Fear of judgment is keeping consumers indebted, but a new study shows peer groups can help turn that around

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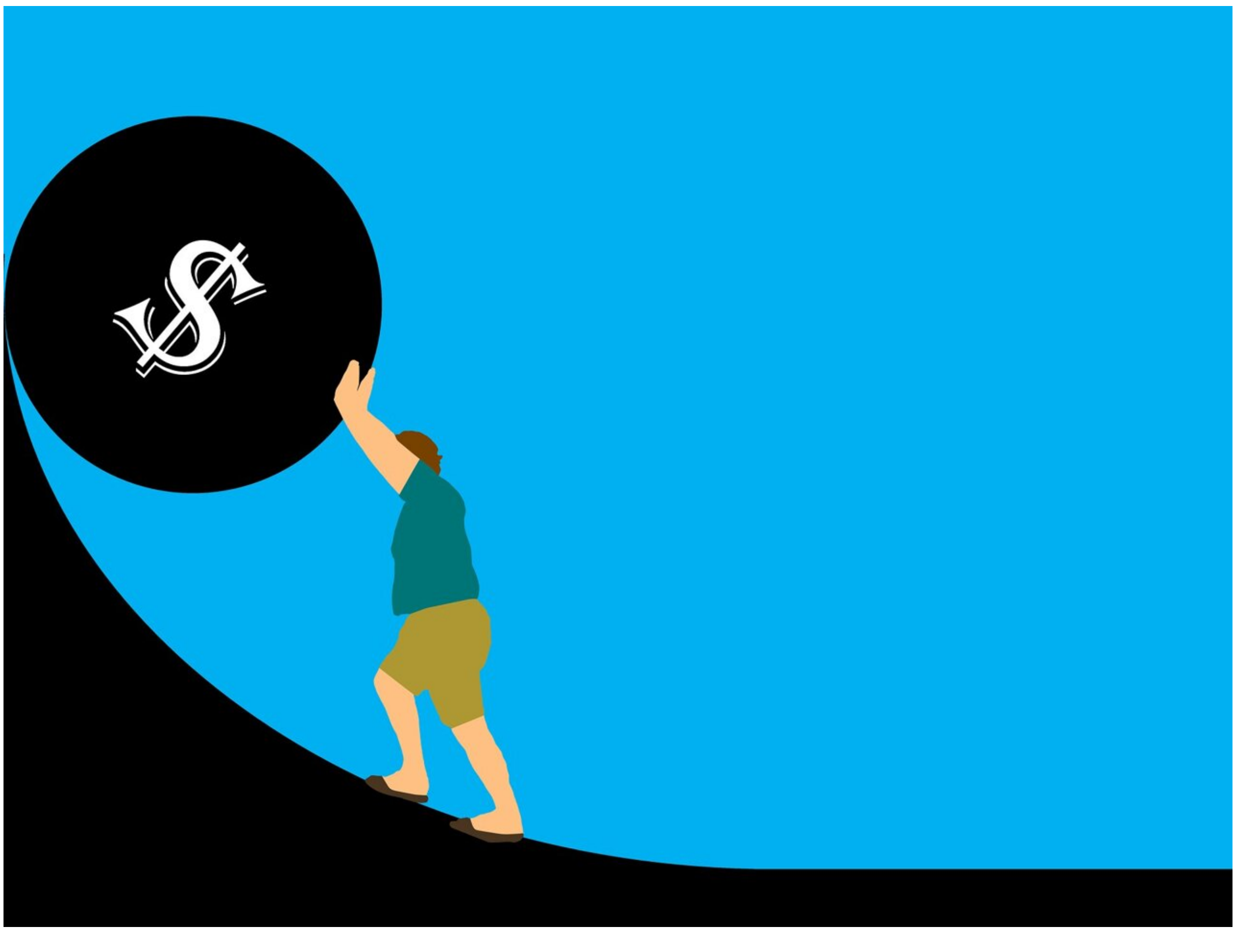

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Consumers who are honest about their level of debt and join peer-supported debt counseling groups are more likely to get their finances in order than those who keep it a secret, according to a new study in the *Journal of Marketing Research* co-authored by Ivey Business School professor Miranda Goode.

Yet while social stigma was a key factor in keeping consumers stuck in a debt cycle, social support was an important part of the solution.

"We have this tendency, as a society, to avoid talking about our finances, and especially about debt. And if you look at it through the lens of stigma—that fear of judgment—you find that there is a group of people who are really anxious about what others will think, and that influences how transparent they are and how far they'll go to keep it a secret," says Goode, an Associate Professor of Marketing at Western University's Ivey Business School and author of Helping Those That Hide: Anticipated Stigmatization Drives Concealment and a Destructive Cycle of Debt.

The study, which was a collaboration between Goode and Michael Moorhouse, an Assistant Professor of Marketing at Wilfrid Laurier University, fellow Ivey Marketing Professor June Cotte, as well as Jennifer Wolowich-Widney, Founder of Financial Fundamentals, showed that about 20 percent of people who were indebted in their study worried moderately to extensively about being stigmatized.

"We see the same people reporting their general tendencies around being secretive and not talking with friends and family about debt, which leads to delaying and avoiding help, and spending more in social situations to hide their actual financial situation."

It's a particularly worrying problem when you consider 80 percent of American families carry consumer debt, with an average of $38,000 in debt in addition to their mortgage. According to TransUnion, credit card delinquencies are expected to increase to 2.6% through the end of 2023 after already moving upwards through 2022, which would represent a 20.3% increase year over year, as consumers continue to use cards while negotiating through high inflation and a rising interest rate environment.

Peer-support has been shown to help in other situations where people may fear stigma, but this is the first study to look at the effect it has on well-being in the context of debt—and the first to link social benefits to a change in behavior when it comes to debt repayment.

Goode and her colleagues conducted a field experiment with a financial education company, where consumers who identified as middle-class received financial education from professional instructors either in a private online setting with classes delivered by the instructor through a webinar, or in a community-based class, where consumers met in person with other indebted consumers. On average, people started the course with about $36,000 worth of consumer debt (not including mortgages), and an average household income of $86,000.

Participants in the community groups paid off $4,370 more of their debt than those in the control group (who were not offered any financial education during the study), compared to $3,531 for those in the private group. Those who anticipated the most stigmatization also did better in the group environment. For that segment, increasing social connection by developing supportive relationships was critical to increasing motivation to change behavioral patterns and pay off debt. Within private settings, some continued to hide their level of debt, even as they sought out personal finance guidance.

Indebted consumers who were moderately to extremely concerned with being stigmatized reported a 15 percent increase in in their well-being when they were enrolled in the community-based course, compared to an increase of only eight percent for those in a course with private instruction. Similarly, those who were moderately to extremely concerned with being stigmatized repaid approximately seven percent of their debt in the community-based course compared to five percent in the course with private instruction.

"The course gives them a bit of a cathartic release because they see there are other people like them, who feel the same way, and so they can talk about it," Goode says.

"They have a common base of experiences, and they're not being judged, which makes them even more motivated."

Participants' feelings about the size of their debt were also shown to be a more important predictor of financial stress and anticipated stigmatization than the actual size of their debt in dollars in some cases—all of which led to not only hiding debt levels, but also avoiding the help they needed to break the cycle of debt accumulation and spending.

The link between anticipated stigmatization and debt concealment was evident in a broad, diverse North American population in common debt situations—not only in extreme circumstances like being on the brink of bankruptcy or of losing your home.

When looking at recommendations for policymakers and financial professionals to help indebted consumers break the stigma cycle and reduce their debt, the study suggests community-based debt reduction courses encourage frequent, supportive, and non-judgmental disclosure of their participants' struggles with debt, emphasizing the commonality in debt experiences shared by participants. Instructors should facilitate small group activities often and assign partnerships to nurture interactions inside and outside of class.

Key takeaways:

- Indebted consumers who fear stigmatization make poor financial decisions, including spending more in social situations and avoiding financial help and support from personal and professional sources;
- There are many online and one-on-one financial education courses available in the marketplace, but these offerings are less helpful for consumers who fear their debt will be negatively judged by others; and
- Community-based debt reduction courses should encourage frequent, supportive, and non-judgmental disclosure of their participants' struggles with debt, emphasizing the commonality in debt experiences shared by participants.

More information: Michael Moorhouse et al, EXPRESS: Helping Those That Hide: Anticipated Stigmatization Drives Concealment and a Destructive Cycle of Debt, *Journal of Marketing Research* (2022). DOI: 10.1177/00222437221146521

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