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Social Effects in the Age of Digital Finance

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The transition from informal, group-based, financial services to formal, individual-based, digital financial services may come about with some unintended consequences, such as the reduction of the positive effects linked to social pressure. A possible remedy to this problem is SMS messages. Beyond their ability to bring financial goals to the “top of mind,” SMS messages can be efficient and effective digital tools to build and maintain the positive effects of social pressure.

There is evidence from a number of countries (Kenya, Afghanistan and India, for example) that digital financial services (DFS) can be an efficient, affordable, and scalable means to increase financial inclusion and improve the lives of the poor. However, there are still significant challenges to achieving the sustainable use which translates into positive welfare impact. As noted in this IPA blog post, some of these challenges relate particularly to the reduction of social effects that comes with the introduction of digital technologies, such as mobile and smart phones. Even though digital finance can make it easier for individuals on the bottom of the pyramid to access financial services, these new forms of finance may also have unintended outcomes such as lower savings and delinquent debt repayment, through reduced group cohesion and decreased social pressure. While more evidence on this is

needed, it is important to take these possibilities into account when developing digital tools and services for the world's poorest.

Let's take the example of peer groups in microfinance. Traditionally these groups have relied on two main pillars for their operation: joint-liability and social effects. Evidence has shown that 'joint-liability' is not always necessary for achieving healthy financial behavior ([Giné and Karlan, 2010](#)). On the other hand, the *social* effects that these groups have do tend to promote higher savings and repayment rates. This has been well documented in the academic literature ([Dupas and Robinson 2013](#), [Breza and Chandrasekhar 2016](#), and [Breza 2012](#)). For many microfinance institutions, this has provided good justification for maintaining peer groups as a core component of the model of operation. However, the rapid changes that have been taking place in the space of digital finance raises questions, such as, how can we maintain the benefits linked to social pressure while we transition to an individual-based form of digital finance?

Evidence from a number of studies suggests that carefully designed features integrated into digital financial service platforms may offer an opportunity to maintain and build upon the benefits of social cohesion/pressure inherent to the traditional model. One simple tool at a product designer's disposal is SMS messages. [Previous research](#) conducted by IPA has shown that SMS messages can be powerful tools in fighting procrastination and helping individuals to follow-through on their goals. More recently, results from similar studies indicate that SMS messages could replicate some of the outcomes that have been traditionally linked to various forms of social effects. For instance, [Kast, Meier and Pomeranz \(2016\)](#) found that feedback text messages can achieve effects of similar size on savings than other forms of social pressure (meetings, rewards or peer pressure). Similarly, in Kenya, a 14-day pilot showed that SMS messages that compared people's savings to that of slightly better savers increased savings by 11 percent ([CGAP, 2017](#)). While another study, also in Kenya, found that SMS messages that tested the 'peer-effect' under the peer to peer lending platform Pesa Zetu achieved higher repayment rates than other types of SMS ([CGAP, 2017](#)).

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Carefully designed messages or notifications that reinforce and replicate some of the mechanisms of social effects can have an important impact on the financial behavior of users of digital finance services. However, there are a number of questions that arise when thinking about moving to an individual-based digital finance environment. How can the positive aspects of social pressure and cohesion be integrated into product design? What mechanisms and design features lead to the greatest impact on financial health? Are digital forms of social pressure more cost-effective than other more traditional methods at generating impact?

IPA is currently partnering with Mexico's National Commission of the Retirement Savings System ([CONSAR](#) for its Spanish acronym), the Colombian Pension Fund Manager ([Colpensiones](#)), and [the Inter-American Development Bank](#) to test the impact of different behavioral framing of SMS, including a social pressure strategy, on retirement savings in [Mexico](#) and [Colombia](#). This research can contribute to broaden the body of evidence on the

social features that can make SMS the most effective in promoting healthy financial behavior. The results from these and other evaluations can help us to understand the design tweaks and features needed to pave the way for a smooth transition into digital finance that preserves the benefits of social effects.

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