



Delayed payments
missing from debt view

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Debt: increasingly available but hidden from view

Delayed payment options are increasingly available, yet a third (30%) of Europeans would not feel they were taking on debt if they used them. While most consider debt a useful option to have, it is only an effective financial tool when recognised and repaid. Indeed, debt experiences rely heavily on our financial habits and whether we take debt on out of choice or necessity.

In the face of the uncertainty imposed by coronavirus, awareness of discretionary debt has slightly increased. Yet on average, a third do not recognise delayed payment options as debt.

This report covers the debt management behaviours and attitudes of people in 13 countries across Europe. The findings have come from combining two ING International Surveys, conducted both before and after the coronavirus lockdown. Just under 26,000 people answered questions about their attitudes to debt, providing insight into how debt awareness and money management has shifted during the uncertainty imposed by coronavirus.

Debt aware

Sensitivity regarding debt awareness is reflected in the reduced number of people who now say delayed payment options are not debt. In Dec '19, on average 36% said that they would not feel like they were going into debt if they selected to buy-now-pay-later, pay with credit card, shop interest-free, try before they bought or signed a payment contract at the checkout. This number reduced to an average of 30% in May '20.

But this was not 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 making repayments harder during uncertain times.

While a third (30%) maintain that they would not feel like they were taking on debt if they delayed a payment, amongst those who do consider these payment options to be debt, there is also some uncertainty. More hedge their opinion with a "probably" than a "definitely".

Behaviour matters

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 in the face of financial uncertainty.

Most Europeans (65%) paid all their bills on time over the past 12 months. But habits play a role. Those who paid their most recent bill immediately, even if they could have waited, were much less likely to have paid a bill late in the last year.

Technology can also help by reducing the cognitive efforts of debt management, e.g. through automation. In Europe, an average of 59% of those who have debt, say they have set up some form of automatic repayment. This is highest for loans from recognised institutions (72%).

But there is no silver bullet for debt repayment. It takes resisting procrastination and prioritising repayments. Out of all of those who paid a bill late in the past year, a third (36%) either forgot or procrastinated. It wasn't that they didn't have enough money. As soon as something is distanced, it's hard to keep front of mind and to act on when needed. A cognitive weakness of delay.

Jessica Exton, Behavioural Scientist



We don't all define debt in the same way

We don't all define debt in the same way. A third of Europeans say they wouldn't feel like they were taking on debt if they selected a try before you buy payment scheme.

Some debt not easily categorised, or recognised

We now have more payment options than ever before. Once we arrive at the checkout, options such as try before you buy and buy now pay later are increasingly common, especially online. These supplement more familiar options such as buying on a credit card or paying by instalment.

We asked whether people would feel they were taking on debt if they used a range of delayed payment options. Each option could technically be considered debt. Miss a payment and you end up in arrears. Yet in each case, at least a quarter said they would not feel like they were taking on debt if they used that method of payment delay.

But there was also a high degree of uncertainty in responses. On average, 20% said they weren't sure whether these options would constitute as debt.

The number and variety of ways to pay are becoming integrated into a rapidly evolving financial system. Consumers now have many different options. These include delayed means of making payments such as buy now pay later, try before you buy and interest-free shopping. The adoption of payment choices such as these is supported by extensive distribution methods that make online purchases near-instant, and the ready availability of personal data that enables quick lending approval.

Would you feel like you were taking on new debt if you paid this way?

Example	Description	Considered debt?		
		Yes	No	Not sure
Buy now, Pay Later	Buying some new running shoes online, receiving them the next day but paying for them a few weeks later	54%	28%	18%
Spending on a credit card	Using your credit card to buy groceries and then paying the amount in full when it is due	53%	30%	18%
Interest-free shopping	Paying for a television in instalments while you use it at home, without any additional charges	55%	27%	19%
Try before you buy	Being sent clothes to try on before you decide if you want to buy them, if you want to buy them you pay for them later	44%	33%	23%
A payment contract	Signing a mobile phone contract that includes network access and handset repayment in the one monthly cost	47%	30%	23%

Sample size: 12,713

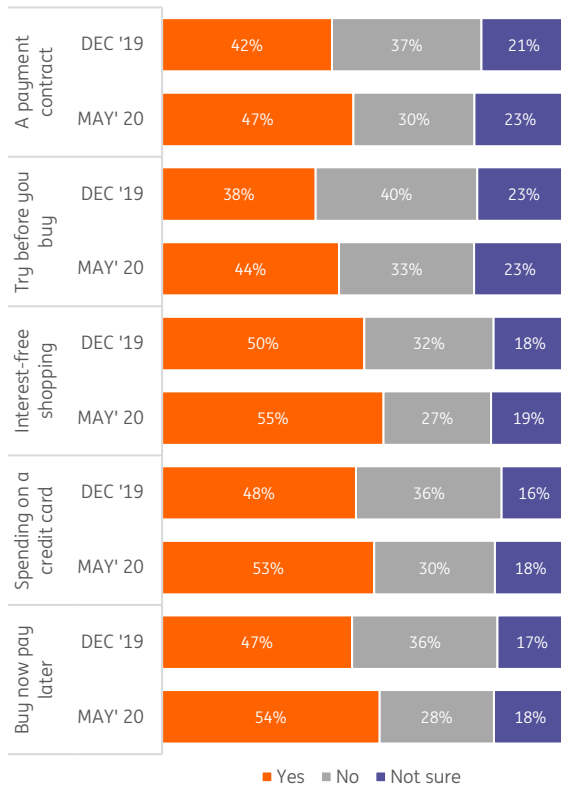
All respondents asked. Survey date: May'20.

Debt awareness has grown slightly during corona

Attitudes towards delayed payment systems have changed slightly since Dec '19. Europeans are now more likely to categorise delayed payment options as debt.

Would you feel like you were taking on new debt if you paid this way?

All respondents asked. European responses shown. Survey



Sample size: 12,713(Dec'19) 12,824(May'19)

All respondents asked. Survey dates: Dec'19 and May'20.

We are now seeing debt more clearly

One impact of the coronavirus pandemic may be that people are now more concerned about what is, and what is not debt.

Between Dec '19 and May '20, across each payment method, there was an increase in the percentage of respondents who said they would feel they were going into debt if they selected that payment option.

Why the change? It may be that the prospect of a major global recession and/or future periods of personal financial stress brought on by the pandemic have focused attitudes on future obligations, i.e. debt. This supports the idea that attitudes towards debt are related to an individual's financial situation.

Notably, shifts in perception were larger among those on lower incomes. Between Dec '19 and May '20, the number of people said buy now, pay later was definitely not a form of debt dropped by an average of 10% among those earning under €1,000 per month. This compared to an average drop of 4% among those earning over €3,000 per month.

"Yes, buy now pay later options are technically debt, but they are also payment tools which give a flexible way to make a purchase. As someone who has just come out of debt, I would be reluctant to use them but it could be a good idea for someone in a position to take advantage of it".

Male, UK

"I always do a lot of online shopping, but I don't use the buy now pay later options as I prefer to pay now. It means I don't have to think about it and I can monitor my spending quite closely".

Male, Austria

Delayed payments mean different thinking

Delaying payment removes the pain of paying, enhancing the purchase experience. Delayed payment options can make taking on debt seamless and feel effortless for consumers.

The behaviour of repayment

Debt is determined by how quickly it can be repaid and how we naturally go about it. For example, always fully repaying a credit card each month can quite clearly be deemed active management of short-term debt, but it is less clear cut what constitutes best behaviour for those paying off multiple cards. Research¹ suggests we usually prefer to repay all cards evenly, for example, even though those who focus on repaying a single card at a time on average repay more.

Culture also strongly influences debt behaviour. A study² using data from the Swiss Household Panel survey by Benjamin Guin finds that households in French-speaking regions save less and take out more formal and informal credit than German-speaking households. Guin suggests German-speakers may be more patient, while French-speakers have a lower discount rate, meaning they are more likely to consume today, shifting less to the future.

Calculating our choice

People tend to make inaccurate judgments about long-term costs, which may further explain why payment contracts aren't always considered debt. Feidhlim McGowan, a PhD candidate at Trinity College Dublin, notes that people underestimate the accumulation of costs, and end up paying more for a product over time than it would cost up front. As an example³, two phone options -- a) a "free" phone with services (i.e. calls, texts, data) for €50 per month for two years (total cost €1,200), or b) pay €500 for the phone now and €20 per month for two years of services (total cost €980) are compared.

1<https://cepr.org/sites/default/files/Gathergood%2C%20John%20paper.pdf>
2<https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2069.en.pdf?a489f1abe4951dd2dbc48562bc39b8c>

The delayed payment attraction – an example

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.

3https://8b109582833d5c2e19d5-b8e01d380645fda9dfa9d12a21c5e59a.ssl.cf3.rackcdn.com/downloads/SABE_TFI-Essay-McGowan.pdf

Debt recognition mattered even before corona

Europeans generally agree that debt is useful, but many say it can lead to increased social inequality and that they aren't confident everyone can repay debts comfortably: it has potential consequences.

Debt attitudes

Debt can be a useful tool in household management -- but our survey suggests it gets a bad rap in many cases.

Consider that nearly a quarter of Europeans (23%) believe that it is completely true that debt leads to social inequality. Or that only 13% firmly believe that debt is a normal part of life. While this suggests that for many people the use of debt is not a given, a quarter (25%) do say that having access to debt is necessary for getting ahead in life, assuming it is managed well. Debt is nothing if not a divisive subject.

As for actually paying it off, most people see this as a moral obligation. But -- worryingly for future generations -- just under a half of Europeans (45%) agreed there is some possibility they will have debt left over for others to deal with after death. And only a third (33%) said they do not worry about passing on debt to their family.

“Debt awareness in relation to delayed payment options has slightly increased since December, noticeably among those with lower incomes. The uncertainty prompted by coronavirus may be driving this. No one goes into debt with plans of getting stuck, but it does happen. Managing debt means addressing repayments head-on, our day-to-day financial habits matter”

- Jessica Exton, Behavioural Scientist, ING

Traditional debt

But debt is more than delayed payments at the checkout. In May '20, among those who were happy to tell us about their more traditional forms of debt, the most popular types were loans from banks / governments (31%), regular account overdrafts (21%), credit cards unpaid each month (20%), loans from friends or family (18%), borrowing from a vendor (16%) and student debt (12%). Very few held loans from pawn brokers or 'payday' lenders. These aren't available in every country.

On average, three in four Europeans (75%) said they didn't have the types of debt we asked about, while 5% said they preferred not to tell us. We excluded mortgage debt from our questioning.

“I have a rule of thumb, pay bills as soon as they come in. I know what I need to set aside to meet my commitments and I always prefer to pay immediately.”

Male, UK

“Using delayed payment methods you have to have a little bit of discipline. Not good for everyone, but if you can handle it, it's good”

Male, Netherlands

Needs vs wants: debt freedom reflected in type

Whether people feel they had a choice going into debt, rather than feeling obligated, varies across different debt types and income levels – ability to repay is important to feelings of debt discretion.

Needs v wants

Whether debt can be easily repaid and consequently bring benefit or hassle, will be related to whether people felt they had a choice in taking it. And whether debt is an essential tool depends on what you want/need to borrow for.

Looking at more traditional forms of debt, in two cases -- bank overdrafts (43% v 52%) and student loans (45% v 48%) -- most holders said they did not have a choice in taking them on.

Some of this is intuitive: many may consider overdrawing their account as a last resort, while most students lack the time and/or skills to avoid debt before gaining a qualification.

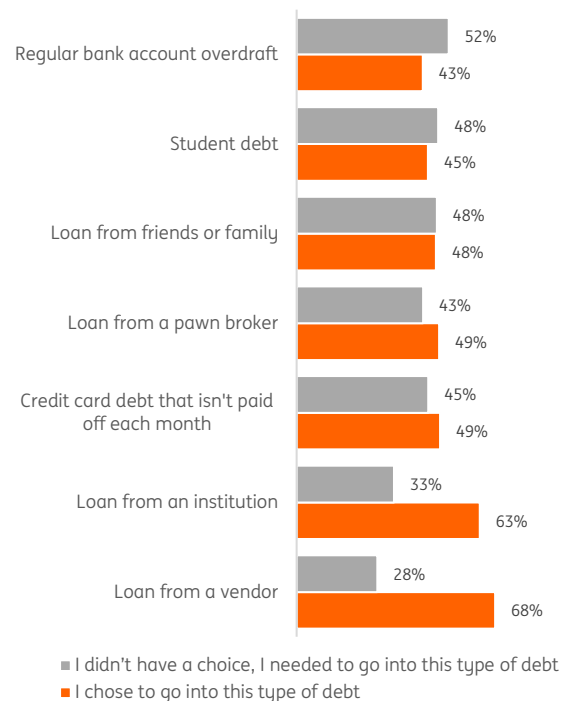
Interestingly, those with higher incomes were more likely to feel they had discretion when going into debt. Among those earning more than €7,000 per month, 81% said they took a loan from a recognised institution by choice, while just 56% of those earning between € 500 and €1,000 said the same.

There were also differences across countries. Poles, Luxembourgers and Germans were more likely to say they took on debt by choice -- e.g. 83%, 74% and 73% took debt from a vendor by choice -- while fewer in the Netherlands (54%) and Romania (52%) said the same thing.

More discretion since coronavirus?

We asked this question before and during the lockdown imposed by coronavirus. Compared to Dec '19, in May '20 responses in countries shifted. For example, since the effect of the virus, people in the Netherlands (+21%), Belgium (+12%) and Italy (+11%) were more likely to say they used a bank overdraft out of choice, rather than necessity.

What best describes your reason for taking on this debt?



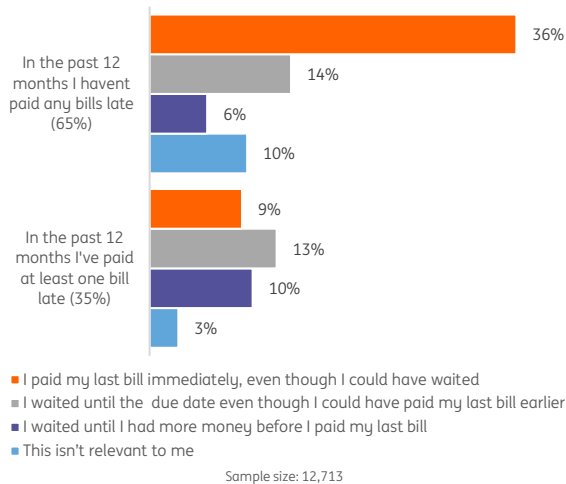
Sample Size: 2,346 (regular bank account overdraft) 860 (student debt) 2,066 (loan from friends or family) 441 (loan from a pawn broker) 1,894 (credit card debt) 3,977 (loan from an institution) 1,622 (loan from a vendor)

Respondents who hold each debt type asked. Alternative response was: 'prefer not to say'. Survey date: Dec'19.

Managing debt well means paying immediately

People are more likely to pay their bills on time if they make payments as soon as they receive the bill. Delaying, even if they don't have to, can increase the likelihood of missed payments. Habits matter.

Have you paid a bill late in the last 12 months and which statement best describes how you paid your most recent bill?



All respondents asked. Survey date: Dec'19.

Day-to-day habits important

The way debt is managed unsurprisingly impacts whether we fall into the group who find debt useful, or ultimately restrictive.

To understand the impact of active debt management, we asked people two questions: whether they had paid any of their household bills late in the past 12 months, and what they did the most recent time they received a bill.

Our survey showed most Europeans pay their bills on time, with 65% saying they had not had a late payment in the past year.

But responses differed based on how people treated bills when they received them. Those who had paid their most recent bill immediately, even though they could have waited, were more likely to say they had not paid a bill late in the past year. Those who had paid late, were more likely to say they either waited until the bill was due to make the payment, even though they didn't necessarily have to, or that they needed to wait until they had more funds before payment.

Tech support

As well as making debt more available, technology can help with making repayments - in Europe, an average of 59% said they had set up some form of automatic repayment. This was as high as 72% for repaying loans from recognised institutions. Most people are also repaying both the interest and principle amount when they make repayments, 78% say they pay both on average across Europe.

No silver bullet

These findings suggest there is no magic formula to debt repayment. It takes resisting procrastination and ensuring repayments aren't forgotten. Out of all of those who had paid a bill late in the last 12 months, a third (36%) either forgot or procrastinated making payment on their most recent bill.

As soon as payment is distanced, it's hard to keep front of mind and to act on when needed. A cognitive weakness of delay.

Country	Name	Phone number	Email
Austria	Viktoria Gruber	+43 1 68 000 50228	viktoria.gruber@ing.at
Belgium	Charlotte de Montpellier	+32 2 457 33 86	charlotte.de.montpellier@ing.com
Czech Republic	Martin Tuček	+42 2 5747 4364	martin.tucek@ing.cz
France	Christophe Baudouin	+33 610 80 40 62	christophe.baudouin.ext@ing.com
Germany	Sebatian Goeb	+49 69 27222 65973	sebastian.goeb@ing.de
Italy	Lucio Rondinelli	+39 02 5522 6783	lucio.flavio.rondinelli@ing.com
Luxembourg	Barbara Daroca	+35 2 4499 4390	barbara.daroca@ing.lu
The Netherlands	Marten van Garderen	+31 6 3020 1203	marten.van.garderen@ing.com
Poland	Karol Pogorzelski	+48 22 820 4891	karol.pogorzelski@ingbank.pl
Romania	Cristiana Tudor	+40 744 44 00 72	cristiana.tudor@ing.com
Spain	Nacho Rodriguez	+34 9 1634 9234	nacho.rodriguez.velasco@ing.com
Turkey	Hasret Gunes	+90 21 2335 1000	hasret.gunes@ingbank.com.tr
United Kingdom	Jessica Exton	+44 20 7767 6542	jessica.exton@ing.com
Writer	Jeremy Gaunt		
Ipsos	Nieko Sluis	+31 20 607 0707	nieko.sluis@ipsos.com

About the ING International Survey

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Countries are compared in this report per survey

The ING International Survey promotes a better understanding of how people around the globe spend, save, invest and feel about money. It is conducted several times a year, with reports hosted at <https://think.ing.com/consumer/ing-international-survey/>.

Two online surveys were carried out by Ipsos for this report: 27th Nov to 16th Dec 2019 and 15th to 27th May 2020.

Sampling reflects gender ratios and age distribution, selecting from pools of possible respondents furnished by panel providers in each country. European consumer figures are an average, weighted to take country population into account.

1,000

Respondents on average were surveyed in each country (500 in Luxembourg) per survey

12,713

Is the total sample size of the Dec'19 survey

12,824

Is the total sample size of the May'20 survey



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