

The psychology of debt: seeing debt for what it is

Findings from a European survey of almost 26,000 people in 13 countries indicate that while delayed payment options are increasingly available at the online checkout, a third (30%) would not feel they were taking on debt if they used them



Behaviour matters when managing debt

The naturally attractive nature of discretionary debt is such that the pain of paying is delayed, and consumption gratification can be made near-immediate. Therefore, in addition to having enough in the bank to repay dues, our behaviour is essential to debt management.

Calculating and prioritising spending and repayment over varying time horizons requires proactivity. Particularly if in the face of financial uncertainty such as many are experiencing during coronavirus.

Debt experiences rely heavily on our financial habits. Those who paid all their bills online last year are also much more likely to say they paid their most recent bill immediately. It's those who delay, even when they could make the payment right then and there, who are more likely to pay late. Habits matter.

Out of all of those who did pay a bill late in the last 12 months, a third either forgot or procrastinated making payment on their most recent bill. It wasn't that they didn't have enough money to pay immediately. As soon as a payment is distanced, it's hard to keep front of mind and to act on when needed. This is a cognitive weakness of delay.

Debt management starts with recognition

Awareness of debt is key to managing it well. And there has been a slight increase in awareness of discretionary debt throughout Europe since the uncertainty imposed by the coronavirus. Last December 36% of Europeans said that they would not feel like they were going into debt if they selected to buy-now-pay-later, pay with a credit card, shop interest-free, try before they bought or signed a payment contract at the checkout. This number reduced to 30% in May.

But this has not been a uniform shift. The number who said buy now, pay later was definitely not a form of debt decreased by an average of 10% among those earning under €1,000 per month, while shifted only 4% among those earning over €3,000 per month. This reflects increased awareness among those who are more likely to find repayments harder during uncertain times.

And a third (30%) still maintain that they would not feel like they were taking on debt if they delayed a payment.

Delaying payment is naturally attractive

The way delayed payments are presented can add to their appeal. A visit to an online store may present different ways of paying other than simply stumping up now. Options include:

- "Buy Now, Pay Later": Buy goods worth up to €250 and pay in 30 days free-of-charge, returning for free by then anything you have tried but don't want. This taps into "Present Bias". We like to choose immediate rewards, even if relatively small, over comparatively larger ones in the future. Consider choosing one cookie now instead of two later on today.
- "3 Easy Payments": Buy goods worth between €250 and €1,000 and pay a third every 30 days free of charge. We don't naturally focus on totals, and "Chunking" is attractive because it divides large amounts up to make them psychologically more palatable. For example, we might be drawn to a payment presented as €1 a day for a year without considering it as €365.
- "Spread the Cost Up To 4 Years": Buy goods worth more than €250 and spread the cost between six months and four years. No cost up to 24 months, 9.9% interest thereafter. "Hyperbolic Discounting" is the method by which people come to "Present Bias". It has a time and distance element to it. If the promise of two cookies later on today seems a long way off, the prospect of 30 in a month is psychologically even less attractive

More online and removed

Delaying payment removes the pain of paying, enhancing the purchase experience and making taking on debt seamless and effortless for consumers. In addition to limited recognition of delayed payments as debt, reduced mobility during coronavirus has meant many people are now shopping more online and using less cash. Two factors that can further remove the pain of paying, encouraging spending.

While all forms of delayed payment are technically debt - miss a payment and you end up in

arrears, not everyone sees it this way. This will influence how the repayment of short-term debts such as delayed payments are managed. No one goes into debt with the aim of getting stuck, but it does happen. Active debt management is even more important if facing financial uncertainty, as many are during coronavirus. Debt should not be hidden.

There's more on our findings [here](#)

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