

**Behavioral Factors Affecting Household Over-Indebtedness: A Conceptual
Review**

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Abstract

Household debt, in most cases, has been used to ensure the living standard and the welfare of the family members. Therefore, household indebtedness may not be a serious concern at all times in society. However, household debt becomes a public concern if it is unbearable for many citizens of society and here it is termed household over-indebtedness. Today many people in the world have a big burden with the increasing household over-indebtedness. It creates severe negative social and economic consequences as a vicious cycle of a suppressed economy. Even though people are aware of the risks of over-indebtedness, still, some people tend to rely on unsecured borrowings. Identifying key causes of household over-indebtedness has become a vital social need of a country. Today, Sri Lanka is facing the issue of household over-indebtedness to a greater extent. Therefore, the purpose of this conceptual review is to explore the findings of existing empirical studies on behavioral factors of household over-indebtedness in order to derive a better conceptual framework. This paper has reviewed recent journal articles in international contexts covering both developed and developing countries in view of identifying key behavioral factors of household over-indebtedness. Financial literacy and risk perception are negatively influencing the household over-

indebtedness while materialism and emotions are positively influencing that. Moreover, Income significantly moderates the relationship between household over-indebtedness and the above behavioral factors. The potential researchers can empirically test those findings in contexts like Sri Lanka. Then it will make a significant contribution to the Government, Central Bank, and other policymakers to find the solutions for household over-indebtedness in the country. The combined effect of changes in individual behaviour and institutional policies on financial decisions could change the future by referring to the stock of knowledge presented in this conceptual review and the subsequent empirical studies.

Keywords: *Household Over-indebtedness, Financial literacy, Risk perception, Materialism, Emotions*