Exposing the ‘Credogenic’ Environment: Where Does Responsibility Lie?

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This paper explores the nature of the consumption environment of credit, termed the ‘credogenic’ environment and identifies its key players including financial services providers, regulators and consumers. Perspectives from both students and key informants from a range of consumer and debt advice agencies, regulatory bodies and banks in the UK and Ireland are presented. The pervasive culture of credit and the issue of responsibility emerge as key themes. While there is recognition of marketing’s role in creating and sustaining the credogenic environment, there are differing views regarding lender and borrower responsibility and accountability. The adequacy and effectiveness of current legislation is questioned.

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ABSTRACT

This paper explores the nature of the consumption environment of credit, termed the ‘credogenic’ environment and identifies its key players including financial services providers, regulators and consumers. Perspectives from both students and key informants from a range of consumer and debt advice agencies, regulatory bodies and banks in the UK and Ireland are presented. The pervasive culture of credit and the issue of responsibility emerge as key themes. While there is recognition of marketing’s role in creating and sustaining the credogenic environment, there are differing views regarding lender and borrower responsibility and accountability. The adequacy and effectiveness of current legislation is questioned.

INTRODUCTION: THE MARKETING ENVIRONMENT

While the marketing environment is recognised as a critical factor for both management and customers, it is a relatively underexplored and underdeveloped concept. The ideological power of neo-liberalization has resulted in the ‘exaltation of the individual’ (Evans, 2002:56) in marketing discourse, while the influence of marketing to shape and control the consumption environment has been largely ignored. A case in point has been what we term the credogenic environment, where the continued availability of credit for many of those already in debt inevitably affects the choices they make and their perception of their financial situation. The term ‘credogenic’ is purposely derived from another term describing a particular environment in which marketing could be seen as complicit. This is the obesogenic environment (Swinburn et al. 1999) whereby a surfeit of fat, sugar and salt and a lack of physical exercise have led to an increase in obesity. In particular, Swinburn et al., (1999) highlight the importance of the physical, economic, social and cultural environments of most industrialised countries and we suggest that a similar argument could be made regarding the proliferation of credit and the acceptance of high levels of debt in western societies today. This paper begins by acknowledging the nature and importance of this credit environment in terms of how it is constructed and examines how much real freedom and choice consumers have in their behaviour within it. We consider research which identifies the individual’s cognitive limitations faced with a complex purchase such as credit before presenting a more detailed analysis of the current credogenic environment with a particular emphasis on the growth of consumerism and the pervasiveness of the culture of credit across all strata of society. Empirical research with regulators, representatives of financial institutions and advisory agencies and one potentially vulnerable group (students) is presented to identify roles and responsibilities.

THE ENVIRONMENT AND CONSUMER CHOICE

The dominant neo-liberal view coming from standard welfare economics is that of rational, well informed consumers. Consumers are, however, still constrained by their own cognitive limitations and product complexity. Complexity is an important issue in terms of how much real control consumers have. It has been suggested that consumers cannot rationally process all the information necessary to optimize their behavior (Hanson and Kysar, 1999). This argument could be made for the consumption of credit where increasing product complexity and limited financial literacy resulting in poor financial decision-making is a growing cause for concern (Atkinson and Kempson, 2004). Thus, any argument for consumer empowerment has to be framed within the complexity of the context.

Furthermore, we also have to consider how people frame choices in relation to their needs now and in the future. If we use too much credit today it is unlikely that we do it while considering the implications for our future needs. This reflects Pigou’s (1920) defective telescopic faculty whereby most people prefer present pleasures to future satisfaction. Increased choice today has little regard for the future; we must instead consider how the individual’s imperfect faculty operates in the sophisticated marketing environment alongside a rampant consumer culture where pursuit and possession of goods is all important (Roberts and Jones, 2001). The evaluation of a product’s potential harmfulness is not always clear-cut as the marketing of seemingly beneficial products can sometimes become damaging because of the particular characteristics of the consumer (Rittenburg and Parthasarathy, 1997) who through their lack of knowledge, experience or maturity may abuse or misuse the product (Cui and Choudhury, 2003). For example, university students accept bank loans to enable them to study and support themselves at university but in doing so they are required to assess their financial capabilities in terms of budgeting for this commitment and forecast their ability to pay in the future once employed. While the use of credit cards to finance consumer purchases has become ‘a way of life’ (Hayhoe et al. 2000), it has been suggested that the dramatic growth in credit card usage among college students in the US is placing them at greater risk for high debt levels and misuse and mismanagement of credit after graduation (Lyons, 2004). If young people enter the market place unable and ill-equipped to manage the further demands and attractions offered by the credit industry their future may already be blighted. Thus, the ethical evaluation of many products depends on their interaction with consumer characteristics and marketing practices (Cui and Choudhury, 2003).

THE CREDGENIC ENVIRONMENT

Higher levels of credit consumption and debt accumulation have led to an economic and, importantly, psychological transformation in society from a saving to a spending culture (Griffiths, 2000; Berwick, 2004). This in turn, appears to be accompanied by a change in consumer behaviour and attitude where debt has become perceived as part of normal modern life (Lea et al., 1993). Recent statistics show that Ireland is ranked first in terms of personal indebtedness compared to euro area countries using personal-sector credit to GDP and GNP ratios (ECB, 2007). Similarly, secured and unsecured debt figures in the UK have reached £1.2 trillion (Datamonitor, 2006) with UK consumers accounting for two thirds of all outstanding credit card debt in the EU (Fleet Street Letter, 2007). Alongside changing behaviour there has been an increasing level of aggressive unethical and undesirable marketing practices (Burton, 2008), a rise in ‘predatory lending’ to vulnerable groups (Hill and Kozup, 2007) and promises of ‘easy money’...
(Griffiths, 2000) by traditional and non-traditional financial institutions. In this credogenic environment the decision to take on credit is strongly shaped by a desire to attain a lifestyle (Chien and Devaney, 2001) in order to satisfy a range of hedonistic and utilitarian desires in turn shaped marketing practice.

Coupled with the increased range and access to credit, there is also a high level of asymmetric information between borrower and lender (Oxera, 2004) which is particularly relevant for people who may be classed in the “vulnerable” category, such as students and low-income groups. A recent Irish study found that debt among low-income consumers includes a greater element of “middle-class, lifestyle-related” consumption and debt including credit card debt and luxury goods debt, which is often driven by aggressive marketing tactics and increased access to credit, coupled with pressures from a consumption-driven society (O’Loughlin, and O’Brien, 2006). While the life-cycle hypothesis of saving (Modigliani, 1986) suggests that people in the early stages of their career may have more favourable attitudes towards spending and borrowing, assuming future strong earnings (Chien and Devaney, 2001), more recent research suggests that indebtedness may move across lifecycle stages (Soman and Cheema, 2002), signalling that young people will continue to carry debt throughout their lifecycle. Taking a student perspective, O’Loughlin and Szmigin (2006) found that changing expectations and intense promotion of unsolicited and unsecured credit by financial providers signals a pattern of attitude tolerance and debt-accumulating behaviour amongst students that will ensue throughout their adult lives. The empirical part of this paper presents findings from in-depth discussions with students in the UK and Ireland, considered to be a particularly susceptible consumer group, in addition to key informants who are directly engaged with the credogenic environment from a policy, practice and advisory capacity. The research illustrates the nature and pervasiveness of the culture of credit and outlines a range of views with regard to where and how the ultimate responsibility for managing the current credogenic environment should lie.

**METHODOLOGY**

The study focused on exploring the level and division of responsibility held by key players including consumers, government agencies and financial providers in the credogenic environment and the power relations therein through an inductive exploratory approach (Miles and Huberman, 1994; Zaltman, 1997; Silverman, 2000).

A purposive sample of 5 UK and 6 Irish agency and supply-side key informants were selected across a range of key Irish and UK banking representative bodies, government support bodies, debt advice bureaus, consumer agencies and student representatives.

In addition, a range of consumer interviews were conducted with a purposive sample of 3rd level students based at the University of Limerick, Ireland and Universities of Bath and Birmingham, UK across a range of demographics, (age, gender, geographic and economic background). A purposeful sampling method was used to recruit 20 UK and Irish students in total, 10 from each country. As one of the key areas of interest was range and use of credit, including attitudes and behaviour in relation to credit cards, each student in the sample was recruited on the basis of credit card ownership.

Personal interviews were chosen as the most appropriate means of data collection for sensitive financial issues due to their superior ability to build depth and intimacy (Denzin and Lincoln, 1994) and optimally reveal participant in-depth insights and interpretations (Carson et al. 2001) in relation to credit and debt consumption. Following Miles and Huberman (1994), the transcripts were independently coded by both researchers and the themes were subsequently discussed and agreement was reached in terms of any differences in interpretation.

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<td>Head of Student Banking</td>
<td>Irish Retail Bank, Ireland</td>
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<td>President, Students’ Union</td>
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<td>Director</td>
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<td>President, Students’ Guild</td>
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DISCUSSION OF FINDINGS

Ease of Access to Credit

Most of the students in this study found it easy to access both loans and credit cards from their banks. Importantly, many students are opening a bank account for the first time and it gives banks the opportunity to market further products to them:

‘It wasn’t me going out and saying I need a credit card, it was more, there’s an option of getting a credit card, why not?’ (UK, Male)

‘It was very easy for me to obtain a credit card, I wasn’t going to have it but they said to me I might as well have it because it’s there’ (UK, Female)

Neither student has intended to obtain a credit card but accepted them when offered. They readily, and perhaps with little thought, accepted them. The possible consequences of getting into the credit card ‘way of life’ (Hayhoe et al., 2000) are highlighted by the representative from the National Debtline who expressed her concern that people as young as 18 were calling on their service:

‘It’s so easy to get and people are starting off a lot younger and they’re just acquiring more credit and then inevitably, they reach a point where they can’t pay it and it might not be because their income drops but it just can’t sustain it’ (Training Information Officer, National Debt Line)

She continued by saying that young people do not necessarily have the ‘training’ to know how to deal with the credit offered them and then they accept more credit until they are no longer able to cope, thus echoing the issue of financial capability and literacy highlighted in the literature (e.g. Atkinson and Kempson, 2004).

The director from the British Bankers Association also pointed to a supply side issue in relation to the ease of credit for young people by pointing out that credit could be acquired from many sources so no one provider really knew how indebted a customer was. In addition he recognised that students were a particularly attractive marketing proposition:

“If they’re promising in terms of university calibre then of course they have a future potential, and it’s that future potential that makes them such an attractive marketing proposition” (Director, British Bankers Association).

That students require money to support their education at a time when they will be limited in terms of how much they can earn makes them an easy target for marketing and in particular for point of sale offers. None of the student participants had been rejected for loans or credit cards. But while the financial providers’ telescopic abilities forecast that students are likely to be earning reasonably within a relatively short period of time, they do not accommodate the potential financial difficulties such students may face during their studies or already be in. Although previous studies (Mendoza and Pracejus, 1997) have recognised that students may display a future temporal orientation associated with holding more credit cards, debt still requires careful management in the period before future earnings are realised.

Marketing and Responsibility

Students were aware of and critical about the marketing they encountered. They suggested that marketing messages often only gave them one side of the agreement:

“You know, it’s like we are giving you the freedom to do all this but actually on the sly we are keeping you hostage for the next few years until you pay us back” (Irish, Female).

Another student suggested that providers present a picture of ‘free’ money to students:

“For me, they make it out as if this is free money, you don’t really need to worry about it, spend it on what you want we’ll sort you out a good deal, have a good time, that’s probably the way they market, and I don’t think it’s a good way because it comes across as free money, not you’ve got to think about the consequences” (UK, Female).

That the marketing of credit may play on a consumer’s desire to engage fully with a culture of materialism (Calder, 1999) was recognised by all of the agency and supply participants. The policy officer from Consumers Advice described a recent piece of research they had conducted which had identified what she referred to as the ‘seven deadly sins of credit marketing’:

‘It’s all about how easy it is and it’s all appealing to people’s aspirations and also particularly in the loans, they say; ‘why don’t you take out a little bit more? Go on, spoil yourself!” (Senior Policy Advisor Citizens Advice)

The British regulator was more circumspect in his comments, recognising the importance of education for individuals but also acknowledging that the decision as to whether or not to take credit is theirs:

‘Our job is to make sure that people understand the decisions that they need to take in relation to taking on debt and the consequences of it and make sure they’ve got enough information and the tools available to make those decisions, not to tell them what their decisions are’ (Consumer Sector Team Manager, Financial Services Authority).

The idea that there is a responsibility to ensure people understand what they are getting themselves into was echoed by the director of the British Bankers Association, who suggested that some kind of interrogation was needed to assess whether the finance was needed and the nature of repayment fully understood at the time of purchase:

‘(We should) provide them with more understanding….how could I best help you in any future credit you might want to take, and I’d say, do you need it, do you understand it and can you afford it?’ (Director, British Bankers Association).

In conclusion the supply side participants echoed the students’ comments in relation to the freedom extended to them in terms of being able to engage with a product for which they did not necessarily have enough information and understanding to recognise their future obligations. This supports the notion that the effective evaluation of complex products such as credit is dependent on both the vulnerability of the consumer, marketing practice (Cui and Choudhury, 2003) but also meaningful consumer information and advice.

Individual Responsibility

Despite the fact that many financial providers aggressively promoted credit offerings to consumers and were perceived to be
“putting an idea in a student’s head”, many students acknowledged their responsibility. This individual level responsibility related to assessing the level of credit each person required and ensuring that he/she did not incur unmanageable debt. Several students emphasised the importance of the individual assuming the responsibility for taking on credit, over-spending and paying back the debt:

“[It’s a] nightmare...I think people take too much credit out–they go beyond their means and it can be a downward spiral into debt and you shouldn’t really take it up unless you need to...that’s my thoughts really” (UK, Female)

“Yeah, I don’t believe in any of this crap when people sue for spending too much and being in debt and get it written off. No, you spend, it’s your own fault you pay it back” (UK, Female)

Both comments suggest a high level of awareness and maturity regarding their role and responsibility in relation to credit and debt which they clearly feel should not be passed on to others to manage. Some students recounted bad experiences from which they had learned to manage their finances better. For example one student recalled her immature behaviour:

“I should have just paid off the minimum payment but I thought if I don’t think about it it’s not there’ (Irish, Female)

Since this time, however, she has set up a minimum payment to leave her account each month. Conversely, other participants recounted stories of how they or their peers assumed little or no responsibility for their spending and instead relied on parents to support them and pay off any debts they incurred:

“No, some of my friends...they will just go into a shop and spend all around them. Some of them have their parents...they just pay it back for them” (Irish, Female)

Similarly, others spoke of their “nice parents” and that they were “spoiled” as their parents not only paid off their loans and debts but also provided them with an allowance.

While some students freely used their parents as a source of non-repayable income to finance their lifestyle, others recognised the extensive support provided by their parents and were very mindful of taking responsibility for their own debt.

“My family do so much for me already. The student debt that I will pick up is my own responsibility I mean I can’t ask them to go off paying other parts after they do everything, all the other financial things for me” (UK, Male)

While previous research has shown that parental attitudes to finance offer a context to their children’s behaviour (Hesketh, 1999), this can also contain mixed messages with regard to the use of credit (Atkinson and Kempson, 2004). The role of parents in this study was complex with some being very active, even cutting up their children’s’ credit cards following excessive use, while others regularly paid off debts of hundreds of pounds.

The concept of responsibility varied across participants with some acknowledging and exercising individual responsibility while others focused more on the instant gratification of spending and supporting their lifestyle (Webley and Nyhus, 2001), without reflecting on the long-term consequences of debt, instead relying on their family to “bail them out” if they incurred unmanageable debt. There were clearly major economic differences amongst students that reflected how they were able to behave with regard to debt as is reflected by this comment from the President of the Students’ Guild:

‘The amount of people I know who take all their student loan out and put it in a high interest bank and Mum and Dad give them money every month and have a copy of their parent’s credit card so that they can just go and spend.’ (President, Students’ Guild, University of Birmingham)

From a supplier perspective, the notion of individual responsibility was also met with mixed responses with some emphasising that “responsibility works both ways” (Financial Advisor, Ireland). Another suggested that “there has to be responsible lending and there has to be responsible borrowing” (Director of Consumer Information, Financial Regulator, Ireland). Individual level responsibility was also contingent on the consumer being fully informed and equipped to make the best financial decision and there was acknowledgement by some that not only were financial products complex but that financial capability varied, signalling the “need for better financial literacy from school age” (Director, Office of Director of Consumer Affairs, Ireland). Others believed, however, that there was sufficient consumer information and public awareness in addition to legislation in regard to credit and debt and that it was the responsibility of the individual to exploit resources available to them:

“We give them information and leaflets—we don’t tell them what to do... regulation should be minimised” (Consumer Sector Team Manager, Financial Services Authority, UK).

While the notion of individual responsibility unveiled disparate thoughts from both consumers and supply-side participants, it did not detract from the shared view that increased access and consumption of credit was pervasive. Those involved directly with indebted individuals recognised a change in culture regarding the acceptance of credit with young people becoming socialized into the normalization of debt (O’Loughlin and Szmigir, 2006), such that they ‘carry this philosophy with them’ (Financial Advisor, Ireland). However, successfully or not students manage their current situation their attitudes and behavior are likely to continue to develop in a pattern which may be difficult to change and adjust leading to a life-long relationship with debt (Soman and Cheema, 2002).

CONCLUSIONS AND IMPLICATIONS

This paper has argued for the importance of understanding the environment in the modern consumption context. The case study of the credogenic environment effectively illustrates the nature of the power relationships which support the continued dominance of marketing’s role in a neo-liberal context. Despite the exaltation of the individual as rational and well informed, the challenges facing consumers to exercise true choice and freedom within this arguably marketing-governed environment are clear. Reflecting many western societies, the consumer and supplier research highlights the pervasiveness of the culture of credit in Ireland and the UK which is predominantly fueled by increased access to and intensive marketing and promotion of “easy credit” and “free money”. This is particularly concerning given the individual cognitive limitations associated with a complex purchase such as credit which may be particularly acute for susceptible groups such as students, where their ability to evaluate and act responsibly may be unfairly tested.

The consumer and supplier research clearly highlights that students are perceived as an attractive marketing proposition and targeted at
the point of sale with unsolicited seemingly harmless credit offer-
ings, often without clear explanation of the long term implications. The direct consequence is a “buy now pay later” culture and the
normalization of debt, some of which becomes unsustainable for consumers as students who may not have the present ability, if perhaps the future potential to repay their debts. That consumer
agencies report increased usage of their services by consumers as young as 18 is testimony to the power of the credogenic environ-
ment, within which a sophisticated financial marketing force con-
tinues to offer attractive credit options while failing to include the
consequential dark side to credit which is unmanageable debt.

The issue of where responsibility should lie for creating and sustaining this credogenic environment unveiled much debate and
diverse perspectives among both consumer and supply-side partici-
pants. On one hand, there was clear consensus among both groups of participants regarding marketing’s dominant role in creating a
consumerist society in actively promoting a lifestyle to consumers which in turn was facilitated by a range of credit options offered by
financial providers. On the other hand, there were mixed views regarding the extent to which responsibility should be assigned at the
individual consumer level, particularly as the issue of varying levels of financial capability and literacy was a key factor. Regarding
the issue of lender responsibility, recent Irish legislation has been introduced through the Consumer Protection Codes (2006)
which have outlawed many unethical lender practices such as unsolicited limit increases and pre-approved loans. Reflecting similar initiatives in other counties, this may go some way towards providing augmented regulation of the credit-led environment which is focused on protecting the consumer rather than on crip-
pling the supplier. As for individual responsibility, while the notion of
financial education from an early age and ongoing “training” of consumers as suggested by participants is part of the solution, there
does not appear to be sufficiently meaningful or accessible informa-
tion in the public domain. Indeed, considering many of the students were offered credit at the point of sale, it is perhaps here that
attractively packaged and promoted credit offerings should be
accompanied by simple but hard-hitting guidelines and warnings regarding the total cost of repayment and penalties.

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