

Consumers' Financial Vulnerability when accessing Financial Services

Emmanuel Mogaji
University of Greenwich
e.o.mogaji@greenwich.ac.uk
 0000-0003-0544-4842

Abstract

The concept of vulnerability denotes the conflict between the resources available to an individual and the challenges they face in life. Due to personal characterisers and market structures, some consumers are made financially vulnerable, which makes it difficult to access the formal financial system such as having a bank account or credit facilities. This paper presents a conceptual explanation of consumers' financial vulnerability when accessing financial services. It explores the two broad categories of consumer vulnerability and the barriers they present to accessing financial services. This conceptual framework recognises the role of governmental financial policy, financial technology from banks, and consumers' financial education in overcoming these barriers and making financial services inclusive.

Keywords: consumer vulnerability, financial vulnerability, financial inclusion, fintech, financial services

Introduction

Vulnerability is a multifaceted concept, which has been theoretically and empirically researched across various fields of clinical, health, and social psychology (Perrig-Chiello, et al., 2016). From a business and management point of view, a customer can be vulnerable due to their personal circumstances. The UK's Competition and Markets Authority considers consumer vulnerability to be any situation in which an individual may be unable to engage effectively in a market and, as a result, is at a particularly high risk of getting an unfavourable offer such as credit facilities with high interest rate (CMA, 2019).

There are many ways in which individuals can feel financially vulnerable; this can be when an individual feels exposed to financial insecurity or when they are actually unable to cope financially (Van Aardt, et al., 2009; Mogaji, 2018). The Personal Finance Research Centre (PFRRC) at University of Bristol describes it as the feeling of being in a financially unstable situation (PFRRC, 2009). This does not necessarily mean that the individual exists in an actual state of over-indebtedness, but rather that they are experiencing a sense of financial vulnerability (Van Aardt, et al., 2009). Vulnerability can be temporary or permanent, gradual or sudden, and is often multi-layered.

Vulnerability is the result of an interaction between the resources available to individuals and the life challenges they face (Perrig-Chiello, et al., 2016). Consumers could become vulnerable when they are made unemployed, unable to service debts, or experience financial emergencies (Van Aardt, et al., 2009). Consumers can become financially vulnerable through various means. However, the two broad categories are due to the personal characteristics of the individual or due to the market structure, which affects the individual (CMA, 2019).

This paper explores these two broad categories of consumer vulnerability and its impact on the financial vulnerability of customers, financial exclusion, and their inability to access financial services. These explorations are conceptually presented in Figure 1, which recognises the barriers of vulnerable consumers in getting the financial products they need. The conceptual framework recognises the roles of financial policies, technology, and education in overcoming these barriers. The implication of financial inclusion – having overcome the limiting barriers – on the consumer and financial services is provided.

As research on vulnerable consumers in the banking market is limited (Fernández-Olit, et al., 2018), this study aims to make a contribution to the academic literature on this topic. First, the conceptual framework explores the relationship between the consumer and financial services in order to describe financial vulnerability. Second, it describes the broad categories of vulnerability and the barriers they present in accessing financial services. Third, this paper recognised the role of the government (policy), banks (technology) and customers (education) in overcoming these barriers to accessing financial services. Fourth, it presents the implications and outcomes of the effort towards financial inclusion for both customers and banks. As consumers benefit from financial inclusion, the financial services providers also benefit in the form of satisfied and loyal customers and through data and analytics from different touchpoints, which can be used to develop more innovative products (Mogaji & Danbury, 2017).

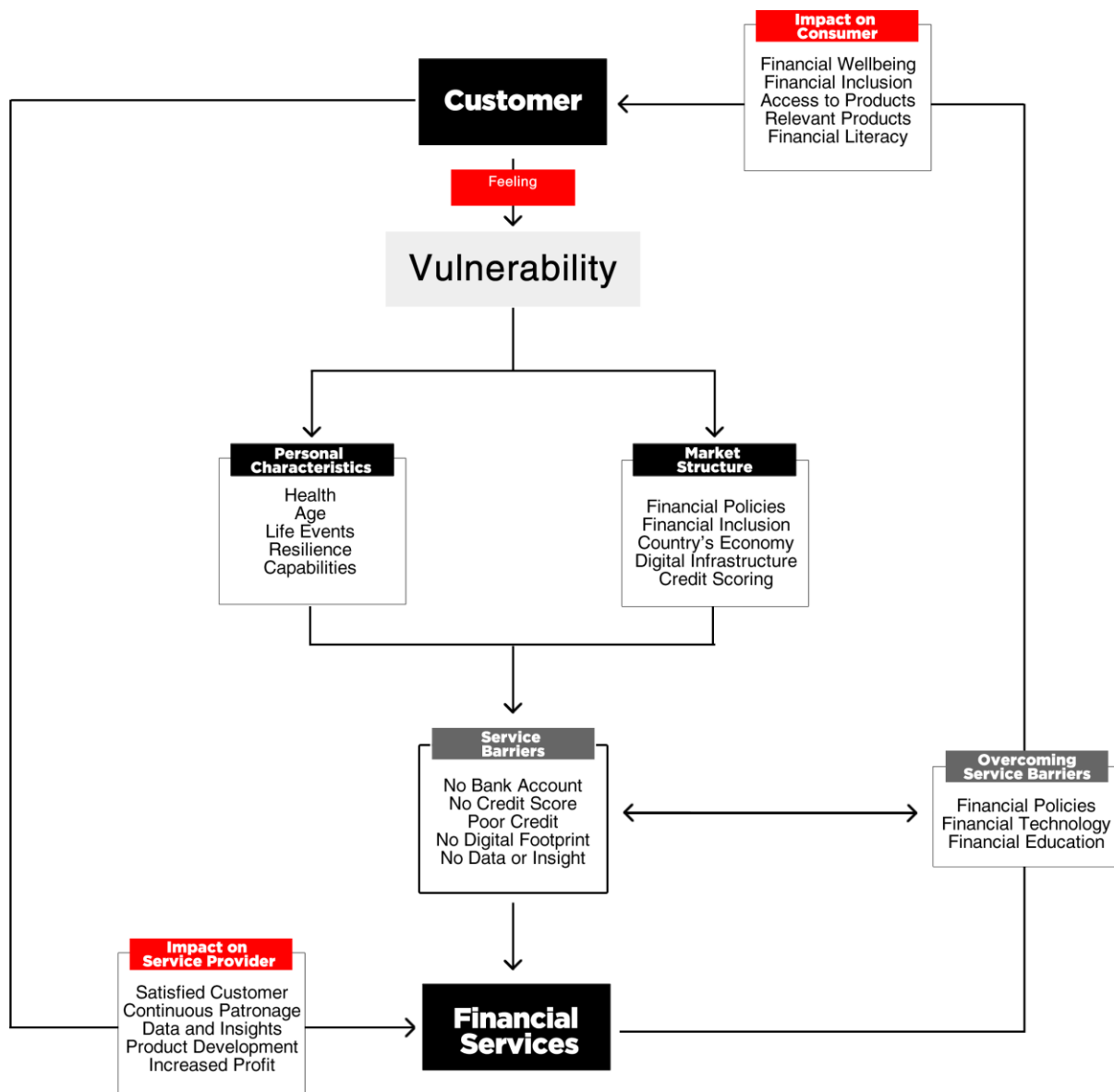


Figure 1: Conceptual Framework for Consumers Financial Vulnerability

Classification of Consumer vulnerability

Consumers can become financially vulnerable through various means; however, this is typically grouped into two broad categories (CMA, 2019). Financial vulnerability can typically be due to the personal characteristics of the individual or the result of market structures, which affects the individual.

Vulnerability associated with personal characteristics

Personal characteristics, such as physical disability, poor mental health, or low income are associated with consumer vulnerability (CMA, 2019). Financially vulnerable customers are often over-indebted. They are more likely to fall behind on key household

bills or credit commitments. The following factors act as drivers to actual or potential vulnerability. However, this list is not extensive.

Health

Health conditions or illnesses affect a person's ability to carry out day-to-day tasks. Schofield, et al., (2010) explore the financial vulnerability of individuals with diabetes and find that retirement from work, due to health conditions, is likely to cause large financial stress in the future. These individuals have lost an income stream from paid employment and have little or no savings to draw upon. Lichtenberg (2016) examines the intersection of financial exploitation and the decision-making capacity of people with Alzheimer's disease. This has been described as multidimensional construct (Marson, et al., 2009), which has an impact on their financial capacity. This ranges from paying bills to making major financial decisions.

Age

Lachs and Han (2015) propose the concept of age-associated financial vulnerability (AAFV) as a pattern of financial behaviour that may jeopardise an older adult's financial well-being over their lifetime. This vulnerability need not to be associated with dementia or other neurodegenerative diagnoses; it simply identifies how old age excludes customers from services, which may have otherwise benefited them. This is also closely linked to age-associated financial exploitation in form of theft, scams, and the abuse of trust (Conrad, et al., 2010; Lichtenberg, et al., 2016). Lusardi, et al. (2019) find that, following retirement, individuals of this generation hold more debt and face more financial insecurity than in the past. This can render them particularly vulnerable.

Life Events

Major life events – such as bereavement or the breakdown of a relationship – can affect the financial stability of an individual. Perrig-Chiello, et al. (2016) find that vulnerability after marital separation is more pronounced in women, who have higher rates of depression and a lower life satisfaction. For example, a woman who fully depends on her husband for her financial expenses may become vulnerable after the sudden death of the husband or the breakdown of their relationship. This vulnerability-causing factor may exist in the form of temporary dysfunctional reactions; it is essential to recognise its impact on the wellbeing of the individual. Perrig-Chiello, et al. (2016) recognise that their state of vulnerability requires additional time and resources in order to be properly managed.

Resilience

Resilience is the ability to withstand financial or emotional shocks. This could mean the ability to deal and cope with unexpected expenses, becoming unemployed, or not been able to work due to either a natural disaster or country lockdown in the wake of the COVID-19 pandemic. This recognises the ability of individuals to 'bounce back' and to adapt to changing circumstances (Salignac, et al., 2019). The inability to cope with this

stress can lead to a state of vulnerability. In addition, having a disadvantaged social status or inadequate interpersonal support networks can make an individual financially vulnerable (Perrig-Chiello, et al., 2016). The resilience of an individual can be affected by not having friends and family for financial assistance in times of emergency (Salignac, et al., 2019). This makes the individual more vulnerable.

Capabilities

This recognises the knowledge of financial matters or low confidence in managing money (CMA, 2019). Higher education levels have been found to play a pertinent role in reducing financial vulnerability (Anderloni, et al., 2012). Therefore, those who are not educated are more likely to fall into a state of vulnerability. Illiteracy may decrease confidence and the ability to act socially when consumer needs are denied or threatened (Adkins and Ozanne, 2005). Education as a form of capability also includes financial education, such as money management and budgeting. Language proficiency is also an important skill, which is necessary to avoid financial vulnerability (Salignac, et al., 2019). This ensures that the an individual's level of knowledge of, and confidence using, financial products and can make them less financially vulnerable. (Salignac, et al., 2019). The capability to use technology can also have an impact on the vulnerability of an individual. This may include being able to use the internet to apply for a financial service or downloading a mobile app to access their bank account.

Market-specific vulnerability

Market-specific vulnerability identifies certain market contexts that limit access to financial services (CMA, 2019). This covers the underbanked around the world that do not have access to bank products or services, either due to their location or access to technology. These market-specific vulnerabilities affect the disadvantaged and low-income segments of the global population who are left without (i.e. financially excluded) or very limited access (i.e. financially underserved) to basic financial services, creating a highly-critical equality deficit in different parts of the world (Salampasis and Mention, 2018).

The PFRC (2009) found that several indicators of consumer financial vulnerability were identified based on the perceived economic outlook of their country. The economic prospects of a country and metrics such as the GDP growth rates of a country, income distribution among the citizen, unemployment rates, inflation, and household debt levels all influence the vulnerability of its citizens (Van Aardt, et al., 2009). This inequality and heterogeneity of people put them at risk of social exclusion and, thus, their financial vulnerability (Fernández-Olit, et al., 2018).

The geographic access to banking products and services can also be determinant of financial exclusion and vulnerability (Carbó, et al., 2005). This is when consumers do

not have access to bank branches or ATMs because they live in a rural. In addition, they may be further excluded because they do not have smart mobile phones to access their account. They are excluded in financial transactions as there are difficulties in accessing banking services (Dymski, 2003). These non-economic factors – in the form of the financial attitudes of consumers (Van Aardt, et al., 2009) – are also shaping the state of vulnerability on a market level.

Market-specific vulnerability is not limited to an individual but an overreaching limitation for consumers within that market (Mogaji, 2018). These consumers are simultaneously affected by their individual vulnerability – such as their level of education or employment records – and dynamic market forces, such as physical limitations to accessing a bank branch or ATM, poor internet connection to financial technology (FinTech), or the increasing inequality of society. A consumer would have to rely on regulation, policy changes, and market competition in order to enhance their financial inclusion.

Service Barriers

These factors of vulnerability present barriers for consumers accessing financial products. Those barriers cut across individual customers and the financial services landscape in a country.

No Bank Account

While financial inclusion is on the rise globally, inequalities persist in account ownership. The 2017 Global Findex database shows that 1.2 billion adults have obtained an account since 2011. However, there are many unbanked individuals around the world (Demirgüç-Kunt, et al., 2018); their country's market structure and their individual circumstances may contribute to this barrier. Globally, around 1.7 billion adults remain unbanked – these individuals are financially excluded as they do not have an account at a financial institution or through a mobile money provider. Nearly half of these unbanked individuals live in just seven developing economies: Bangladesh, China, India, Indonesia, Mexico, Nigeria, and Pakistan. This highlights the practical implications for the governments in these countries. It also demonstrates the need to recognise these barriers and put effort in place to increase financial inclusivity.

No Credit Score

In countries where there are no credit scoring agencies – which presents a market structure vulnerability – there are many individuals who do not have a credit score. Credit scores serve as an indication into how well an individual has managed their finances and, perhaps, whether they can be rewarded. While they may have access to bank account, a lack of credit score presents a barrier in accessing many more financial products and services.

Poor Credit Score

For those who have an account and a credit file with score, they may also be hindered in accessing financial products due to their poor credit score. This could be because of their personal characters and how they may have managed their finances. This could also be due to getting into debt as a consequence of unemployment, borrowing from payday loan companies to meet unexpected financial expenditures, or making irresponsible decisions due to lack financial education. These factors might affect a score and prospective lenders may not be willing to offer credit facilities.

Digital Footprint

With the growing use of artificial intelligence and machine learning in financial services, decision making, and the process of extracting consumer data; individuals with no digital footprint might be limited or treated unfairly when it comes to accessing financial services. While this may not necessarily be a fault of their own – as the AI algorithms may have been developed within inherent biases – consumers not engaging with technology may face limitations with regards to the financial services they are able to access. They may be offered credit facilities with high rates or be unable to apply for some online services.

Overcoming Service Barriers

While these barriers and limitations are recognised, it is essential to consider different ways to overcome them. Overcoming these barriers will require the contribution of the key stakeholders in the financial services market.

Financial Policy

The government is mainly responsible for putting in place policies that will ensure financial inclusion; this strategy addresses the market structure vulnerability. There should enabling business environment for different banks and FinTechs to operate. Employment rates need to be increased; likewise, individuals should be assured of job security.

Financial Technology

Banks and FinTech companies are mainly responsible for driving this innovation. FinTech a very important tool for overcoming these barriers as it opens opportunities for many customers who may have been excluded or underserved. It is essential to understand the limitations of the consumers and how to use technology to address their needs. Considering that most unbanked people may not have a smartphone to use mobile apps, Unstructured Supplementary Service Data (USSD) – a communications protocol used by GSM cellular telephones to communicate with the mobile network operator's computers – could be integrated into banking transaction. However, in the future,

mobile apps will be the most relevant tool. There are many banks around the world that are app only. These challenger banks do not have physical branches and are accessible anywhere with access to the Internet. Banks are also expected to develop different products and services to meet the unique needs of their customers. Perhaps to finding ways of creating a credit scoring for the customers and providing services that align with their needs.

Financial Education

Consumers are responsible for educating themselves about how to manage their finances. With the support of the banks and other stakeholders, consumers should be educated about different technologies that can create more access to financial services. In order to make informed decisions, consumers should know about the different interest rates and charges and how they are being calculated. Additionally, it is also important to acquire knowledge about budgeting and financial management. As part of their corporate social responsibilities, banks may start educating the school children about money management. Financial education will make consumers more resilient when dealing with any financial challenges; this may mean borrowing from family members instead of getting a payday loan. An inclusive financial system can help in reducing the growth of informal sources of credit (such as money lenders) that are often found to be exploitative (Sarma & Pais, 2011).

Impact on Consumers

There are benefits for consumers who overcome service barriers and access financial services. Overcoming these barriers makes financial services inclusive, ensuring that everyone has the ease of access, availability, and usage of the formal financial system for all members of an economy (Sarma & Pais, 2011).

Financial Wellbeing

Consumers who feel assured that the credit facility they just got from the bank meets their needs will feel much better than being under the pressure of a payday loan. Getting the necessary financial services and products enhances the wellbeing of individuals. These consumers can save their money in a bank, build their credit file, and access the credit they need. A divorced person regains the control of her finances after separating from their partner. This will help her feel more relaxed in the assurance that she can now manage her own finances. Beyond individuals, this can also have a positive impact on household wellbeing.

Financial Inclusion

Overcoming barriers brings financial services to vulnerable individuals. Financial inclusion is important for improving living conditions (Sarma & Pais, 2011). Consumers become financially included as they can access the financial products that meet their

needs. Perhaps they never had an account before but the with mobile money agent going to their location in the rural area, banks have been brought closer to the consumers. Like the UK Post Office in the local village now accepting cheque and making withdrawals, these individuals who were previously excluded – due to either their personal circumstances or market structures – are included and able to access the services they need.

Access to Products

In addition, consumers are no longer limited to a savings account. With continuous engagement and patronage with the bank, consumers are now able to access different financial services, such as current accounts and credit cards, which can be used to further build a credit rating. The barrier has been lifted, the industry is now more inclusive, and the consumers can benefit from the available financial services.

Relevant products

The impact of financial inclusion goes beyond simply having a financial product; it also concerns having a product that is relevant to the customers' needs. Banks are able to monitor and analyse an individual's spending habits and then recommend relevant products accordingly. This could be a credit card with a different credit limit and interest rate or a savings account with some extra benefits. Banks now have a better understanding of their customers and are able to offer tailor made services. This further enhances financial wellbeing and inclusivity.

Financial Literacy

The process of engaging with the bank, getting different products, and managing the credit facilities all contribute to the consumer's financial literacy and money management skills. The individual – supported by a bank that is offering relevant products – is able to manage their finances, plan, save, and possibly borrow more money. Education ensures that the consumer knows the implications of their decisions and is willing to make an informed decision. Even when things go unexpected, the consumers have developed resilience, which is heavily dependent on access to the appropriate resources (Salignac, et al., 2019). The consumer is aware of what to do, the help to seek, and the actions to take.

Impact on Provider

There are also implications for the financial services that have invested resources in product development, marketing the product, and educating the consumers about the product.

Satisfied Customer

The bank is guaranteed of satisfied customer who will be sharing the experience with friends and family. The customer is satisfied with a provider that meets and exceeds their expectations during their time of need. The customer is satisfied with the current account and different benefits, the integrated technology of USSD – which can work on their ordinary button phone – and with the credit facility that has been provided. Their financial wellbeing has been improved.

Continuous Patronage

A satisfied customer is more likely to continue patronage with a bank. As a form of loyalty and appreciation, the tendency to switch may not be there. This is to the advantage of the bank, reaping the rewards of their hard work in breaking down the barriers. This patronage may go beyond just having a current accounts, but to get additional products such as credit cards, mortgages, and even opening account for their children. In addition, customers may recommend the bank to friends and family who may also still be in a vulnerable state.

Data and Insights

Data and insights are important for banks and other financial service providers. AI and machine learning are well integrated in financial services and data is essential for the algorithms (Dwivedi, et al., 2019; Mogaji, et al., 2020). The satisfied customer who patronises the bank on a regular basis is generating data at different touch points of engagement with the banks. The bank can ethically extract information from many more customers from a variety of backgrounds. The barrier has been lifted and new customers are on board. understanding these customers can shape the business practises and stages of the brands (Mogaji, et al., 2020).

Product Development

Understanding customers can motivate banks to develop many more innovative financial services and products. The customer base of the bank will increased as they work towards financial inclusivity. One financial service may not fit all the new customers; it is, therefore, important to develop new products that target different demographics, such as students saving for summer, parents who need loans for their children's school fees, or domiciliary accounts for those who want to make international products. With the growing brand portfolio, the branch can further endear itself to its customers and build loyalty.

Increased Profit

Ultimately, there are possibilities for increased profits for banks. Consumers keep patronising the bank, new products are being developed for customers, and the customer base is increasing. The consumer–brand relationship is essential and, with continued

engagement and customer services, brand equity will increase (Mogaji & Farinloye, 2018). Banks have invested in breaking barriers through developing mobile applications, demonstrating how the technologies work, and educating their customers. They are, therefore, bound to make new products and possibly increase their earnings.

Conclusion

For many countries, financial inclusion has become a policy priority. This focuses on the delivery and practical aspects of financial products and services (Salignac, et al., 2019). This is to ensure that citizens are not financially vulnerable and are supported through adverse financial circumstances. As financial exclusion remains a global phenomenon, it is essential to theoretically examine the barriers towards financial inclusion. This is because those who are financially vulnerable are financially excluded and have limited access to financial services.

This paper submits that individuals who are financial vulnerable are also financially excluded because they do not have access to useful and affordable financial products. It also concludes that people can experience multiple and intersecting vulnerabilities (Salignac, et al., 2019); they can be going through difficult life events (which is a personal characteristic) or be living in a country with a great deal of economic instability (which is market vulnerability). While it is widely-recognised that the poor are generally more vulnerable, the limiting barriers they face can be overcome through financial policies supported by the government, financial technology developed by the banks, and financial education acquired by the consumers.

This paper presents a conceptual explanation of consumers' financial vulnerability when accessing financial services. It recognises the different types of vulnerabilities and the barriers to financial products. It also highlights how to overcome these barriers and the impact this would have on both customers and the banks. The study contributes to academic literature of financial vulnerability, financial inclusion, and financial services provision to vulnerable individuals. As with any study, there are limitations; this study has not been contextualised in any country. Notwithstanding, it can be assumed that the market structure vulnerabilities will be more applicable in developing countries. In addition, these constructs have not been empirically proven. This is, however, open to future research and validation.

References

- Anderloni, L., Bacchiocchi, E. & Vandone, D., 2012. Household financial vulnerability: an empirical analysis. *Research in Economics*, Volume 66, p. 280–296.
- Carbó, S., Gardener, E. P. & Molyneux, P., 2005. *Financial exclusion*. Basingstoke: Palgrave MacMillan.

- CMA, 2019. *Consumer vulnerability: challenges and potential solutions*, London: Competition and Market Authority.
- Conrad, K. J. et al., 2010. Self-report measure of financial exploitation of older adults. *The Gerontologist*, 50(6), pp. 758-773.
- Demirgüç-Kunt, A. et al., 2018. *The Global Findex Database 2017 Measuring Financial Inclusion and the Fintech Revolution*. Washington: International Bank for Reconstruction and Development/The World Bank.
- Dwivedi, Y. K. et al., 2019. Artificial Intelligence (AI): Multidisciplinary perspectives on emerging challenges, opportunities, and agenda for research, practice and policy. *International Journal of Information Management*.
- Fernández-Olit, B., Paredes-Gázquez, J. D. & de la Cuesta-González, M., 2018. Are social and financial exclusion two sides of the same coin? An analysis of the financial integration of vulnerable people. *Social Indicators Research*, 135(1), pp. 245-268.
- Lachs, M. S. & Han, S. D., 2015. Age-associated financial vulnerability: An emerging public health issue. *Annals of Internal Medicine*, 163(11), pp. 877-878.
- Lichtenberg, P. A., 2016. Financial exploitation, financial capacity, and Alzheimer's disease. *American Psychologist*, 71(4), pp. 312-320.
- Lichtenberg, P. A., Ficker, L. J. & Rahman-Filipiak, A., 2016. Financial decision-making abilities and financial exploitation in older African Americans: Preliminary validity evidence for the Lichtenberg Financial Decision Rating Scale (LFDERS). *Journal of Elder Abuse & Neglect*, 28(1), pp. 14-33.
- Lusardi, A., Mitchell, O. & Oggero, N., 2019. Debt and financial vulnerability on the verge of retirement. *Journal of Money, Credit and Banking*.
- Marson, D. C. et al., 2009. Clinical interview assessment of financial capacity in older adults with mild cognitive impairment and Alzheimer's disease. *Journal of the American Geriatrics Society*, 57(5), p. 806-814.
- Mogaji, E., 2018. *Emotional Appeals in Advertising Banking Services*. London: Emerald.
- Mogaji, E. & Danbury, A., 2017. Making the brand appealing: advertising strategies and consumers' attitude towards UK retail bank brands. *Journal of Product & Brand Management*, 26(6), pp. 531-544.
- Mogaji, E. & Farinloye, T., 2018. Attitude to Brands and Advertisement: Qualitative and Thematic Analysis of Social Media Data. In: B. Rishi & S. Bandyopadhyay, eds. *Contemporary Issues in Social Media Marketing*. Oxon: Routledge.
- Mogaji, E., Olaleye, S. & Ukpabi, D., 2020. Using AI to Personalise Emotionally Appealing Advertisement. In: . N. e. a. Rana, ed. *Digital and Social Media Marketing. Advances in Theory and Practice of Emerging Markets*. Cham: Springer.

Perrig-Chiello, P., Hutchison, S. & Knöpfli, B., 2016. Vulnerability following a critical life event: Temporary crisis or chronic distress? A psychological controversy, methodological considerations, and empirical evidence. In: *Surveying human vulnerabilities across the life course*. Cham: Springer, pp. 87-111.

PFRC, 2009. *The Genworth Index: Measuring Consumer Financial Vulnerability and Security in 15 countries*. London: Personal Finance Research Centre and Genworth Financial.

Salignac, F., Marjolin, A., Reeve, R. & Muir, K., 2019. Conceptualizing and measuring financial resilience: A multidimensional framework. *Social Indicators Research*, 145(1), pp. 17-38.

Sarma, M. & Pais, J., 2011. Financial inclusion and development. *Journal of International Development*, 23(5), pp. 613-628.

Schofield, D. J. et al., 2010. The financial vulnerability of individuals with diabetes. *The British Journal of Diabetes & Vascular Disease*, 10(6), pp. 300-304.

Van Aardt, C. J. et al., 2009. *A Consumer Financial Vulnerability (CFV) Index for South Africa.*: Pretoria: University of South Africa (Unisa), Bureau of Market Research (BMR).