

# Addressing new forms of debt

Online Seminar Series: Good Practice in Debt Advice  
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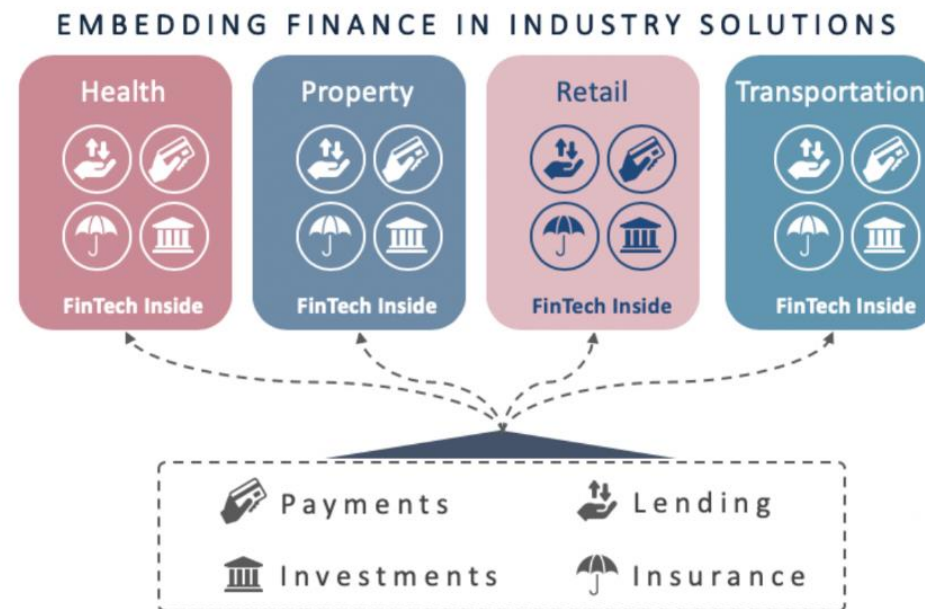
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Source: [DigitalExzellenz.de](https://www.digital-exzellenz.de)

# What is Embedded Finance?



Source: [Rosenblatt Securities](#)

# Use cases



Uber



# Embedded Finance aims to ....

- improve customer loyalty
- increase customer contacts
- generate additional revenue streams

# Personalising of purchase offers

- Online offerings proudly advertise the possibility of bringing together data from different areas of life
- Practice example:

[Video](#)

# Consumer purchase decisions are influenced by irrational effects

- Awareness effects
- Confirmation error
- Framing effects
- Money sum fallacy
- Payment decoupling effect
- Payment transparency effect

# Awareness effects

- We tend to be guided by emotional stimuli when making decisions.
- Our attention is drawn to certain aspects (for example, cool air at the fish stand)
- and distracted from others, such as the price-volume-relation.



# Confirmation error

- We have the tendency to select and interpret information in such a way that it fulfills our own expectations
- When buying a car, we have a specific model in mind and do not consider cheaper alternatives

# Framing effects

- Different formulations of the same message influence the behavior of the recipient in different ways
- Since the fear of loss is greater than the joy of gain, a message that reads, "If you don't buy today, you will lose 20% off the discount" will have greater impact than "20% cheaper today due to discount"

# Money sum fallacy

- When dividing into smaller payment amounts, we perceive the price to be lower (see insurance rates).
- We focus on the small monthly contributions and do not pay attention to how much we will have to pay per year or over the course of several years

# Payment decoupling effect

- The physical separation of payment and purchase means that the price is perceived to be lower overall
- When we pay for a purchase immediately, we feel an immediate cash outflow and we hold back on further spending immediately afterwards
- In addition, it also plays a role in the purchase via a credit card; when settling an account, various expenses are bundled together which eliminates the link between an individual product and the price paid

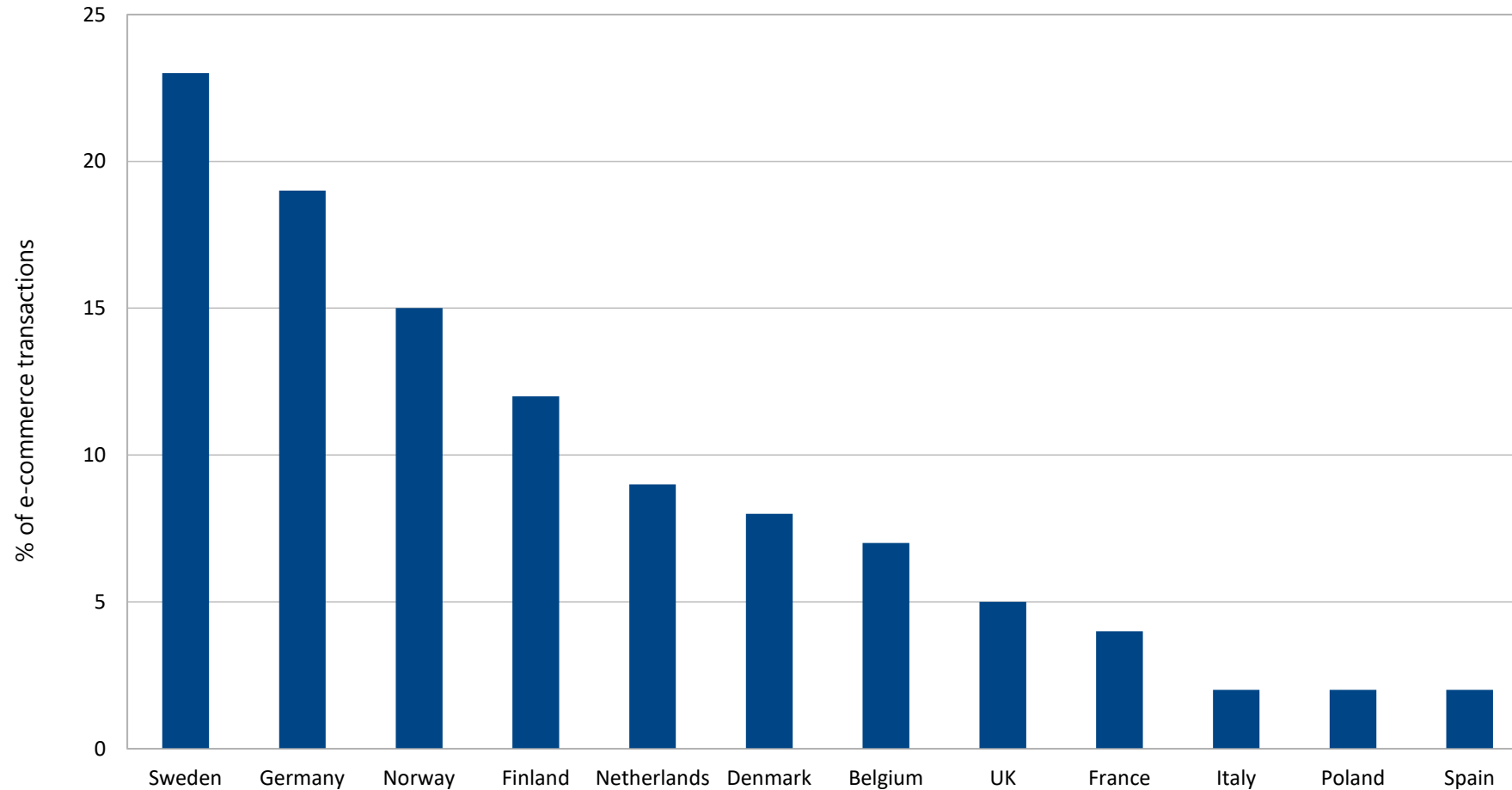
# Payment Transparency Effect

- The payment method influences our price perception. When we pay cash, we feel an immediate reduction in our assets
- If we pay by credit card, then we do not yet consider the payment process as an actual payment. We see it only as a commitment to pay the amount in the future. The immediate change in assets is felt more strongly
- Therefore, we also buy more and at a higher price when we pay by credit card

# Example: Buy now pay later credit

- According to Citizens Advice, 1 in 10 shoppers who use "Buy now pay later" credit end up being pursued by debt collectors
- "I think [Buy Now Pay Later] is quite dangerous, to be honest," 23-year old Jordan says. "Especially on the advertising. They make it out to be such a good thing... but that's only condoning debt."
- Millie Harris, a debt adviser at Citizens Advice East Devon, said: "My concern is that people aren't processing the fact that buy now pay later is credit. They don't realise there are going to be consequences if they don't pay - it gives them a false sense of security."

# Buy now pay later transactions (share of e-commerce transactions, 2020)



# What does it mean for debt advice?

- New digital forms of credit increase the risk of over-indebtedness (e.g. no counselling, granted seamlessly, granted in a short period of time)
- Consumers can quickly be driven into a debt trap through no fault of their own, especially due to non-transparent credit conditions
- Debt advisers need to learn more about digital payment methods to be able to teach their clients how to deal with debt and the new challenges that arise from it



# How can consumers be protected?

- Be very restrictive in the use of online services and e-commerce
- When you surf the internet, minimize tracking cookies
- Regularly check your income and expenditure status / Use budget advice by social services
- Be aware of the behavioral traps
- Be resilient against nudging techniques
- Make yourself knowledgeable
- Implement more budget and debt advice centers
- Consider buy-now-pay-later in workshops for consumer prevention

# Thank you for your attention

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