ASPECTS OF CONSUMER FINANCIAL VULNERABILITY

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The unstable financial situation represents one of the stress financial indicators in households. If it is considered as an indicator of financial vulnerability, then its goal is to identify those households experiencing fragile financial situation The literature is taking into consideration the aspect from financial environment, consumer psychology and aspects concerning private finance. Economic theory regarding household creditworthiness is taking into account two concepts that are explaining the individual or household behavior: life cycle hypothesis and permanent income hypothesis. The life cycle hypothesis presume that individuals are sorting their assets in a psychological way in category such as those that are belonging to current income or future income or belonging to current or future wealth. Permanent income hypothesis is related by to life cycle theory. Some authors suggest that individuals are basing their consumption on they perceive as permanent income, the income that they are expecting to earn throughout their lives. The hypothesis presumes that the consuming expenditures are not determined by the current income but rather by the income expectations on long term of household. The consumer are more willing to maintain a level of consumption related to permanent income and less by the fluctuations appearing in the current income.

Key words*: credit, financial vulnerability, household indebtness*

The unstable financial situation represents one of the stress financial indicators in households. An array of factors can lead towards the perception of vulnerability such as forecast of shrinking in economic activity, cut in wages or raising the risk of unemployment.

If it is considered as an indicator of financial vulnerability, then its goal is to identify those households experiencing fragile financial situation. There are highlighted the existent concepts and the way they are related taking into account different economical and psychological factors. The literature is taking into consideration the aspect from financial environment, consumer psychology and aspects concerning private finance.

MATERIAL AND METOD

Economic theory regarding household creditworthiness is taking into account two concepts that are explaining the individual or household behavior: life cycle hypothesis

and permanent income hypothesis. The life cycle hypothesis takes into account saving and borrowing. These are mechanisms that are smoothing the consumption. Borrowing is used as transfer mechanism in time of consumption from higher income period to those periods with less income. The life cycle hypothesis presume that individuals are sorting their assets in a psychological way in category such as those that are belonging to current income or future income or belonging to current or future wealth. Such perceptions are strongly influencing the consumer behavior and affects credit or insurance decisions.

Permanent income hypothesis is related by to life cycle theory. The household financial situation is reflected by its financial balance, by the balance between expenditures and incomes. Some authors suggest that individuals are basing their consumption on they perceive as permanent income, the income that they are expecting to earn throughout their lives. The hypothesis presumes that the consuming expenditures are not determined by the current income but rather by the income expectations on long term of household. The consumer are more willing to maintain a level of consumption related to permanent income and less by the fluctuations appearing in the current income.

RESULTS AND DISCUSSIONS

It is very important how it's balanced the household inflows and outflows of money by saving or by taking credit. These decisions over periods of time are subject of unexpected shocks (sudden increase or decrease in money flows). A household would become uncertain about its capacity to finance recurring expenditures because of these shocks resulting in financial vulnerability. Because most of the household can be classified as wage earners (not from capital income) it is important that the household finds a financial balance between income and expenditures.

An unstable financial situation is a result of a larger expenditure than income and there are no savings available.

In microeconomic theory, consumers rationally maximize utility considering budget constraints. But in reality, there are psychological patterns inherent consumers. There are several explanations about the consumer's decisions on financial matters and the potential for becoming over-committed. The choices made in credit or repayment insurance can be biased, or there are misinformations by lenders or abusive business practices.

In behavioral economics it is taken into account the process that individuals make judgment about the probabilities for occurrence of events.

The question is if the income will be less in the future, that will influence the present behavior and the consumer has a tendency to make debts? The literature in this field discuss about the prospect theory of Kahneman & Tversky and about the aspects of cognitive economics.

The first is related to the expected utility hypothesis. In the same time the theory also explains loss aversion. Loss aversion is stronger when emotions lead the decisions made by people. When is analyzed the demand for credit or insurance, subjective beliefs are especially important. Consumer will make estimations about the probability of an event that negatively impinges on their

repayment ability. If a negative impact is considered likely, then the propensity to purchase repayment insurance will increase. The second theory, cognitive economics, explains that adding information up to a critical point will increase human performance, but further additions will decrease it, due to information overload result. On the other hand, a lack of information can occur for creditors, which can lead to distortions in the market. This information is referring to the consumer's repayment capabilities. Although there are several measures to correct the situations, such as guarantees, screening and monitoring, the lender take decisions based on incomplete information. Literature examines problems related to consumer credit, mortgages, rent and utility bills, as well as indebtedness and financial difficulties.

CONCLUSION

Repayment problems represent the situations in which consumers have difficulties in fulfilling or delaying in their commitments. The latter is relating to secured and unsecured credit, rent obligation, utility payments or other recurring household bills. This is, in general, measured by levels of arrears, payment problems, financial coping strategies and subjective assessments as following below.

Arrears as repayment problems can be measured as late or missed payments. Some authors present each type of commitment of an household as mortgage and consumer credit adding other household bills to determine the overall level of arrears on one or more bills. Other studies make a distinction between general arrears and those that cannot be repaid.

Payment problems are referring to situations in which an household often or very often has no money left to pay bills or debt repayments on the last due date. Moreover, debt problems are further distinguished by examining just those payment difficulties that relate to servicing and repayment credit. In general, household can use different strategies to cope with financial strain. Some studies have referred to the use of overdraft facilities as coping mechanism for household under financed stress which is constantly in overdraft as an objective measure.

Subjective measures include a self-assessment of financial difficulties comparing the current situation with that of 1 year ago, trying to manage expenses in order to do not surpass budget constraints.

Nevertheless some studies use a mix of objective and subjective measures to examine the problems of over-indebtedness.

One study in the Netherlands uses a debt index built from multivariate analysis of arrears, bank credit, and poor creditworthiness. Some studies try to answer to a variety of questions, such as which consumers fall indebt, why some borrow more than others and how far the debt goes. These researches revealed that the amount of a person's debt is significantly associated with disposable income, the number of loans, social class and psychological variables as a belief that credit is useful.

Creditworthiness analysis (scoring) refers to statistical procedures used to estimate the risk of default or delinquencies of consumers (not household). Scoring models take several predictors of credit risk and relate them to variables that define credit risk.

The purpose is to predict the likelihood of a default or delinquency by a consumer. Scoring is awarding points for each factor to predict the likelihood of delinquencies. These points are added to gain a score, higher score meaning lower risk.

There are different methods in order to estimate the credit risk such as regression analysis, recursive partitioning algorithms (classification trees) and neural networks.

In practice are used three different types of classifications: good credit risks (never in arrears) indeterminate risks (late one or two months), and bad credit risks (missed payments for three or more months).

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