Copenhagen
Business School
HANDELSHØJSKOLEN

INSTITUT FOR AFSÆTNINGSØKONOMI

NYHEDSBREVET OM FORBRUGERADFÆRD
NR. 39 – FORÅR 2023

[ISSN: 2246-2562]

Velkommen til den niogtredivte udgave af 'Nyhedsbrevet om Forbrugeradfærd'.

Young consumer financial well-being

Why some Young Consumers are Risky Borrowers

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Introduction

The range of choice available to financial consumers has increased dramatically in recent years and growing evidence suggests that in the complex real world many financial consumers rarely have a comprehensive idea of what behavior may serve their interests in the best way. This is important since consumers' bad financial decisions may not only negatively affect their short-term liquidity but may haunt them for years after they are made. Obviously, this is especially critical for young adults who often carry large amounts of student loans or credit card debt, which in turn may hinder their future ability to accumulate wealth.

Young adults (and others) may find that financial issues and services are rather complex. This situation becomes even more critical when considering that some young adults may engage in risky borrowing behavior. Risky borrowing is borrowing at a very high percentage rate relative to the current standard market conditions and may include quick loans, credit purchasing, and shop credit card loans, among others.

While young adults' bad borrowing behavior is obviously a concern to policy-makers, financial authorities and others who care about the citizens' welfare, bad borrowing behavior is also of interest to financial managers. Since financial companies are dependent on customers to pay their loans and bills they have a greater interest in developing relationships with financially healthy consumers than with the opposite. However, even though researchers have considered factors such as financial knowledge, attitudes towards risk), gender, and motivations of borrowing (see She et al., 2022 for an overview), among others, for the purpose of understanding consumer borrowing behavior, only little research has considered the mechanisms behind young adults' bad borrowing behavior. This is unfortunate since a better understanding of the relationships between such factors and young adults' bad borrowing behavior may assist financial service providers in managing their financial services and may also assist financial authorities and public policy makers in improving young adults' borrowing behavior.

Two Studies

Two online survey studies were conducted among young adults aged 18-25. The purpose of Study 1 (n=488) was to investigate how young adults' financial psychological factors

(i.e., trust in financial institutions and financial knowledge) and sociological and behavioral factors (i.e., subjective norm and general financial healthiness) affect their intentional bad borrowing behavior. Study 1 includes young adults who have not (yet) obtained a bad consumer loan, whereas Study 2 (n=214) focuses on young adults who already have obtained a bad consumer loan.

Results and Discussion

Borrowing money is not necessarily a bad thing. In fact, young adults with no borrowing history at all may be considered a risk to banks since they have little knowledge concerning how responsible the young adult consumer is in paying the dept bills when they arrive. The financial problems especially arise when young adults are lending too much money and/or when they are paying too much for their loan.

The results of this study stress subjective norm as an important predictor of young adults' intentional bad borrowing behavior. Given the potential power of social norms public policy makers, banks and financial educators should seek to eliminate less desirable social norms on how to behave financially. In accomplishing this, they may draw on past experiences concerning changing social norms related to alcohol consumption, drug use, disordered eating, gambling, littering, and recycling (see Schultz et al. 2007 for an overview). In the case of bad borrowing behavior no objective standards may be available (i.e., what is objectively too large an amount of bad borrowing?). Therefore, social comparison information is likely to have an effect on young adults' future bad borrowing behavior. In that respect, young adults' may engage in social comparison with idealized images, and therefore it could be considered to employ the behavior of financially well-behaving 'role models' as social comparison norms. It should be noted, however, that previous experience suggests that changing social norm perceptions may not be an easy task. If not carefully designed and carried out, social-norms marketing campaigns may fail to produce substantial changes in behavior and may even increase undesirable behaviors.

The results also suggest that young adults' general financial healthiness negatively influences intentional bad borrowing behavior. Notably, this result was detected regardless of whether young adults' have obtained a bad loan, or not. These findings encourage financial authorities and politicians to seek to improve young adults' general financial healthiness in order to reduce the likelihood that they engage in bad borrowing, either for the first time or as a repeated behavior. Significant relationships between financial knowledge and general financial healthiness were also detected. Hence, the results

encourage financial authorities and consumer organizations to continue and even further develop consumer financial education programs in order to improve young adults' financial healthiness, which in turn may reduce their bad borrowing intentions.

The study 2 results suggests that intentional bad borrowing behavior affects actualized bad borrowing behavior more strongly when bad borrowing perceived risk is low compared to high. That is, bad borrowing perceived risk is viewed as an obstacle when young adults are considering taking a bad loan. While the research presented here does not include a study of perceived risk antecedents, previous research suggests possible ways to enhance perceived risk. Social learning theory (Bandura 1977) posits that social norms, which include shared perceptions of risk, can be altered over time. Such a notion suggests that if role models - instructed to show high risk perceptions - share these with young adults, then such a mind-set could potentially influence young adults' bad borrowing perceived risk. This is consistent with the view that modeling is considered particularly useful in public service advertising seeking to show the aversive consequences of undesirable behaviors (e.g., Schultz et al. 2007). Banks and financial authorities may also seek to influence bad borrowing perceived risk more directly by providing information concerning the higher uncertainty (i.e., reduced product transparency) and/or the risk of the greater negative financial consequences (i.e., higher monthly payment) that may follow from bad loans.

In the study, bad borrowing perceived complexity did not significantly influence the relationship between intentional bad borrowing behavior and actualized bad borrowing behavior. This finding might be related to the observation that when faced with complexity consumers may react by finding ways to overcome the complexity or even neglect that the complexity is present. For instance, consumers may shift toward a simplified choice heuristic as perceived complexity increases in order to still being able to carry out and to justify their decisions. However, in the present context these are only speculations and future research may therefore wish to consider these issues more deeply in relation to young adults' bad borrowing behavior.

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