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CONCEPTUALIZATION OF TRUST IN THE FINANCIAL SECTOR OF THE ECONOMY

Trust has turned into the centre of academic interest among a spray of fields - economics, sociology, psychology, political science etc. - as a characteristic of agents and institutions' behavior in socio-economic systems. In economic matters, trust has been regarded as determinant for economic growth, financial development, international trade and investments [3]. In literature, definitions and measurements of trust vary often using the concepts of trust, confidence, and sentiments interchangeably. We are not motivated by the development of a single economic notion of trust, but at the same time, we are seeking to reduce the pluralism of views and the multitude of conceptualizations by their amalgamating.

In the vast of empirical scientific research and study of the role of trust in business and financial cycle fluctuation, the original institutional economics approach to the notion of trust developed from the work of Luhmann [4] is used. Therefore, the growing body of scientific literature proceeding from intention/competence duality applied the concept of competence-based confidence in order to explain the current financial crisis. This concept is built on a requirement for the trusting agent intentions, because otherwise our expectations are formed in confidence. Due to the complex nature of banking system, its decision-making can have both intentional and unintentional elements. As an example is the following, economic agent trust that a bank will honor its commitment to give out an agreed loan, despite a new more profitable option to put money in securities due to their good potential to rise. However, trust does not apply to economic agent expectation of the bank ability to provide money in time, in agreed amount and under agreed interest on using the credit line. This expectation applied to bank or other financial intermediary competences is confidence.

Nooteboom [5] and later Beugelsdijk [1] following Luhmann [4] indicated the need for existence of economic agent's choice to enter the relationships with the trustee, if there is no choice, the relationships are grounded on competence-based confidence. Taking into account the financial services diversity this approach could not be merely applicable. When we talk about settlement and cash servicing the economic agent cannot have trust in the banking system, but instead has a level of confidence in it competence to transfer the money from one account to another. However, in case of doing investments in the form of deposits in a bank, there is always a choice (alternatives): to buy gold or other non-financial assets, securities on the stock market or foreign currency from money speculators bypass the centralized banking system. It is in this regard banking system could not be analyzed solely through confidence indicators.

Hughes [2] by combining intention/competence with the agency/structure approaches developed an agency-based trust and structure-based confidence. Given that only agency has the ability to make a choice and to have intentions, the expectation could applied to trust. Whiles institutions (institutional structures) are based on formal rules and regulations (no space of intentions), therefore the expectation could applied to confidence. Regardless stages of the banking system development, as well as financial cycle phases, trust and confidence are always inherent characteristics.

Our conceptualization of trust is based on the structure-based confidence developed by Hughes [2] based on Luhmann [4], Nooteboom [5] and Beugelsdijk [1], but not limited to it. When the system is reported to have worked well within the framework of ongoing formal mechanisms and norms, trust would be formed on structure-based confidence. However, a certain level of structure-based confidence far not always enough for establishing the sufficient level of trust to ensure sustainable economic development. Especially in times of financial volatility, a vital role in creating the conditions of trust is played by sentiment-based actions of economic agents. Therefore, confidence could be viewed as a source of trust, sometimes as a complement to trust, but never as a substitute. Growing structure-based confidence could be reflected in an increasing trust. And at the same time, a sudden plunge in trust caused by a reduction of confidence due to the system inefficiency could be compensated by manipulating of the sentiment-based actions of economic agents.

In the study conducted by Hughes [2], it was shown the intertwining and separation of trust and confidence in line with stages of banking system development. It has been demonstrated that confidence crowds out the importance of trust as the banking system develops, however, never replace it. This conceptualization of trust in intended to show as the financial cycle phases are followed one another, the balance between trust and confidence shifts towards confidence or trust depending on uncertainty and risk.

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