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Projeto de Pesquisa – Iniciação Científica

Titulo: *Antecedents and consequences of financial decision making of the poor, the role of marketing and consequences to financial well-being.*

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Field/Tema: Marketing

Keywords / palavras-chave: financial services, credit card usage, low-income, financial well-being.

Problem Description / Descrição do problema

It is of consensus that finances are the ultimate measures of success for individuals' overall well-being (CFPB, 2015; Netemeyer et al., 2017). A society facing financial constraints have profound consequences for its welfare. The lack of financial well-being affects individuals' economic mobility and it may transform a small financial problem into an ongoing financial constraint (Gennetian and Shafir, 2015), making individuals even more vulnerable. Marketing can both contribute to or reduce consumer vulnerability. Vulnerable consumers can, for instance, be exploited by financial services that take advantage of their situation. The poor are most likely to be exploited by marketing malpractices, and although the poor have the same basic limitations as do other people, individuals under financial constraints consumers have smaller margins for a mistake (Bertrand et al., 2004). Thus, a bad financial decision-making might lead a poor individual to aggravate consequences (Bertrand et al., 2004) when compared to people who are living in abundance.

Poverty produces harmful impacts not only for individuals, but also to their families, and society collectively. Individuals living in financial constraints have lower productivity (Brown, 1999), poverty-related worries inflict a cognitive load weakening cognitive capacity (i.e., depletion of mental functioning) (Mani et al., 2013), and produces attentional shifts (Shah et al., 2013) affecting decision making. Because the poor must overcome more urges and make difficult decisions more often than others, they are more likely to overspend, and present destructive financial behaviors (Vohs, 2013), such as using otherwise costly lay-away arrangements as a means of saving (Bertrand et al., 2004) and overborrowing (Mani et al., 2013).

Given that in virtually every nation the gap between the poor and the wealthy is growing (World Bank, 2019), that finance is the ultimate measure of success for individuals' well-being, and that the poor are more vulnerable, these topics are of great relevance. This importance is echoed by marketing, behavioral economics scholars, recent reports and research on the themes (CFPB, 2015; Bakadayi and O'Connor, 2019; Bruggen et al., 2017; O'Connor et al., 2019; Schilbach et al., 2016). Scholars have been calling for a multidisciplinary approach that promotes research and practical solutions aiming to empower consumers of all walks of life to make better decisions (e.g., financial, healthy), to encourage companies to build a 'marketing for a better world' approach, and policymakers to create policies that attempt to improve consumer welfare (Anderson and Ostrom, 2015; Anderson *et al.*, 2013).

Goals / Objetivos

Recent studies (Bruggen et al., 2017; O'Connor et al., 2019) have developed a comprehensive research agenda that is not thoroughly tested nor achieved. The present research intends to fill in some of this research agenda and gaps. Thus, grounded on Brüggen et al.'s (2017) financial well-being framework, on O'Connor et al.'s (2019) framework of financial vulnerability, and on the concepts and frameworks of consumer vulnerability (Baker, Gentry, and Rittenburg, 2005; Shultz and Holbrook 2009) this research intends to identify and investigate factors that affect consumers' financial well-being, specifically of poor consumers.

The aim of this project is twofold. First, it will investigate the pattern of consumption behavior across categories of short term (e.g., groceries) and long term (e.g., construction) value products. Some purchases might actually help increase credit users' well-being; for instance, a plumber may use credit to purchase tools and improve the service offered to customers. Second, firms' marketing promotions persuade consumers to use more the available credit to consume more. Consumers in financial vulnerability increase debt volume and strive to pay on time or at all the debt.

The study aims to address the following research questions:

1. What are product categories that significantly increase credit default?
2. How consumers consumption pattern over time negatively influences credit card payment?
3. How firms' promotional incentive increases credit default?

These research questions are relevant to identify management practices, policies, and interventions to reduce consumer financial vulnerability, and most specifically for the poor. This study will employ the recent developed concept of financial well-being defined as "a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow enjoyment of life" (CFPB, 2015; Bruggen et al., 2017). It also employs the concept of financial vulnerability defined as the likelihood that an individual will experience financial privation (O'Connor et al., 2019). It will also adopt O'Connor et al.'s (2019) idea that financial vulnerability encompasses both, an objective (comprised of external factors) and a subjective dimension (refers to self-assessed attitudes, opinions, and perceptions that increase one's likelihood of experiencing financial hardship) (O'Connor et al., 2019, page 2). Thus, the need to measure both objective and subjective behaviors.

Expected Outcomes / Resultados Esperados

The context of this research consists of the emerging Brazilian economy. Brazil is an environment where the overall population is vulnerable due to financial instability. On top of that, 70% of Brazilians would not be able to afford an unexpected financial emergency; 39% report they could not make ends meet for more than a month in case they lose their primary source of income (BACEN, 2017). Since it seems poverty and its consequences are a menace for both developed and developing world, it is relevant to understand what can be done to mitigate its effects. Potential practice and policy implications of this research include the development of insights that support the design of interventions to help financial well-being, which could be useful for financial planning services (e.g., Guia Bolso), and to companies that provide microcredit for the unbanked (e.g., E-Acesso cred, Credito Amigo). Overall, this study intends to promote investigation and practical solutions aiming to help poor consumers to make better financial decisions, to encourage corporations to adopt better marketing practices, and policymakers to create policies that attempt to improve the welfare of the poor.

Method / Metodologia

For this project, one Brazilian Bank was selected and contacted to become part of the study by sharing customer-identified data (i.e., no CPF, name, and address). This bank is suitable for the study because of the focus the of business on low income customers that matches the purpose of this project to study the financial behavior of the poor starting by investigating actual financial behavior (e.g., credit card behavior). To address the research questions, the execution of the project follows two phases.

Phase 1: Receive the raw data from a partner Bank. Preparing the dataset of 5-year credit card transactions of low-income consumers. Processing all raw data in SQL given the number of tables with information about consumers, monthly transactions, retailers, product categories, payment, promotional incentive, and retailers' arrangement. To conduct the customer analysis of "from the crib to the grave", data will be structured accounting for the lifetime of consumers acquired in 2015 and track business history with the partner Bank up until May 2020.

Phase 2: Report key descriptive of the data and estimate panel (general least square) regression models to address effects of the research questions. Calculation of customer lifetime value (CLV) will require an estimation of survival model (Cox) of all customers. This help understand how partner Bank's promotional incentives affect result and well being of consumers.

Milestones and Timescale / Cronograma de Atividades

Task	2020				2021			
	Ago							Jul
Data collection	■	■						
Data Mining		■	■					
Data Analysis	■			■	■			
Writing		■	■	■	■	■		
Submitting to conferences			■	■	■	■	■	■

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