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HOW COGNITIVE, EMOTIONAL AND BEHAVIORAL DETERMINANTS AFFECT CONSUMER CREDIT APPROACH?

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Abstract

Consumer credit in the proportion of household debt has been largely increased in developed and underdeveloped nations. The notion is widely extended during last two decades. This paper seeks to examine the involvement of psychological characteristics in credit related choices of Pakistani people. A large extent of literature widely acknowledged that these factors significantly influence the behavioral intention. The study point of this research is to examining the role to attitude towards the household decision making choices. Attitude is further characterized with three further dimensions including cognitive, emotional and behavioral components. The finding reveal that attitude strongly influences the consumer credit decision by motivating towards spending behavior in the sense of well-being. While enriching the existing literature of consumer credit, the research also helps in the assessment of household economic benefits and expectation.

Keywords – Household debt, consumer credit, attitude

Introduction

Household debts have been increased numerously since 1990. The financial crises of 2007 triggered mostly due to the indebtedness of consumer credit and mortgage loans. The United States and various countries of Europe including Great Britain doubled and somewhat tripled the ratio of household debts in from 2000. Italy is a strong witness where families have attained financial liabilities more than their equity. In the year 2009, the household debt ratio in terms of annual disposable income of people reached to 60 percent which was only 33 percent in 2001 (Cosma & Pattarin, 2011).

According to International Monetary Fund (2012), household debts soaring leads to Great recession in 2007. The average of household debts in terms of disposable income rose from 39 percent to 139 percent. Many developed countries of Europe including Denmark, Ireland, Netherlands, Norway and Iceland, the debt ratio reached to the highest level of 200 percent. The surge in the household debt ratio is also seen in the developing economies of Hungry, Latvia, Estonia and Lithuania. The main cause of this surge is the introduction of prolonged household debt plans with low interest rates which attracted the most people to avail the opportunity within a given range of income. Pattarin & Cosma (2012), illuminated the concern, the household prices were decreased from 40 percent to 20 percent in European countries and USA in 2011. Resultantly, the household defaults mortgages loan value exceeded from household value and the household fire sales bubble endemic to only few economies. In contrast, Germany and Canada hold themselves from this surge effect with more strong policy adjustments where most of the mortgage plans were delivered for 10 years and 3-5 years respectively. Furthermore, Dow, (2018), argued the consumer credit approach has increased after financial crises due to the large scale availability of credit environment and greater acceptance of credit borrowings by consumers.

Literature Review

Consumer credit approach for household debts is extensively increased during last two decades across the globe. The increasing no of population and battle of better living opportunities has set the grounds for consumer credit market (Pattarin & Cosma, 2012). According to Abbas et al. (2018), remodeling of risk management measures can play a significant role in the development of consumer market. Consequently, the technological advancements and adaption of modern measures have outburst the credit demand in major developed countries followed by developing nations as well (Abbas, Hassan, Asif, Junaid, & Zainab, 2018). According to Bertrand et al. (2005), the propensity towards credit is mainly encouraged by the gradual consolidation of favorable attitude towards credit.

According to Lea et al. (1995), the household behaviors toward debt having various dimension which need to be clarified. As per literature references, there are two distinct dimensions including consumer credit and consumer debt. “Consumer credit” refers the recourse of institutional credit requested by the household to the bank or other institution which the banker evaluates and considers the household solvent for the obligation therefore, decision to lend. Whereas, the “consumer debt” arises when the household is unable to pay his obligation to the creditor. Some researchers do not consider this difference necessary and further argued consumer debt reflects after the collision of difficulty to the household which result a non-premeditated behavior (Kamleitner & Kirchler, 2007).

According to Tokunaga (1993), in the explanation of consumer credit exposure, income variables are less effective. Is if further argued a positive relation between consumer credit and income (Fabbri & Padula, 2004). In contrast, some authors believe there is a negative relation witnessed between current income and credit use whereas, credit use and permanent income are strongly linked (Magri, 2007).

According to Cosma & Pattarin (2011), & (2012), attitude play a vital role in the predispose judgment about consumer credit decision. On the other hand, it can reflect the higher or lower tendency towards the selection of scheme. In the following research attitudes has been further characterized in three dimension, cognitive, emotional and behavioral elements (Pattarin & Cosma, 2012).

According to Pattarin & Cosma (2012), cognitive components of attitude consist of individual's own knowledge set, perception, belief and thought over selection of some product. In this scenario, the knowledge about credit an individual possess form his own experience, interactions with other people and surroundings. The cognitive components are very important in credit selection because they set the base to comprehend the decision process. The effective or emotional components comprised of an individuals' set of emotions, his sentiments and sensations around towards credit use. It is normally developed by the external factors with peer influence from the society, subjective norms and peer pressure. They also play significant role in the preference process of credit decision. The behavioral components are proactive intentions developed during a course of time which are influenced by the intensity of credit need. The behavioral components are responsible for explicit behavior for credit selection. These behaviors also tend to influence money management, household budget decision and spending intentions.

The role of attitude in financial decision making in term of consumer credit selection is unclear due to the inconsistency between attitude and consumer behavior. While finding the relevance and impact of attitude towards financial decision making, it is noticed that peer pressure from friends, relative and society tend to enhance the probability of credit use (Kaynak & Harcar, 2001).

The extensive literature review in the field of empirical psychology has demonstrated multiple personality factors including perception for needs, motivations, attitude and economic conditions directly influence the credit financing decisions (Cosma & Pattarin, 2011; Kamleitner & Kirchler, 2007; Bertrand et al. 2005; Tokunaga, 1993).

Research Methodology

For conducting this research survey technique is used. A develop questionnaire is adopted from Pattarin & Cosma (2012). As population was not known so study utilized the non-probability sampling technique of snowball sampling and compulsory sample size was at least of 385 (Smith, 2013). But collected sample was 567 whereas only 551 responses were useable. Sample Space for the study was Lahore, Islamabad and Karachi. As these are the major cities of Pakistan. Questionnaire is distributed through mails and social networking sites. Study contains the criteria for the credit users, those were either using the credit or have used it within last 24 months and non-users was not part of this criteria. Questionnaire contained twelve questions. Cronbach's alpha for all the constructs were around .70. So reliability condition is full filled. Study is Cross sectional and minimal interference of researchers it adhere. All questions are using five point likert scale. Dependent variable is dichotomous as it having two criteria's of users and non-users of credit. Binary Logistic regression used for analysis.

Results and Conclusion

Following table shows the regression results.

Variables in the equation

	B	S.E.	Sig.
Cognitive	.316**	.076	.030
Behavioral	.035**	.023	.041
Emotional	.125***	.043	.000
Constant	.145	.121	.213

Note: ***, **, * Indicate significant at 1%, 5% and 10% level of significance.

It can be observed that cognitive and behavioral determinants are significant at 5% level of significance whereas emotional determinants are significant at 1%level of significance. Overall model was significant and Cox & Snell R Square shows that cognitive, behavioral and emotional determinants explains the user and non-user behavior 62%. This study shows that analytical and social aspect having effect upon individuals to use credit but not stronger than sensitive and emotional determinants. Cognitive (.136) and Behavioral (.035) determinants having strong positive relationship with using of credit. Whereas Emotional (.125) determinants having strongest relationship with using of credit between all three.

Based on the survey of 551 individuals Pakistani households. The empirical evidence analyzed in this paper supports the results of the hypothesis that credit users and non-users having different psychologies. So, meanwhile it can be infer that cognitive, behavioral and emotional psychologies having effect upon individual behavior regarding using of credit.

Future researchers can further explore the relationship applying moderating effect either of cognitive and emotional or behavioral and emotional psychologies. This study having implications for bankers, Credit users & non-users and policy making bodies.

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