PHYS.ORG

The myths around consumer financial vulnerability, and how it affects most consumers at different points in their lives

February 22 2023, by Marilyn Stone

Credit: CC0 Public Domain

Researchers from Boston College, Georgetown University, American University, Texas A&M University, and Colorado State University

published a new *Journal of Marketing* article that challenges the entrenched belief that financial vulnerability only affects low-income consumers.

The study is titled "Beyond Income: Dynamic Consumer Financial Vulnerability" and is authored by Linda Court Salisbury, Gergana Y. Nenkov, Simon J. Blanchard, Ronald Paul Hill, Alexander L. Brown, and Kelly D. Martin.

Even pre-pandemic, many U.S. workers lived paycheck to paycheck and lacked the resources to overcome an unexpected financial setback. The COVID-19 pandemic has intensified the financial vulnerability of large swaths of consumers, bringing on historic unemployment levels, soaring food bank demand, and existential crises for small businesses.

When scholars and practitioners investigate financial vulnerability, they focus on those who lack sufficient personal income or wealth to acquire goods and services to meet everyday consumption needs. Such investigations create the impression that the defining characteristics of potential victims are absolute poverty or low income and wealth.

This new study shows that most consumers, across the socioeconomic spectrum, may experience varying degrees of financial vulnerability at different points of their lives. Consumers can become financially vulnerable due to factors such as age (e.g., retirement), life events (e.g., divorce), economic cycles (e.g., inflation, recession), and unforeseen crises (e.g., natural disasters) that hinder access to financial resources in the short or long term.

The researchers assert that "There is an urgent imperative to provide insights into this underexplored domain of consumer financial vulnerability and to capture the reality of the large, heterogeneous population of financially vulnerable consumers."

Financial vulnerability vs. financial harm

Consumer financial vulnerability (CFV) represents the risk of experiencing future harm given a consumer's current access to financial resources and expectations about (uncertain) future resource changes. This includes not only personal income and wealth, but also extended financial resources from social relationships, government programs, and financial institutions.

For example, young adults often rely on parents or grandparents when their income falls short. In contrast, older consumers rely on retirement savings and Social Security for income and Medicare for health insurance.

The researchers emphasize that being financially vulnerable is not the same as having been harmed because of one's financial circumstances. Many consumers are financially vulnerable at any given point in time, and some (but not all) of them may eventually experience harm.

One source of vulnerability is income volatility. For example, commission-based sales professionals, gig workers, and small business owners can have highly variable income, leaving them financially vulnerable due to risks posed by month-to-month income uncertainty. They may experience harm if their income dips too much in a certain month and they are unable to cover their living expenses.

On the other hand, consumers who have steady income, but lack access to affordable health insurance, are also financially vulnerable. Delaying preventive medical care can lead to a health crisis that results in physical harm, short-term disability, and an inability to return to work, with intensified, subsequent economic harms. This quicksand-like property of CFV and harm suggests that preventing harm (e.g., health insurance) is often less costly than recovering from harm.

Short-term vs. long-term financial costs

A full understanding of CFV often requires a broad time perspective. Consumer actions that appear ill-advised today may be beneficial in the long term and vice versa. For example, using a payday lender to repair the car that gets a consumer to work may appear to be a risky choice today, but this short-term cost may prove prudent in the longer term if it means not missing work and losing income.

On the other hand, new homeowners who purchase furniture using a retailer's "no interest for 24 months" deferred interest financing offer benefit today from zero cost credit. But they could be vulnerable in the long term if they cannot repay the full amount within 24 months, incurring high retroactive interest costs. This latter example illustrates that having access to financial resources does not always decrease a consumer's vulnerability.

"We also emphasize that generalized financial literacy is not a panacea for reducing CFV and that financial knowledge varies widely among consumers," says the research team. High earning consumers who lose their jobs or face an extraordinary medical experience might have the know-how to decide between an emergency withdrawal from their 401K account versus taking on credit card debt, but they have little experience with government assistance programs, the medical insurance marketplace, or unemployment insurance.

"Financial knowledge is linked closely with one's lived experience and successfully navigating vulnerability inflection points during one's lifetime often requires gaining new types of financial knowledge," they add.

Finally, using data from a personal finance app, the study illustrates how researchers and companies can estimate CFV; namely, the probability

that accessible resources are insufficient for a consumer to avoid harm.

This approach to measuring CFV offers a foundation for scholars, practitioners, and policy makers to broaden their understanding and consideration of CFV and its effects on consumer well-being. "It is time all stakeholders accept that CFV is not a unidimensional reflection of income, but spans a nuanced, resource-based continuum along which consumers move dynamically," claims the research team.

More information: Ronald Paul Hill et al, Beyond Income: Dynamic Consumer Financial Vulnerability, *Journal of Marketing* (2023). DOI: 10.1177/00222429221150910. journals.sagepub.com/doi/10.1177/00222429221150910

Provided by American Marketing Association

Citation: The myths around consumer financial vulnerability, and how it affects most consumers at different points in their lives (2023, February 22) retrieved 24 April 2024 from https://phys.org/news/2023-02-myths-consumer-financial-vulnerability-affects.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.