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A Study on Financial Distress: Causes, Effect on Mental Health of Households and Recovery Strategies with Reference to Ernakulam District

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Abstract- Money serves as a universal medium that enables individuals to meet their basic needs and improve the quality of life. Delayed payments and insufficiency of money leading to financial distress is a common concern in the present world. When in financial distress households engage in the process of borrowing and is unable to repay for the borrowings taken. This accumulates household debts. The study was conducted to identify the key factors contributing to financial distress, tests the association of financial distress and its effect on mental health of households using a Chi-Square Test and proposes potential recovery strategies of it. Data for the study has been collected from both primary and secondary sources. Area of the study is limited to the respondents of Ernakulam district with a sample size of 100. The data collected has been analyzed with the help of statistical tools and presented in the form of tables, pie chart and bar-graphs. The study concludes by identifying loss of job, medical emergencies, impulsive spending habits, poor money management and high interest payments as key factors contributing to financial distress. Chi-Square Test proves that there exists a significant association between financial distress and its effect on mental health. The observed frequency table depicts that people experiencing high financial distress tend to have poor mental health. The potential recovery strategies to reduce the challenges of financial distress includes financial literacy, proper planning and budgeting, creating and maintaining emergency funds, and controlling unnecessary spending. The study contributes to the field of behavioral finance by shedding lights on financial hardships and debt management.

Indexed Terms- Financial Distress, Financial Hardships, Household Debt, Financial Literacy.

I. INTRODUCTION

Money has become an inevitable part of our lives. It is a basic need through which all our requirements are met. We need money to buy essentials and other resources, pay for bills, services, and save for future. A household refers to a group of individuals living under the same roof and share resources. Having a stable amount of income is necessary to live a peaceful life. What happens when an insufficiency of funds arises? It leads to a situation of financial distress where a household is unable to pay for their debts. Household debt is the total amount that they owe to creditors. Families facing financial distress often resort to borrow money from various sources for making debt payments. Later they find it difficult to pay back for the same. In such situations it is common that the debt gets accumulated. It increases anxiety and tensions. The proposed study focuses to gain deep insights into the concept of financial distress.

II. STATEMENT OF THE PROBLEM

Money plays an important role in our lives. We cannot imagine a world without money. Financial distress has been a growing concern as households increasingly struggle to manage their financial obligations. Financial problems, stress, and hardships are common in households. Students might have seen their parents' struggling to make ends meet or as an adult, you yourself might have experienced the same. Families facing such situations borrow money to meet their needs. The borrowing cycle continues, debt gets accumulated and leads to serious tensions. The study focuses on identifying the key factors that contribute towards financial distress, its association with mental and the recovery strategies that could be adopted.

III. OBJECTIVES

- To identify key factors contributing to financial distress.
- To test the association between financial distress and its effect on mental health of households.
- To find the potential recovery strategies that could be used to reduce financial distress.

IV. SIGNIFICANCE OF THE STUDY

Financial distress among households has significant social relevance as it directly impacts the well-being of individuals, families and society at large. Financial struggles can cause conflicts, strain relationships and disrupt family stability. Understanding financial distress helps promote stronger family bonds and healthier social relationships. The proposed study points out awareness about financial distress and encourages better financial education and responsible decision-making, fostering a more financially resilient society.

V. LITERATURE REVIEW

Khan Islam, Murshed Chowdhury (2024) suggests that among Canadian households, higher financial distress raises the risk of falling into poverty or remaining below the poverty threshold in future.

Sara F Lopez, Marcos, Lucia R (2024) concludes their study with a significant and negative relationship between household financial vulnerability and income level, which suggests that low-income households tend to be more susceptible to financial instability.

MK Dharani, J Balamurugan (2024) describes that the rate of psychological stress due to financial crises is significantly greater for single mothers. There also exist a correlation between the rate of poverty and stress.

Paul Wesley Thompson (2023) in his study mentions that financial crisis results in increased prevalence of psychological conditions including depression, anxiety, stress, fear, loneliness, burnouts and even suicides.

VI. METHODOLOGY

- Primary data collection: Using a self-structured questionnaire.
- Secondary data collection: Websites, reports, online databases inclusive of research articles.
- Tools for data analysis: Pie chart, bar graph, table, percentage and Chi-Square test for hypothesis testing.
- Population and sample size: Population includes households residing in Ernakulam district, out of which 100 samples were collected (N=100).
- Sampling method used: Convenience sampling (Non-Probability sampling)

VII. HYPOTHESIS

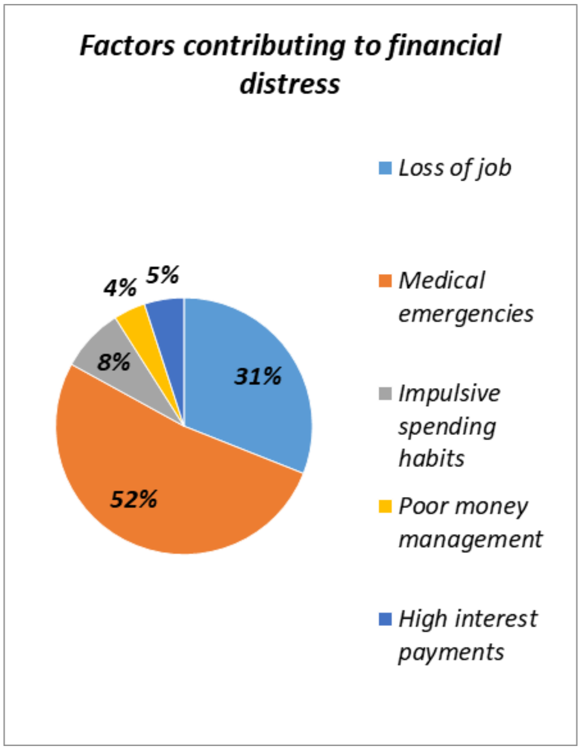
H_o: There is no association between financial distress and its effect on mental health of households.
H_1: There is significant association between financial distress and its effect on mental health of households.

VIII. LIMITATIONS

Scope of the study is limited to Ernakulam district only. As the sample size is limited it may not depict the point of view of the whole. Any biased or false information provided by the respondents may affect the study. There may be a common way of responding as the data is collected from a single place only.

IX. DATA ANALYSIS AND INTERPRETATION

1. Key factors contributing to financial distress- includes loss of job, medical emergencies, impulsive spending habits, poor money management and high interest payments. Out of which medical emergencies is the major factor contributing to financial distress. The same is depicted in the pie chart shown below. (Source: primary data)



2. Chi-Square Testing- was done to test the association between financial distress and its effect on mental health.

H_o: There is no association between financial distress and its effect on mental health of households.

H_1: There is significant association between financial distress and its effect on mental health of households.

OBSERVED FREQUENCY TABLE

Financial Distress/ Mental Health	Good Mental Health	Moderate Mental Health	Low Mental Health	Total
High	5	10	25	40
Moderate	8	12	10	30
Low	20	5	5	30
Total	33	27	40	100

EXPECTED FREQUENCY TABLE

Financial Distress/ Mental Health	Good Mental Health	Moderate Mental Health	Low Mental Health	Total
High	13.2	10.8	16.0	40
Moderate	9.9	8.1	12.0	30
Low	9.9	8.1	12.0	30
Total	33	27	40	100

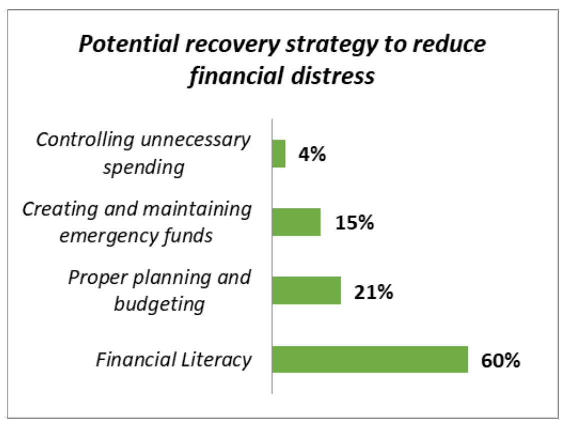
Expected values calculated using the formula:
Eij = (Row Total * Column Total) / Grand Total

- Chi-Square value = 28.37
- Critical Value = 9.488

[Degrees of freedom = (r-1)(c-1) = 4
Significance level = 0.05]

Interpretation: Since calculated Chi-Square value (28.37) is greater than the critical value (9.488), we reject the null hypothesis and the alternate hypothesis is accepted. Thus, there exist a significant association between financial distress and mental health.

3. Potential recovery strategies to reduce financial distress- Includes controlling unnecessary spending, creating and maintaining emergency funds, planning and budgeting and financial literacy, out of which majority of the respondents have an edge towards financial literacy as depicted in the bar graph shown below. (Source: Primary data)



CONCLUSION

The study focused on financial distress and addressed the three objectives with clear data analysis. It was found that financial distress has a significant association with individual's mental health. Individuals with high financial distress tend to have low mental health and vice-versa. Loss of job, medical emergencies, poor money management, impulsive spending habits and high interest payments were the key factors contributing to financial distress.

Unexpected medical emergencies are indeed a concern to be addressed and taken care of. The potential recovery strategies include controlling unnecessary spending, creating and maintaining emergency funds, planning and budgeting and being financially literate. Financial literacy is gaining much importance as it would help individuals to know about their finances and manage it effectively, reducing the likelihood of accumulation of debt and over spending. It helps in informed decision making and essential to maintain financial stability.

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