

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](#)

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist
michieltukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com