

FACTORS INFLUENCING OVERINDEBTEDNESS: A LOGISTIC REGRESSION ANALYSIS OF CONSUMERS IN BANGKOK

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Abstract

Overindebtedness is a source of default risk facing by commercial banks and loan institutions. Although studies of factors influencing individuals' indebtedness are prevalent, less of previous studies had examined financial factors distinguishing mild-debtors from overindebted individuals. The present study aims at identifying and empirically testing the financial factors (i.e. financial literacy, experiences in using financial services, and money management) which distinguish mild-debtors from overindebted individuals. Questionnaires were distributed to 440 respondents who are at working age in Bangkok area. Logistic regression analysis was employed in order to identify critical factors distinguishing mild-debtors from overindebted individuals. Findings from the present study indicated that financial literacy and experience in using financial services were not significant factors that distinguished mild-debtors from overindebted individuals. Money management, i.e. credit management and saving management were found to be the most significant factors distinguishing mild-debtors from overindebted individuals. Results from the present study provide implications for financial institutions to reduce adverse selection problems. Since credit management is the most critical factors influencing overindebtedness beyond other factors, records of previous credit usages and payment behaviors of individuals must be seriously take into account when determining credit approval. To reduce insolvency risk, credit rating must be used as the first priority when financial institutions approving loans. In addition, results from the present study also provide implications for policy makers to reduce personal debt problem. Since financial literacy in term of numeric calculation is not a significant factors affecting overindebtedness, financial education that emphasizes mathematic and numeric calculation may not sufficient to reduce overindebtedness problem, training on how to manage individuals' budget, saving, and using credit carefully must be emphasized to reduce financial problems.

Keywords: Money management, Credit management, Overindebtedness