

Low level of education the clearest common feature behind payment defaults

May 13 2021



Credit: Aalto University

Payment defaults are also more frequent among families with children

and the recently divorced and their accumulation is common especially among young people and those with credit card and installment payment debt, according to a recent study.

In a new study, researchers at Aalto University examined payment default entries involving Finns in 2015-2020 and their backgrounds, by combining the payment default registry of Suomen Asiakastieto Plc with register material from Statistics Finland. In this way the study provides a new foundation for information-based decision-making on payment defaults.

Studies show that payment defaults have increased, and 8.3 percent of Finns of legal age already have them in their [credit](#) history. The number of payment defaults is above average among those who have only completed comprehensive school, as well as parents of under-age children and those who have recently been divorced. Those with a [mother tongue](#) other than Finnish or Swedish, the unemployed, and those who live in rental housing built with the help of state-subsidized interest have payment defaults at a higher-than-average rate.

According to the researchers, the clearest common denominator linked with payment defaults is a low level of education.

"More than half of those whose studies are limited to comprehensive school alone, and whose final school report grade average is below 6.5 have payment defaults. Even for those with a grade point average of nine (out of ten) or above, the likelihood of a payment defaults is 27 percent, which is more than among those with any higher level of education. The result is the same for both women and men," says Professor Elias Rantapuska.

A research team comprising researchers of the Department of Finance says that the result shows that teaching economic literacy would clearly

appear to be most effective if taught in comprehensive school.

"Teaching financial literacy especially to [young people](#) who are not terribly enthusiastic about going to school is undoubtedly challenging. However, adjusting the amount of debt to one's own life situation, is certainly an important skill for a citizen to have," Rantapuska says.

Payment defaults are also clearly more common in households with one or more children under the age of 18, and where a parent is under the age of 30.

"A previous notion that childless people are more likely to have payment defaults than families with children is not supported by our findings. On the other hand, it is good to keep in mind that this is a descriptive study that does not give information on cause-and-effect relationships. Consequently, we cannot draw the conclusion, based on these results, that the birth of a child would cause families to default on their payments," Rantapuska observes.

Payment defaults accumulate with young people and those with credit card or installment payment debt

About 450,000 Finns were issued with at least one payment default notice during the research conducted in 2015-2020. A total of 8.8 million entries were recorded, putting the average at 19.4 for each person with an entry. Payment defaults appear to be both increasing and accumulating with the same individuals.

"There is much talk of spirals of payment defaults, but there has been little published quantitative research information. Our research report is the first in which the accumulation of payment defaults among Finns and the background factors involved have been reported," says postdoctoral researcher Niilo Luotonen.

According to Luotonen, payment defaults appear to accumulate especially among young people and among those with credit card or installment payment debt.

"However, gender would not seem to be a factor. To summarize, it could be said that if someone gets one credit default entry, the likelihood that the same person would get another one in the following years is considerable."

The research partly coincided with the coronavirus crisis, but the crisis does not appear to have added to the total amount of payment defaults. The research report nevertheless reveals an interesting detail: the 20 percent maximum on interest enacted in September 2019 appears to have increased the kinds of payment defaults in which credit card or installment payment debt lurks in the background.

"The increase in payment defaults caused by credit card and installment payment debt after the interest rate ceiling was set may indicate that people are no longer getting unsecured consumer credit. If procurements in such situations are made by installment or [credit card](#) payment, the resulting [payment](#) defaults have been seen as bad credit more quickly than those coming from unsecured consumer credits," Elias Rantapuska says.

More information: Payment Disorders as a Social Problem research project: [www.aalto.fi/fi/rahoituksen-la ... nnullisena-ongelmana](http://www.aalto.fi/fi/rahoituksen-la...nnullisena-ongelmana)

Provided by Aalto University

Citation: Low level of education the clearest common feature behind payment defaults (2021, May 13) retrieved 8 May 2024 from

<https://phys.org/news/2021-05-clearest-common-feature-payment-defaults.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.