Analysis of Risky Financial Behaviors of Consumers

Lekhnath Chalise, University of Georgia[1]
Haidong Zhao, University of Georgia[2]
Wookjae Heo, University of Georgia[3]
Lini Zhang, University of Georgia[4]
Jorge Ruiz-Menzivar, University of Georgia[5]

Banks, credit card companies, and other lenders are extending credit based on limited information on borrowers. As a result, the credit risk in the United States now is worse than in 2011 (Durden, 2013). The credit risk is related with the financial behavior of the consumers. Studies on financial behavior of consumers about consumer finance and consumer debt characteristics can support to minimize financial risk. Most of the studies in this area are focused on credit card debt behavior. Studies have empirically shown that higher credit card balances have resulted in several undesirable behaviors such as poor eating, drug abuse, alcohol abuse, unsafe sex, reckless driving (Adams and Moore, 2007; Nelson et al., 2008) along with risky financially behaviors. Allgood and Walstad (2012) found the positive influence of financial literacy on loan, investment, insurance, regular checking of insurance coverage, and credit card behaviors of consumers. In this study, we analyzed the consumer characteristics associated with those five financial behaviors under the framework of the Theory of Planned Behavior (TPB). The TPB has already been used in studying several economic behaviors such as credit behavior (Rutherford & DeVaney, 2009), saving behavior (Anong & Fisher, 2013), and credit card behavior (Xiao, Tang, Sherido, & Shim, 2011).

The purpose of this study was to adopt the TPB in studying the risky financial behavior of consumers in terms of loan, investment, insurance, credit card, checking insurance coverage and to investigate the consumer characteristics associated with these financial behaviors. This study used the 2012 National Financial Capability Study (NFCS), the Financial Institution Regulatory Authority (FINRA) data set. A total of 7,545 observations were analyzed in this study. Structural Equation Modeling (SEM) was used to analyze all linear relationships simultaneously. Financial attitude, subjective norms of finance, perceived behavioral control in finance, financial intention, and actual financial behavior were latent constructs in the model. The new items added in the constructs in this study were: trust in financial planner and portfolio attitude in financial attitude; financial satisfaction and spending habit in subjective norms; self-rated financial literacy and financial knowledge in perceived control.

All the items and constructs (latent variables) were found to be highly significant (p-value<0.005) predictors of the variation in the model. SEM model fitting criteria were satisfied: RMSEA (<0.05), SRMR (<0.05), CD (>0.95). Thus, the empirical model supports the TPB framework. Newly added items in the model were significant. Perceived financial control appeared highly influential construct in predicting financial behavior, where self-rated financial literacy, financial knowledge had used for this construct. The study found that lower willingness to take risk, higher subjective norms of finance, and higher perceived control of finance would reduce the risk in all five financial behaviors: loan, investment, insurance, checking coverage, and credit card. An important implication from this finding is that increase in resource

[1] Graduate Student, Department of Financial Planning, Housing and Consumer Economics, 205 Dawson Hall, University of Georgia, Athens, GA, 30605, USA. Phone: 703-869-2247. Email: chalise@uga.edu.
[2] Graduate Student, Department of Financial Planning, Housing, and Consumer Economics, 205 Dawson Hall, University of Georgia, Athens, GA, 30605, USA. Phone: 706-247-0000. Email: haidong@uga.edu.
[3] Graduate Student, Department of Financial Planning, Housing and Consumer Economics, 205 Dawson Hall, University of Georgia, Athens, GA, 30605, USA. Phone: 706-542-4936. Email: icery960@uga.edu.
[4] Graduate Student, Department of Financial Planning, Housing and Consumer Economics, 205 Dawson Hall, University of Georgia, Athens, GA, 30605, USA. Phone: 706-247-1288. Email: lzhang@uga.edu.
[5] Graduate Student, Department of Financial Planning, Housing and Consumer Economics, 205 Dawson Hall, University of Georgia, Athens, GA, 30605, USA. Phone: 706-542-4936. Email: iruizm@uga.edu.

access and opportunities to the consumers can reduce the financial risk in consumers. Thus, programs to increase financial literacy and financial knowledge help to promote positive financial behaviors. Using a direct measure of financial intention that includes more financial behaviors such as mortgage, lottery, retirement saving, and educational savings can produce more robust results in future studies.

References

Adams, T., & Moore, M. (2007). High risk and credit behavior among 18-to-25 year-old college students. *Journal of American College Health, 56*(2), 101-108.

Ajzen, I. (1991). The theory of planned behavior. *Organizational Behavior and Human Decision Processes, 50*(2), 179–211

Allgood, S., & Walstad, W. B. (2012). The effects of perceived and actual financial literacy on financial behavior. Retrieved from http://ssrn.com/abstract=2191606

Anong, S. T., & Fisher, P. J. (2013). Future orientation and saving for medium- term expenses. *Family and Consumer Sciences Research Journal, 41*(4), 393-412.

Durden, T. (2013). USA credit risk now worse than 2011. Retrieved from http://www.zerohedge.com/news/2013-10-15/usa-credit-risk-now-worse-2011

Nelson, M. C., Lust, K., Story, M., & Ehlinger, E. (2008). Credit card debts, stress and key health risk behaviors among college students*. American Journal of Health Promotion, 22*(6), 400-412.

Rutherford, L., & DeVaney, S. A. (2009). Utilizing the theory of planned behavior to understand convenience use of credit cards. *Journal of Financial Counseling and Planning*, *20*(2), 48-63.

Xiao, J. J., Tang, C., Sherido, J., & Shim, S. (2011). Antecedents and consequences of risky credit behavior among college students: Application and extension of theory of planned behavior. *Journal of Public Policy and Marketing, 30*(2), 239-245.

Acknowledgements

Graduate Student Stata Learning Group at the University of Georgia initiated and led by Wookjae Heo.