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One size does not fit all: A typology of financial consumer vulnerability

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Current debates on future regulatory policies for the banking and insurance industry revolve around consumer protection. A crucial factor for ensuring consumer protection and well-functioning financial markets is to understand who the consumer is and to acknowledge that a certain degree of heterogeneity exists. The present study empirically derives a typology of financial vulnerability based on four important drivers of consumers' insurance decision-making: financial literacy, involvement, information behavior, and balance of responsibility. Our results provide several important insights both for public policy makers and marketers and help to estimate the efficiency of consumer protection activities from consumers' perspective. We illustrate how personal characteristics influence the magnitude of vulnerability risks consumers are exposed to. Significant differences in the levels of financial vulnerability result in three consumer groups that pose diverse demands on insurance regulation. In this regard, a commonly employed one-size-fits-all regulation is likely to be ineffective. The paper concludes with a discussion of approaches to establish consumer protection and derive implications for the involved parties.