The Impact of Emerging Lending Products on Young People's Over-Consumption - Based on a Behavioral Economics Perspective

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Abstract. The development of the Internet has had a major impact on this generation of young people. The rise of online media has led to an increasing number of lending product companies seeing opportunities to manipulate the psychological accounts of university students, using tactics such as the payment segregation effect so that they lose sight of the actual value of money and engage in irrational spending behavior. The immature consumption concept of university students makes them more susceptible to the influence of these loan products. The article analyses the consumption behavior of university students at home and abroad through behavioral economics theories, explores the basic influence of lending products on university students' consumption and various promotional effects and consumption inducements, and proposes countermeasures and suggestions for solutions.

1 Introduction

With the development of society and technology, young people are often exposed to advertising through the Internet, television, and other media, which creates a desire for goods. Some of these people need goods but do not have enough money to spend themselves, leading them to use borrowing products to meet their 'immediate needs'. In recent years, the rapid development of online media and new lending products has had a profound impact on the spending habits of the younger generation. As figure 1, the rise of online media platforms and e-commerce sites has made it easier than ever for young people to access a wider range of products and services at a lower cost. At the same time, even if consumers do not have immediate access to funds, young people can easily access 'finance' through a wide range of lending products available on the market, such as Ant Financial, Alipay, and Jingdong White Stripe. According to official data from Ant Financial Services in 2017, the post-90s accounted for more than 45 million users of AntPay; when AntPay targeted university students, its sales increased by an average of 23%. These platforms are so integrated into the fabric of modern commerce that students often blur the lines between desire and necessity, impulse and deliberation. It is therefore important to examine the impact of lending products on young people, especially university students. Based on behavioral economics theory, this paper focuses on the close relationship between new lending products and young people, explores the reasons for the changing consumption structure of university students, and proposes solutions for young people to establish a correct consumption attitude, which is of great practical application.

Figure 1 (Online lending products)
entrepreneur.com/en-in/finance/decoding-rbis-digital-lending-guidelines/434005

2 Literature review

Since the 21st century, the development of numerous technological products has led to the rise of electronic lending products and has generated much academic debate about how lending products affect consumption. As figure 2, loan volume enabled by Ant is about 1 scale higher than

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the other banks in China. People are more willing to use Ant instead of Banks. Numerous researchers have addressed the topic of how a single lending product operates and its marketing techniques on the over-consumption of young people. For example, in Chen Guangyao's 'Product Design for College Student Consumer Loans', the author analyses consumers and analyses lending products from a business perspective but lacks a consumer perspective analysis [3]. Li Fancheng's study on the problem of unscrupulous borrowing by university students and Wang Chunliu's study on financial literacy, perceived risk, and online borrowing behavior of university students provide a comprehensive analysis of the psychological changes within the psychological accounts of university consumers, but there is no core data to support them. The study by Tang Xinyue and Xie Yixuan explores the influence of consumer lending products on the consumption habits of university students, taking Xuzhou Engineering College as the scope, and examines the influence of "ant chanting" on the excessive consumption of young people. The two authors of Zhang Yuan's "Research on the Education of College Students' Consumption Habits in the Background of Internet Finance" analyze the problem of excessive consumption by young people caused by borrowing products in a comprehensive and detailed manner, but the scope of the study is too single and fails to measure the big picture from the perspective of other (domestic and foreign) college students' psychological accounts, which affects the accuracy and comprehensiveness of the overall study. Therefore, the impact of university students' wealth levels on borrowing products is a key point. This paper will investigate the impact of Ant Credit Pay on the younger generation based on behavioral economics perspectives and theories.

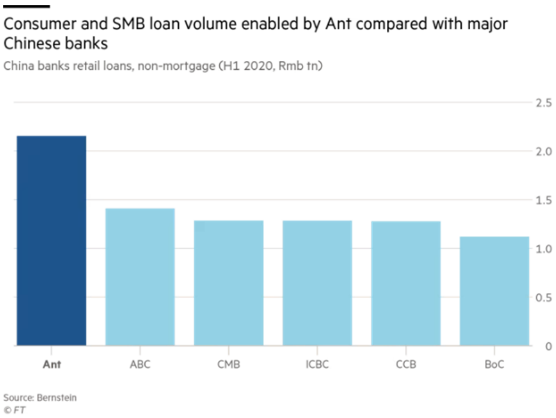

Figure 2 – Comparison between Ant and Other Banks
https://www.ft.com/content/935401f8-a374-4c15-ba8a-12c600ac3443

3 Causes of over-consumption by young people due to lending products

3.1 Lending products change the basic consumption patterns of university students

3.1.1 Increased monthly available credit limit

Debit products increase the amount of money spent to some extent. In loan products, one's credit score tends to improve with the passage of time, provided they consistently exhibit prudent consumer behavior. An elevation in one's credit limit is often accompanied by higher loans, a relationship elucidated in Figure 3. The borrowed amount is divided into a separate psychological account in the consumer's psyche, different from the savings account. Therefore, when using borrowing products, they often cannot control themselves and spend big because the psychological value of money is lower in that account than in cash [2]. University students' living expenses are generally in a state of fixed amounts overall, with small fluctuations on occasional holidays. As a result, their spending structure is self-regulating, and they do not experience significant changes in the amount or structure of their spending. However, lending products, led by Ant Credit Pay, have upset this balance, increasing the current amount of money available to university students, which indirectly increases their current spending and stimulates spending [4] [6].

Figure 3 (Credit Limit)
https://www.creditmantri.com/article-credit-card-limit/

3.1.2 Change in consumer philosophy

The concept of "spend first, pay later" is the concept of consumption promoted by lending products. "Mood consumption" and "quality of life consumption" are the changes brought about by lending products, making it easier for all consumers to spend irrationally and impulsively [5]. For those who are more self-controlled, lending products offer flexibility and can help them to improve their quality of life to a certain extent. However, for those who are less self-controlled, "no worries spending" increases the burden of repayment - adding to the stress of living with increased repayments month after month [2]. Refer to figure 4, there are 43% and 34% of consumers use the money to buy something they can't usually afford. These reasons are irrational and impulsive. This also increases the irrational consumption of university students due to the reference dependency effect of prospect theory. The so-called loss and gain theory of reference dependence: most people's judgments of gain and loss are often based on reference points [6]. For example, a university student may want to buy something for $1,000, but the amount available from the loan product is $10,000, so using the amount available as a reference point, the university student may subconsciously believe that this is a 'gain'.

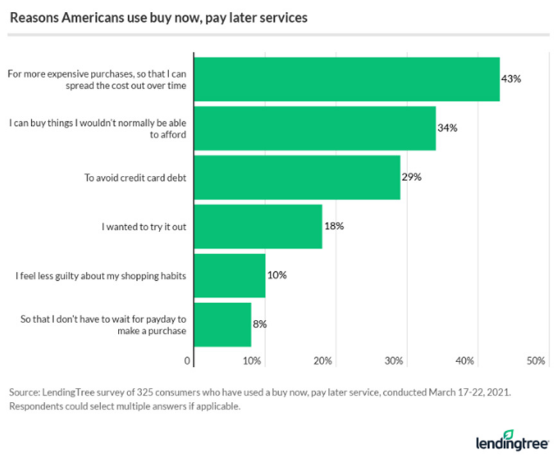

Figure 4 (Reasons Behind)
https://www.lendingtree.com/personal/buy-now-pay-later-survey/

3.1.3 Impulsive spending due to the emergence of online media and the isolated nature of the lending product itself

With the prevalence of online media, as figure 5, many people are constantly "on their phones" and university students are more likely to be exposed to new things through the internet. A single Jitterbug sales video can have hundreds of thousands or even millions of views, and now the so-called "one-click order" is becoming more and more exaggerated [3]. These videos will have an impact on the consumption patterns of university students. Whereas before, students might not have bought because they didn't know about it, now that almost everyone can swipe their favorite items, one-click ordering is particularly useful [7]. Refer to figure 6, there are about 2.64 billion people prefer to shop online and 70% of them are university students. When students are tempted to buy but find themselves running out of their available credit for the month, 60% of them choose to go into overdraft and use borrowing products as even a small amount can be paid back over several installments, the payment segregation effect and generating more impulse spending. The phenomenon of payment segregation leads to a subjective perception that the price of goods has been reduced. Or they may think that the money they have borrowed has become "free" money, and they spend more uncontrollably.

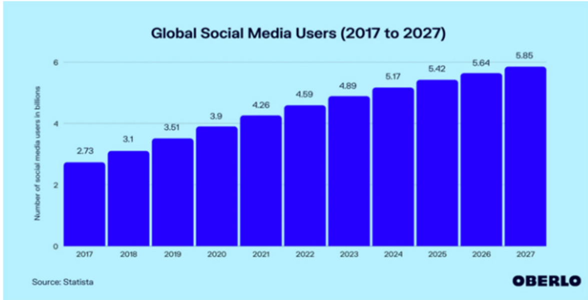

Figure 5 (Global Social Media Users)
https://www.oberlo.com/statistics/how-many-people-use-social-media

Figure 6 (Shop Online)
https://www.oberlo.com/statistics/how-many-people-shop-online

4 Suggestions for measures to optimize the use of borrowing products by university students

4.1 College students clarify the purpose of consumption

a) Spending wisely and with rational restraint is something that every consumer should consider. Whether borrowing to spend or spending daily, it is important to be clear about what we are spending for and not to exceed our spending expectations. It is important to find a healthy balance between personal income and expenditure rather than a lack of rationality at the sight of discounted promotional products. Only by adhering to the concept of effective and rational consumption will we be able to control the irrational and tempting part of our spending.

b) Proper consumption philosophy. University students should recognize consumer inducements, distinguish induced consumption, control non-essential consumption, and be aware of the need to find deals for their consumption rather than being drawn to them. For example, businesses often offer "clearance prices", "sale prices", "lowest prices", "discount prices" or other bait-and-switch pricing to entice consumers to buy can be found all over the world. [4]

c) Derived from the principles of behavioral economics, students often succumb to the endowment effect – where they value what they own more than what they don't, even if the ownership is temporary. This is amplified when they use borrowed money, as it creates an illusion of ownership over funds. To mitigate this, students should critically evaluate their desires versus their needs. Every purchase should align with a clear and pre-established purpose, minimizing the potential for impulsive spending that often results from perceived 'ownership' of borrowed funds. For instance, just because they own a gadget doesn't mean they need to buy an upgraded version immediately upon its release.

4.2 College students plan their budgets wisely

a) Keep a clear monthly account and allocate a good amount of money to be spent. University students can carry out a consumption data analysis to obtain their consumption structure. Estimate your expectations of a reasonable spending structure based on records and monitor your monthly spending based on these expectations. Record and monitor each expenditure reasonably every day and consciously think about whether a particular expenditure is necessary for you. Set a limit for each spending segment in advance at the beginning of each month, e.g., limit spending on clothing to RMB 2,000 per month. Review and summaries at the end of the month, flag any excessive or unreasonable spending and consciously adjust for the following month [8].

b) Combatting the Anchoring Effect, which refer to refers to the tendency for individuals to rely heavily on an initial piece of information (the "anchor") when making decisions. Students, when planning their budget, should not anchor their spending habits to the initial amount available from lending products. Instead, they should re-anchor their budgeting strategy based on their actual needs and financial capacity.

4.3 Self-optimization of Internet lending platforms

a) Financial institutions can create a separate loan system for university students and set a reasonable loan amount for them on a mandatory basis. The system can automatically block borrowers when their loan amount exceeds a certain limit on different lending platforms so that Internet borrowers will be limited to the total loan amount regardless of whether they borrow on any one platform or multiple online lending platforms at the same time. For example, the Bank of China launched the "BOC E Loan - Campus Loan" product in May, which has a much lower threshold and a higher security factor when lending to university students. [4]

b) The reason behind this lies in the precarious financial position of many university students, who often lack a steady source of income. Consequently, the inherent risk of lending to this demographic is significantly higher. It's imperative for these online lending platforms to implement a more rigorous registration process for college students when introducing them to lending products. For university students who have no source of income, the media should increase the guaranteed process appropriately. Alternatively, these lending platforms could adopt a conservative stance by simply declining loan approvals for this demographic. Through these methods, a balanced approach to financial inclusivity and risk management can be achieved [1].

c) Recognizing the 'Loss Aversion' principle, where individuals prioritize avoiding losses over acquiring gains, online platforms can instill diverse metrics beyond traditional credit scores to evaluate a student's loan eligibility. By taking into account non-traditional data like academic performance, extracurricular involvement, or even social media activity, lenders can gauge a more comprehensive picture of a student's responsibility and potential risk. This holistic assessment can aid platforms in making more informed and balanced lending decisions [4].

5 Conclusion

The advent of online media and the burgeoning lending products market has revolutionized the spending habits of young individuals, especially university students. While these advancements offer significant conveniences, they also carry substantial risks, such as the promotion of overspending, the alteration of consumer philosophy towards irrational consumption, and an increase in impulsive spending behavior. This situation is exacerbated by various marketing tactics employed by companies, like the payment segregation effect, which often cloud the actual value of money. However, this doesn't necessitate a complete abandonment of lending products. Instead, it's essential to educate university students about practical financial management, rational spending habits, and prudent borrowing behavior. These skills can be nurtured by promoting a clear understanding of personal consumption purposes, smart budgeting, and vigilant monitoring of individual expenditures. Financial institutions and online lending platforms should also consider implementing measures to safeguard students' interests, such as creating separate, reasonable loan systems for students and exercising increased prudence during the registration process. Therefore, strategic financial education and responsible platform policies are needed to ensure that university students utilize these tools wisely and avoid falling into a cycle of irrational and excessive spending.

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