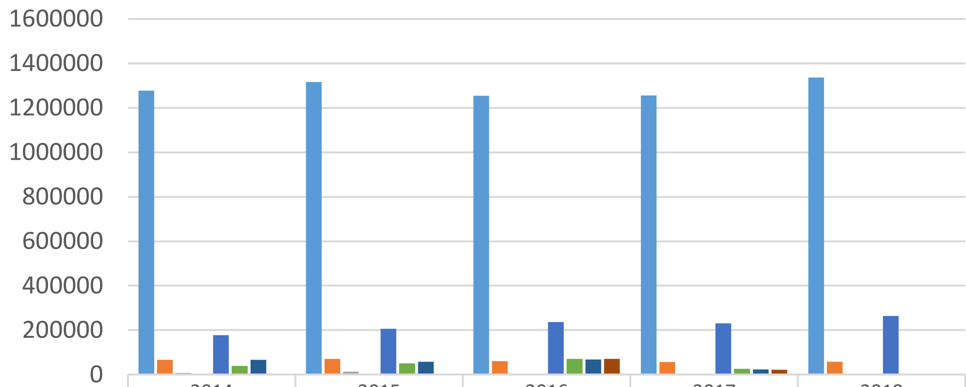
2. RESULTS

The level of financial inclusion is the state of active and continuous use of various types of financial products and services, both individually and with the involvement of financial intermediaries, in order to preserve and increase own financial assets, and conscious participation in the processes taking place in the financial sector of the state economy in order to ensure timely and full realization of financial interests. In the context of this study, the category of financial inclusion will be considered in close conjunction with the notion of the financial market, since the authors' goal is to demonstrate the availability of reserves to increase financial inclusion as an instrument of the state financial security management, which should be sold in the domestic financial market by increasing the population's demand for traditional and innovative financial products and services'.

The desire to expand the boundaries of financial inclusion is a quite clear phenomenon in the process of shaping the financial policy of those countries that seek the posibilities to ensure the gradual evolution of their economic development. One of the positive effects of active involvement of the population in the use of financial institutions services will be the reduction of the shadow economy, since with the increase in the level of financial inclusion, fewer and fewer cash will remain outside the banking system and the financial market. On the one hand, it will minimize shadow cash flows, on the other hand, it will optimize the mechanisms of financial sector regulation at the state level.

During the period 2014–2017, in Ukraine, 88 banks were classified as insolvent, almost all of which were commercial. It means that banking institutions feel the lack of financial resources for normal functioning and development. A similar trend is observed among the participants in the insurance market – the number of insurance companies is gradually decreasing.

In the investment segment, where asset management companies (AMCs), non-state pension funds (NPFs), their regulators, joint investment institutions (JII) operate, and in the non-bank financial segment, the number of professional participants increased in 2017, however, the level of 2016 per this parameter remained unattainable. One of the main reasons for reducing the number of financial companies, their bankruptcies, liquidations, and outflows from the market is the loss of consumers'



	2014	2015	2016	2017	2018
Banks	1278095	1316852	1254385	1256299	1336358
Insurers	66387,5	70261,2	60729,1	56075,6	57381
Credit unions	8137,8	12660,2	2064,3	2032,5	2169,8
Non-state pension funds	2089,8	2469,2	1980	2138,7	2465,6
Joint investment institutions	177523	206358	236175	230188	263479
Financial companies	39781,2	51264,8	71120	26109,9	2218,6
Lessors	67099,5	58304,1	67401,4	22904,4	3317,7
Pawns	1518,6	1710,3	70298,3	22417,9	3763,7

Figure 1. Assets of the financial market participants and microfinance institutions in Ukraine, UAH million, 2009–2018, as of the beginning of the year

confidence in the sellers of financial products and services and the lack of opportunities for financial institutions to attract new clients.

Figure 1 shows the dynamics of assets of the main participants of the financial market of Ukraine in the ten-year retrospective.

One of the factors that hinders the expansion of the limits of financial inclusion in Ukraine is the low level of financial literacy of the population and inappropriate financial behavior of both individuals and legal entities.

Within the US Agency for International Development (USAID) Project "International Partnerships for Financial Stability", a comprehensive study of the state of financial inclusion, financial behavior and financial literacy of the population was conducted. Experts have determined that Ukrainians are the most active in using such type of financial services as bank settlement transactions and payments, in particular, they pay utility bills in banks. At the same time, financial service users do not complain about negative experience with financial institutions. That is, the low level of involvement of citizens in the financial sector is a consequence of not understanding the benefits of using financial products, and sometimes is a consequence simply of a lack of information about the existence of this or that service in the range of a financial institution.

However, two thirds of the respondents assess their level of financial literacy as satisfactory, high or give it an excellent rating. In our opinion, such results are explained by the fact that respondents had a false understanding of the very essence of the concept of financial literacy. Traditionally, financial literacy is positioned as a level of knowledge, possession of information about the existence of a financial product or service. Within the framework of this study, we propose the financial literacy to be understood as a person's level of understanding of the mechanism of implementation of various types of financial products and services, and the awareness of their benefits in the process of realizing financial interests, and understanding the risks that may lead to partial satisfaction of such interests or complete lack of their satisfaction. The concept of financial awareness is very close to the concept, which USAID specialists consider in their study as a possession by a person of specific financial terminology and legal characteristics of

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the organization of financial life. However, financial literacy is significantly broader in its core. In order to enhance the use of financial services, it is more important to understand the mechanisms of their selling and the benefits they can bring to the financial services user than to get the knowledge of the terms used to describe the process of providing the financial service. Thus, the concept of financial awareness is more theoretical, and financial literacy has a practical value.

Another term from the categorical apparatus that we used in the process of this study is the term "financial behavior". USAID experts define this parameter of the financial life of Ukrainians because of the presence or absence of their financial goals and their propensity to maintain their own household budgets. In addition, an important characteristic of the rational financial behavior was the presence of savings among the individuals, however, 76% of USAID respondents admitted that they have savings outside the financial system. Financial savings are a reserve for extending financial inclusion limits. At the same time, their formation outside the financial market is the basis for the development of the shadow economy, which includes the shadow financial sector, the existence of which is one of the greatest threats to the financial security of the state.

Thus, we propose to understand the financial behavior as the complex of actions of a physical or legal person to manage their own, borrowed and attracted financial resources for their effective use in order to meet their own financial needs and interests, as well as financial needs and interests of all categories of stakeholders, and to achieve the ultimate goal of their activities with the help of these resources. We consider rational financial behavior as a complex of actions on the active use of financial services markets opportunities in order to increase the volume of available financial resources beyond the limits necessary for the full satisfaction of own financial interests at a specific moment in time and in the future.

According to expert estimates, the level of financial inclusion in Ukraine is 63% (Vydyakyn, 2018). Thus, reserves and opportunities for the development of domestic financial services markets are maintained by expanding the client base of financial institutions. On the other hand, such data testify to the presence of a powerful resource for further increase of the shadow economy size.

In early 2018, we started a survey to identify factors that hinder the expansion of financial inclusion in Ukraine. The survey was attended by not only individuals, but also representatives of financial top-management of the business entities who gave answers to the questions asked in the questionnaire from the position of a legal entity.

Respondents, in the number of 100 people, including equally represented of men and women, ages 18 to 70, students, self-employed persons and persons employed, representatives of management personnel of the legal entities, were asked eight questions. From four to six variants of answers were offered to them (depending on the question). Some questions demanded one specific answer (for example, the number of financial services used by the respondent), others provided for the possibility of choosing at the same time a few fair, in the opinion of the respondent, options (for example, motives for financial inclusion). The results of the questionnaire, conducted using the Google fill-in technology, are presented in Figure 2.

The survey found out that more than half of the focus group, namely 52%, uses a maximum of 10 types of financial services and products, and most of them are sold by banking institutions. These are services such as card accounts, cash and settlement services, deposits, loans, installments, currency valuables, cash transfers, etc.

Only 3% of respondents are active consumers of many types of financial products, and they can be considered fully integrated into the financial system. It should be noted that these 3% of the people were representatives of top management of the business entities, and their answers meant not the personal use of financial services, but the use of wide range of opportunities in financial services markets by business entities where they work. And the reason for such a level of financial inclusion was not the desire to maintain or increase their own assets and assets of the stakeholders, but the economic necessity, requirements from partners and counterparties, government bodies, etc. It is also a matter of concern that 7% of the

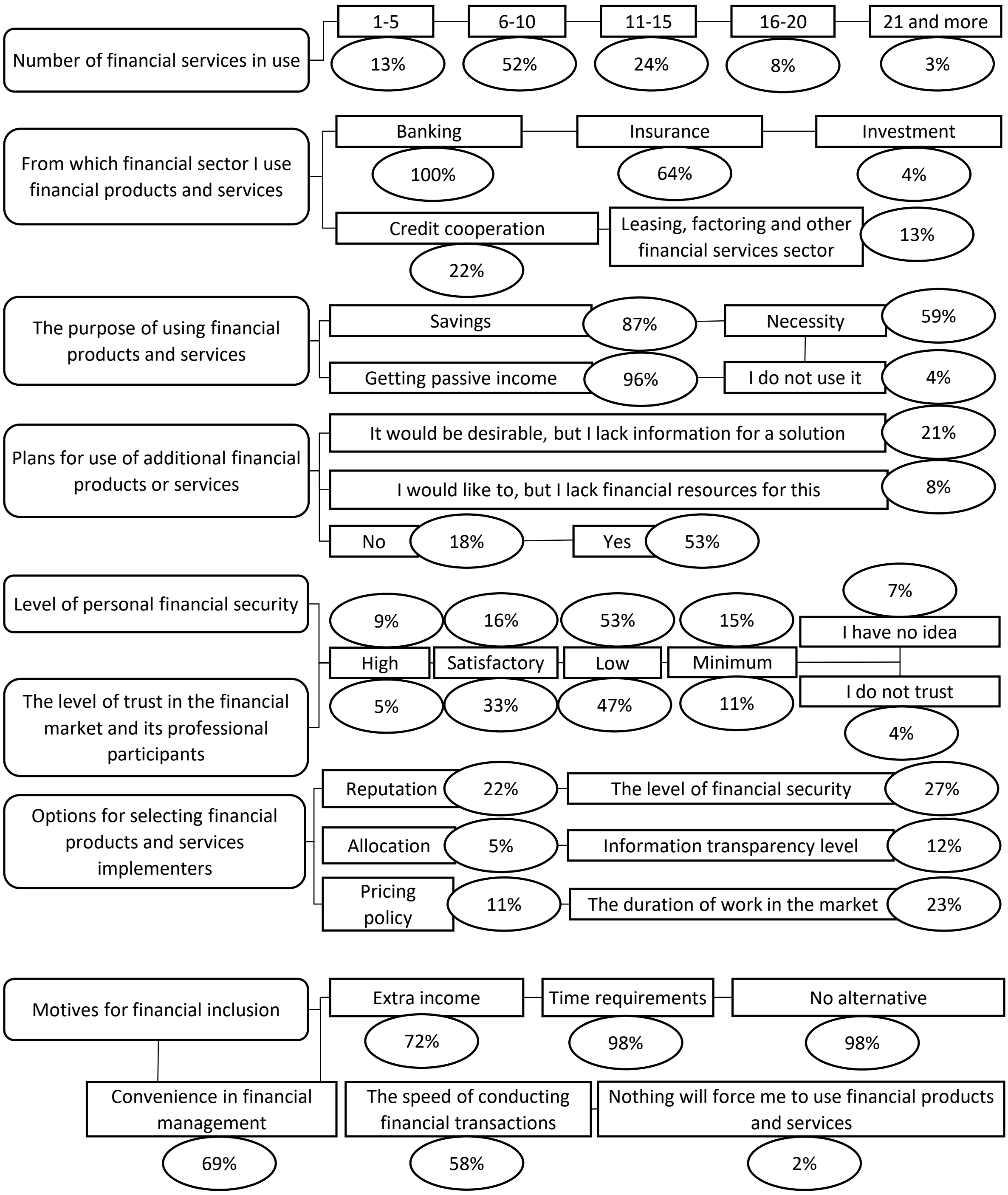

Figure 2. Infographics of the results of the survey on the level of population and economic entities financial inclusion

respondents do not understand either the essence or the importance of the category of their own financial security, and therefore cannot be considered financially competent persons. Even if they are financially inclusive, the financial behavior of this percentage of respondents is unlikely to be rational.

The survey revealed the circumstances that hinder the increase of financial inclusion in Ukraine. Thus, 47% of respondents acknowledge the low level of trust in financial institutions; 4% show complete distrust for professional financial market participants, and half of them point out that nothing will force them to use financial products

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Table 1. Some quantitative indicators of financial inclusion in Ukraine

Source: Developed by the author based on information of the National Bank of Ukraine, the National Commission that performs state regulation in the field of financial services markets.

Parameter	The value of the beginning of 2013	The value of the beginning of 2018	Dynamics over five years
Number of clients of banking institutions	74.4 million people incl.	63.4 million people incl.	–11 million people (14.7%)
	Individuals: 72.2 million people	Individuals: 61.3 million people	–10.9 million people (15%)
	Legal entities: 2.2 million	Legal entities: 2.1 million	–0.1 million (4.5%)
Number of concluded insurance contracts for a year, except contracts for compulsory insurance against transport accidents	35,975.7 thousand	70,658.2 thousand	+34,682.5 thousand (+96.4%)
Number of clients of credit unions	1,095.9 thousand people	564.1 thousand people	–531.8 thousand people (–48.5%)
The number of non-state pension funds participants	584.8 thousand people	840.8 thousand people	+256 thousand people (+43.8%)

and services because of the fear of losing own financial resources. These 2% of the respondents are elderly people who find it difficult to adapt to the requirements of time and to review the habits of their financial lives, which were formed under the influence of the negative experience of Soviet era financial policy (loss of savings, restriction of currency use, financial monopoly, etc.).

At the same time, it is worth emphasizing that increasing the participation of individuals and legal entities in the processes of financial services

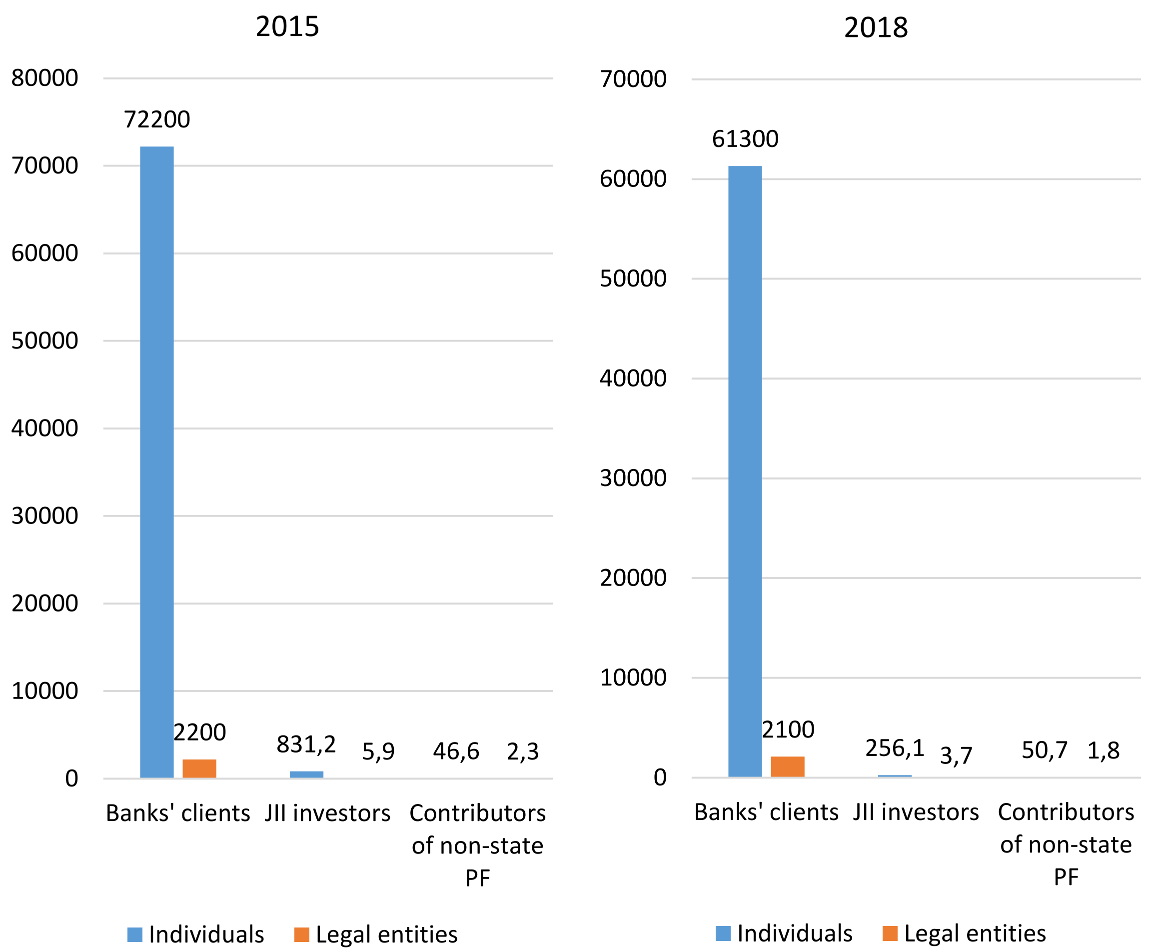

Figure 3. Differentiation of financial services users into the categories of individuals and legal entities in different segments of the financial market, thsd. people, as of the beginning of the year

markets functioning and increasing the level of financial inclusion in Ukraine can be done by optimizing the pricing policy for financial products and services (reduction of the deposit rate over the last three years and taxation of interest on deposits costed banks a significant part of clients who seized assets from the banking system and significantly reduced the financial resources for the steady state economic development and spurred the decline in the level of banks financial security and national financial security. High credit interest and the possibility of adjusting them in the process of using the loan – usually, in the direction of increase, led to a reduction in lending, resulted in a slowdown in national economy development). The expansion of financial institutions offering financial products and services, in particular, in those specific segments that offer passive income that guarantee the speed and convenience of conducting financial transactions, will promote financial inclusion.

Some quantitative indicators of financial inclusion in Ukraine are presented in Table 1.

Figure 3 demonstrates the number of financial service providers in three segments of the financial market, with their division into categories of individuals and legal entities in the period of growing crisis in the economy (end of 2014 – beginning of 2015) and at the beginning of 2018.

In Figure 3, there are the obvious some features of financial inclusion in Ukraine. First, its level has decreased since 2015, indicating the unwillingness or incapacity of the population and business entities to expand the scope of the use of financial services. Second, banking products remain the most popular, which again proves the dominance of the banking segment in the domestic financial market. Third, the indicator of involving the legal entities in the use of opportunities of the financial market and its professional participants is critically low.

3. DISCUSSION

The level of the population integration into the banking segment of the financial market, where traditional financial products and services are offered, without which the modern person is completely separated from a civilized society, and the enterprise or financial institution cannot function in a market economy, decreased by almost 15% over five years. Of course, this circumstance can be explained by the rapid decrease in the number of banks in Ukraine during this period. However, the network of the branches of banks that continue to work can provide proper services to the general population and business structures, even in the most remote regions. Therefore, as one more important reason for such a tendency, let's consider the distrust of the population to banks and to the whole financial system, which arose due to ineffective state economic policy, rapid decrease in the level of financial security of the state, destruction of the financial architecture of the economic system and lack of an adequate level of protection of financial rights and interests of financial services consumers by the national regulators of financial market. Perhaps, understanding this led to the fact that in 2018, for the financial system regulation at the state level, the vector of price and financial stability, which is the basic condition for the state of national financial security, was finally chosen. In March 2018, the leading regulator of the financial services markets – the National Bank of Ukraine – proclaimed seven main goals for the development of the financial system, the sixth position among which was for financial inclusion. Note that the need to assist central banks in spreading financial inclusion as early as in 2015 was noted by Mehrotra and Yetman (2015). Thus, at the state level, there is an awareness of the importance of integrating new participants into the financial system in order to expand its capabilities in the process of realizing the financial interests of the population, economic entities and the state.

Continuing the data analysis of Table 1, we note that the deviation of the values of indicators in 2018 from 2013 shows that in Ukraine, over the last five years, there has been an increase in financial inclusion level in the insurance segment and in the segment of the functioning of non-state pension funds. However, it should be emphasized that uncontrolled, unregulated increase of participants in the financial market may have not only positive, but also negative consequences for its state and level of financial security of the state as a whole.

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Among the professional players in the domestic financial market, the sellers of investment services can make a significant impact on the level of financial inclusion. In the period prior to the 2008–2009 financial crisis, joint investment institutions attracted a large number of people who did not have a large amount of temporarily free financial resources, but sought to obtain positive financial results that were available to current investors and remained inaccessible to the users of traditional financial services. The dynamics of performance indicators of JII in recent years indicates a significant reduction in the number of their clients. However, the potential of the investment segment of the financial market remains a powerful reserve for widening the limits of financial inclusion in Ukraine (see Figure 4). Figure 4 shows a gradual renewal of the popularity of joint investment, but the pre-crisis level of involving the individuals in the investment process in the next few years is unlikely to be achieved.

Consequently, Ukraine has reserves to increase the level of financial inclusion. This conclusion can be reached by looking at World Bank data for 2017. The Global Findex, determined by this authoritative organization, has proved that in the last year only, 63% of the adult population had open financial accounts. That is, they belonged to the category of users of at least traditional financial services (The World Bank, The Global Findex Database, 2017).

Also, the World Bank has created the Global Financial Inclusion Database, which includes over 800 indicators of integration into the financial market, aggregated for the adult population and disaggregated according to key demographic characteristics: gender, age, education, income and place of living. The Financial Inclusion Index, which covers more than 150 countries, allows to measure the level of savings of the population, level of debt utilization, payment mechanisms and

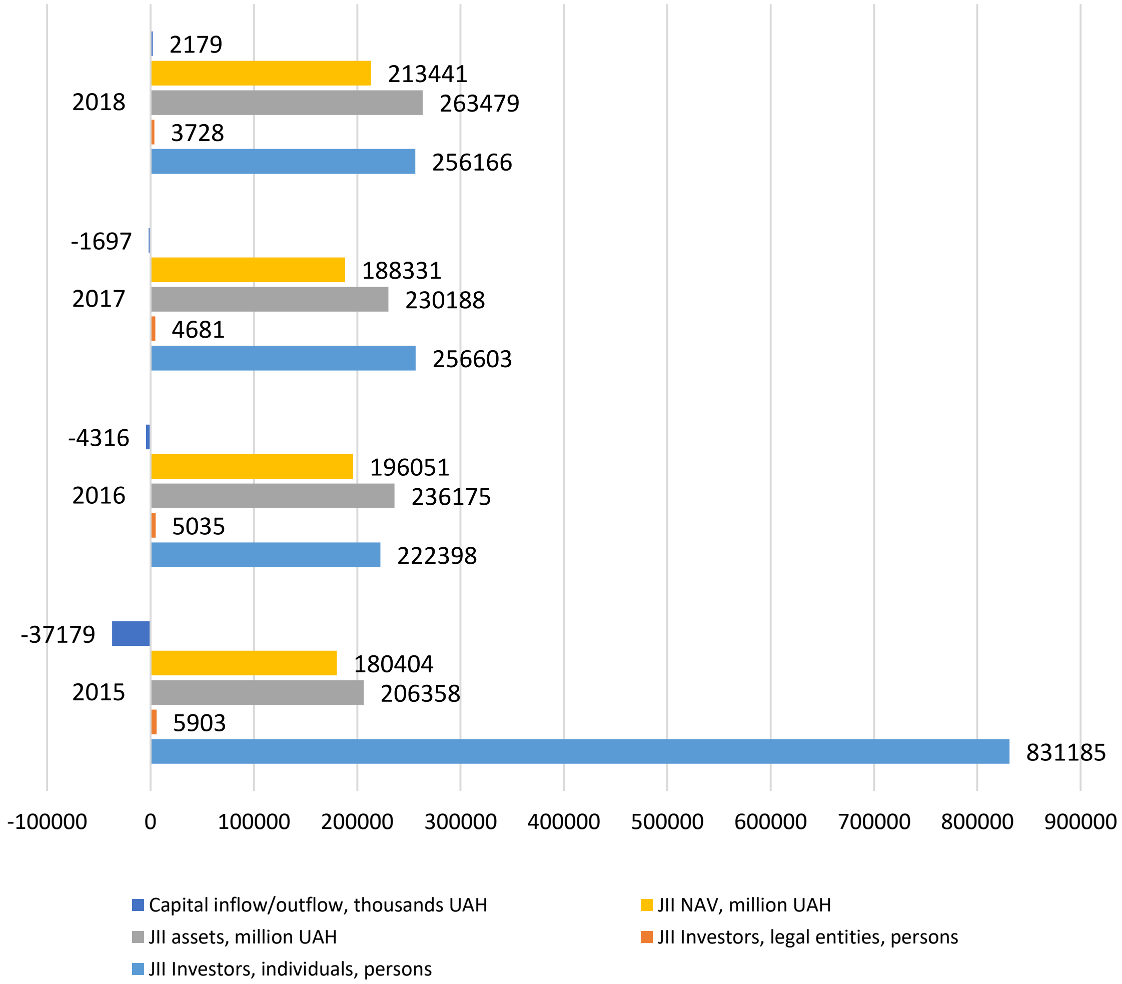

Figure 4. Dynamics of financial inclusion indicators in the field of joint investment institutions

risk management approaches (The World Bank, DataBank, Global Financial Inclusion, 2018).

According to the data of this database, as of 2017, some indicators characterizing the state of financial inclusion in Ukraine had the following values (see Table 2).

Table 2. Indicators describing the state of financial inclusion in Ukraine according to The World Bank data in 2017 compared to 2014, % of people over 15 years old

Source: Developed by the author based on the information of The World Bank, DataBank, Global Financial Inclusion (2018).

Characteristics of financial inclusion	2014	2017
Account	52.71	62.90
Borrowing any money in the past year	41.50	46.86
Borrowing from a financial institution or using a credit card	21.75	21.76
Borrowing from family or friends	22.07	30.84
Credit card ownership	27.50	26.68
Debit card ownership	39.71	49.42
Deposit in the past year	83.48	82.34
Financial institution account	52.71	62.90
Made digital payments in the past year	34.03	47.41
Main source of emergency funds: family or friends	50.45	53.01

At the same time, the reasons for the absence of financial accounts among the population of Ukraine are also indicative (see Table 3).

Table 3. The reasons for the absence of financial accounts among the population of Ukraine according to The World Bank data in 2017, % of people over 15 years old

Source: Developed by the author based on the information of The World Bank, DataBank, Global Financial Inclusion (2018).

Reason	2017
No account because financial services are too expensive	19.76
No account because financial institutions are too far away	11.09
No account because of lack of necessary documentation	4.11
No account because of insufficient funds	28.85
No account because of lack of trust in financial institutions	24.88
No account because of no need for financial services	3.54
No account because of religious reasons	1.46
No account because someone in the family has an account	10.55

Thus, the elimination of the main reasons for the reluctance or impossibility of using the financial products and services will enable to wide the re-

Table 4. Opportunities, risks and challenges of financial inclusion for the financial security of the citizens

Source: Developed by the author.

Opportunities of financial inclusion	Risks of financial inclusion	Challenges for financial security
Improving the level of well-being	Ability to check sources of financial resources by authorities	Loss of savings
Providing the passive income	Oligopoly for certain types of financial services	Getting less income than expected
Saving time on daily financial transactions	Fraud by financial institutions	Unjustifiably high price of financial products and services
Increasing the level of financial literacy	Large number of similar financial products and services that aggravate their choice	Lack of permanent access to a part of own financial resources
Expansion of the network of personal relationships and acquaintances in the financial sector	Choosing the unnecessary financial products or services and paying for their cost	Lack of compensation for assets lost due to the fault of certain types of financial intermediaries
Preservation of financial assets from impairment due to inflation	Absence of active participation in the management of assets trusted to financial intermediaries	Loss of sources of permanent income in case of bankruptcy of a financial institution
Extending the financial opportunities	Choosing a financial institution that works not effective enough	Growth of tax pressure and of the number of financial checks of income sources
Ability to switch from hired labor to self-employment	Use of a financial product or service of inadequate quality	Additional costs imposed by financial institutions on unnecessary financial products and services
Opportunities of financial inclusion	Risks of financial inclusion	Challenges for financial security
Improving the level of well-being	Ability to check sources of financial resources by authorities	Loss of savings
Providing the passive income	Oligopoly for certain types of financial services	Getting less income than expected
Saving time on daily financial transactions	Fraud by financial institutions	Unjustifiably high price of financial products and services

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Table 4 (cont.). Opportunities, risks and challenges of financial inclusion for the financial security of the citizens

Opportunities of financial inclusion	Risks of financial inclusion	Challenges for financial security
Increasing the level of financial literacy	Large number of similar financial products and services that aggravate their choice	Lack of permanent access to a part of own financial resources
Expansion of the network of personal relationships and acquaintances in the financial sector	Choosing the unnecessary financial products or services and paying for their cost	Lack of compensation for assets lost due to the fault of certain types of financial intermediaries
Preservation of financial assets from impairment due to inflation	Absence of active participation in the management of assets trusted to financial intermediaries	Loss of sources of permanent income in case of bankruptcy of a financial institution
Extending the financial opportunities	Choosing a financial institution that works not effective enough	Growth of tax pressure and of the number of financial checks of income sources
Ability to switch from hired labor to self-employment	Use of a financial product or service of inadequate quality	Additional costs imposed by financial institutions on unnecessary financial products and services

serves of increasing the level of financial inclusion, which, according to The World Bank, make up 37% of the total number of adult citizens for Ukraine.

In Table 4, we systematized the opportunities, risks and challenges of financial inclusion for the financial security of the citizens.

In Table 5, we systematized opportunities, risks and challenges of financial inclusion for the financial security of the economic entities (enterprises).

In Table 6, we systematized the opportunities, risks and challenges of financial inclusion for the financial security of financial institutions.

In Table 7, we systematized the opportunities, risks and challenges of financial inclusion for the state financial security.

Thus, moving to an active stage of financial inclusion at the level of government policy to stimulate this process is appropriate only after a long-time information campaign aimed at improving the

Table 5. Opportunities, risks and challenges of financial inclusion for the financial security of economic entities (enterprises)

Source: Developed by the author.

Opportunities of financial inclusion	Risks of financial inclusion	Challenges for financial security
Stabilization of the financial state	Loss of full and permanent access to financial resources	Expenses for the expansion of the financial managers staff
Additional sources of financial resources	Reducing the liquidity level (when using fixed-term financial services)	Loss of financial resources due to the poor quality of financial products and services
Expanding the boundaries of financial activity	Dependence of the financial result on the tendencies in the financial market	Loss of financial resources due to unprofessional actions and fraud in financial institutions
New affiliate relationships	Miscalculations when choosing a financial institution in the market	Strengthening tax pressure
Increasing the liquidity level	Excess of the cost of using financial services, the size of the economic effect of their use	Fines for breach of financial obligations
Simplifying the calculations, saving time on them performing	Being dependent on the actions of a financial institution or institutions	Cost of payment for financial products and services
Bringing closer to the world standards and traditions of economic activity	Inability to carry out planned financial transactions in case of a malfunctioning of the financial institution (for example, in case of payment banking systems breaking, it is impossible to make a payment)	The need to meet a number of financial requirements for the use of certain types of financial services (for example, during lending)
Preservation and increase of temporarily free financial resources	Restrictions on the use of certain types of financial products or services (for example, limitations while making settlements in currencies)	Loss of financial resources due to unprofessional actions of own staff during interaction with a financial institution

Table 6. Opportunities, risks and challenges of financial inclusion for the financial security of financial institutions

Source: Developed by the author.

Opportunities of financial inclusion	Risks of financial inclusion	Challenges for financial security
Increasing the number of customers	Clients' fraud	Expenses for staff expansion
Growth of financial assets, own and borrowed	Growth of competition in the financial market	Increased costs for physical protection of the integrity of client assets
Selling new financial products and services	Fraud with customer assets by company staff	Additional expenses for advertising for financial products and services
Access to new segments of the financial market	Increasing service standards	Losses from unfair competition
Growth of profit, increase of profitability level	The need for continuous improvement of the quality of financial products and services	Costs of informational and analytical support for making financial decisions
Expansion of the network of branch	Necessity of continuous training of the personnel and increase of its level of qualification	Costs of proper technical and technological support for selling the financial products and services
Reduce the cost of financing the process of searching and attracting new customers	The need to lower prices for financial products and services to gain competitive advantages	Increase in tax deductions and accruals

Table 7. Opportunities, risks and challenges of the financial inclusion for the state financial security

Source: Developed by the author.

Opportunities of financial inclusion	Risks of financial inclusion	Challenges for financial security
Financial resources to expand offerings in the capital market	The appearance of one-day companies and financial pyramids in the financial market	The need for modernization and restructuring of the financial system and the financial market architecture
Alternative source for domestic borrowing	The increase in the number of fraud in the financial services markets	Loss of assets through bankruptcy and liquidation of non-viable financial institutions
Minimization of cash in circulation	Growth of the number of people unsatisfied with the work of financial institutions	Destabilizing the state of banking security due to increased demand for non-bank financial services
Expansion of control over the cash flows in the financial system	Integration of foreign financial companies into the domestic financial flows	Extending financial opportunities for hybrid financial wars
No need for additional cash issue	Growth of litigations on a financial basis	Crowding out of the financial market of domestic financial institutions by foreign companies
Restoration of profitability of professional participants in the financial market	The need to strengthen control over the state and activities of financial institutions	Exports of assets accumulated on financial markets abroad through a network of foreign financial institutions
Termination of the tendency to reduce the number of financial institutions in the financial services markets	Reducing the level of trust to the financial market in case of non-fulfilment the obligations by financial institutions	Search for resources to guarantee certain financial products and services (for example, guaranteeing individual deposits)
Qualitative development of the financial market and its range	Attempts to monopolize the selling of certain financial products or services	Growth of inflation level
Reducing the shadow financial sector of the economy	Over-pricing of financial products and services by market leaders	Extension of state guarantees of systemic financial institutions activity
Reducing the level of corruption in the financial market	Integration of large number of people with low level of financial literacy into the financial market processes	Dictation of prices for financial products and services for state institutions by powerful financial companies

state of financial literacy of the population and the formation of sound financial behavior of individuals and legal entities in order to minimize the risks and threats that integration in financial market processes can have for their financial security.

Consequently, Ukraine has reserves to increase the level of financial inclusion. It is evidenced by the large number of financial assets of economic entities and savings outside the financial market. This is a global trend, for example, according to The World Bank, 1.6 billion people and more than 200 million small and medium-sized businesses around the world have no access to even traditional banking products (Innovation in Financial Inclusion, n.d. For Ukraine, attracting financial

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services to citizens and organizations that are now outside the financial market will help to stabilize the financial market state, expand investment opportunities and guarantee its prospects for development and competitive advantages compared to financial markets of European countries. Effective work of the financial sector will ensure a high level of the state financial security, however, the activity of financial services markets and their participants will imply new challenges for the activities of the state regulators and state authorities in the area of protection of financial interests of citizens, business entities and national financial interests as a whole.

CONCLUSION

Financial inclusion is a conscious and motivated involvement of a physical or legal person in the processes taking place in the state financial market. According to experts, the level of financial inclusion in Ukraine is 63%, which allows us to speak about the presence of a significant part of the financial resources that are currently located outside the financial services markets and form the basis for the spread of the shadow economy, while they could serve as a financial support for economic development of Ukraine and its economic and social convergence with the countries of Europe. Thus, as of mid-2018, Ukraine has reserves to expand the boundaries of financial inclusion. However, only a gradual and regulated increase in its level will have a positive effect on the financial security of the population, economic entities and the state as a whole. Otherwise, we can face a wide range of additional risks and challenges to the state of financial security.

The positive effects of expanding the scope of participation of individuals and legal entities in the financial market include: increasing the volume of financial resources in the financial market, expanding investment opportunities for economic development, stabilizing the state of financial services markets, reducing budget deficit, improving the performance of financial institutions, reducing the level of external state debt, improving the financial image of the country in the international economic arena, minimizing the shadow financial sector of the economy, expanding the range of financial products and services, restoring confidence in professional financial market participants activities and national regulators policies, increasing the level of the state financial security, etc.

The negative effects of widening the limits of financial inclusion are: increase in the volume of cash in active circulation, inflation increase, increase in the number of uncontrolled financial transactions, the growth of the scale of the financial hybrid war, the need to strengthen supervision over the functioning of the financial market and the search for reserves at the state level to guarantee fulfillment of liabilities of financial institutions to clients, uncontrolled fluctuations of exchange rates, increase of financial services prices, decrease in the quality of financial products, appearance of financial bubbles, increase in the number of financial fraud cases, increase of competition in the financial services markets with foreign financial companies.

At the level of financial services markets state regulators, active financial inclusion will mean the need to modernize traditional approaches to regulating the state of the financial market, the activities of professional financial intermediaries. It will require an increase in the resource base to guarantee for clients of financial institutions a conscientious attitude of the latter to ensure their financial needs and interests. Thus, at the theoretical level, it is necessary to start the development of innovative approaches to state regulation of financial security already in the conditions of increasing tendencies for financial inclusion in the near future. On the other hand, it is necessary to consider the development of the Financial Inclusion Strategy in Ukraine, in which we propose to set a number of strategic guidelines and tactical actions for the development of the domestic financial market by transforming the existing savings into a powerful investment resource through the mechanism of financial inclusion.

Prospects for the further research in the chosen scientific area are: the development of a system of measures to minimize the risks associated with the expansion of the limits of use of financial services by the population and economic entities and the formation of innovative mechanisms for regulating the financial safety of consumers of financial products, professional participants in the financial market, etc., taking into account the positive effects of active financial inclusion in the near future.

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