Understanding Risky Borrowing Behavior among Young Consumers: An Empirical Study

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Abstract : Many consumers are uncertain of what financial borrowing behavior may serve their interests in the best way. This is important since consumers' risky 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 obtain financial healthiness. Even though factors such as financial knowledge, attitudes towards risk, gender, and motivations of borrowing, among others, are known to influence consumer borrowing behavior, no existing model comprehensibly describes the mechanisms behind young adults' risky borrowing behavior. This is unfortunate since a better understanding of the relationships between such factors and young adults' risky borrowing behavior may be of value to financial service providers and financial authorities aiming to improve young adults' borrowing behavior. This research extends prior research by developing a conceptual framework for the purpose of understanding young adults' risky borrowing behavior. The study is based on two survey samples comprising 488 young adults aged 18-25 who have not obtained a risky loan (sample 1) and 214 young adults aged 18-25 who already have obtained a risky loan (sample 2), respectively. The results suggest several psychological, sociological, and behavioral factors that may influence young adults' intentional risky borrowing behavior, which in turn is shown to affect actualized risky borrowing behavior. We also found that the relationship between intentional risky borrowing behavior and actualized risky borrowing behavior is negatively moderated by perceived risk – but not by perceived complexity. In particular, the results of this study indicate that public policy makers, banks and financial educators should seek to eliminate less desirable social norms on how to behave financially. In addition, they should seek to enhance young adults' risky borrowing perceived risk, thereby preventing that intentional risky borrowing behavior translates into actualized risky behavior.

Keywords : financial services, risky borrowing behavior, young adults, financial knowledge, social norms, perceived risk, financial trust, public financial policy
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