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A Digital Conscience that Pushes Savers to Build Lasting Nest Egg

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A proposal from a top U.S. banking regulator to allow financial-technology companies to apply for bank charters drew a range of reactions on Friday from industry executives, policy makers, attorneys and advocacy groups. Here are a few of the early takes on the proposal:

A host of mobile apps push consumers to spend less and save more. Some siphon off extra money into a savings account. Others shock the user with alerts about profligate spending: You have spent \$87 on coffee this month! Most keep users informed about their current balances versus their goals. Some banks even offer incentives to customers if they save more.

Most of these apps also share a limitation, though. They don't help customers see the bigger picture of their entire financial lives, nor weigh the relative merits of their different short- and long-term goals against one another.

"The temptation is, once you fill up a bucket or reach your goal, you spend that money," said Brett King, founder and CEO of Moven, the company behind one of the first digital-only "neobanks."

The objective for the next version of Moven's app (we got a preview) is not to fill lots of buckets in a traditional goal-oriented or budgetary approach, but simply to increase savings month over month. Once the user has accumulated a pool of savings, the app will help her decide what to spend her savings on — and walk her through short-term versus long-term decisions.

"The reality is, life is not that simple," King said. "If you have \$500 in a savings account and decide to put another \$100 in to buy a new iPhone, you may not be able to have the Christmas vacation with the kids. Life is about trade-offs."

The upcoming features in Moven's app, which stands on its own and is white-labeled by TD Bank and Westpac New Zealand, will provide savings account balance updates accompanied by a "Wish List Timeline." The timeline might show a goal that's been met (the checked-off sneakers below), alongside unmet goals like a laptop and a Caribbean vacation.

The app gently nudges the user to think about far-off goals. She might want to put off buying sneakers in order to make sure she can take her family on that winter holiday.

"It's a really interesting psychology and gamification structure that's built into your daily routine," King said. (King is also host of the Breaking Banks podcast, which is syndicated by American Banker.)

It's like a financial conscience, except that it doesn't tell you if you're making good or bad decisions.

"It's just designed to push you towards healthier financial decisions," King said. "Just by being aware of what you're spending, that elicits enough of a shift in behavior to get you to spend less and start to put that money away."

Apps such as Digit, Level Money, Chime, Dyme, Qapital, Simple and Moven have generally worked well in helping their users save money, according to Wei Ke, a partner at New York consultancy Simon-Kucher in New York. About 30% of American consumers have a strong need for help with saving, he said.

"These disruptors are changing the customer experience, streamlining the process, and reducing the threshold of pain for savings," he said. Some, for instance, send the customer a text message. If the customer taps the 'yes' button, "boom, the money gets automatically transferred to a savings account," Ke said. "The result is more client engagement."

Ke agreed that an app that makes sure these goals don't compete with each other would be helpful.

However, one challenge to this approach is that it asks more of the customer.

"You don't want to make it onerous to set up these ongoing goals," Ke said. "If using the app starts to feel like homework, it doesn't work."

This is why many banks' personal financial management and budgeting apps have low adoption rates, he said: they're too much work to set up. King said the items in Moven's upcoming wishlist take seconds each to set up.

Do Savings Apps Change Behavior?

Some consumer advocates question if savings apps actually have the intended effect of improving people's financial health.

"The real savings challenge for nonprime Americans is related to income and access to credit, and won't be solved by general savings advice or organizational tools," said Jonathan Walker, executive director of Elevate's Center for the New Middle Class, a recently formed research arm of Elevate, a provider of online credit to the financially underserved. The group defines nonprime people as those with credit scores below 700 and little or no savings.

"While technology can certainly help people save money and organize their lives in general, most nonprime consumers report that they are already managing their finances as well as can be expected."

In a survey over the summer, the Center for the New Middle Class found that 52% of nonprime consumers say they deny themselves basic comforts in order to save money. Two in three say they are careful spenders. Over half cite month-to-month income volatility that can make it tough to establish a regular savings plan — even though 72% say they know how to budget. 37% say that they can't make financial progress because of a lack of credit — not a lack of savings apps.

But King says daily users of Moven have already reduced their overall monthly spend, and thereby increased savings balances. TD Bank Canada customers who use MySpend (the bank's white-labeled version of Moven) more than five times a month save an average of \$150 more a month than customers who don't use it. (The bank knows this because it can compare MySpend users to a control group of TD Bank customers who registered for the app but don't use it.)

Moven is targeting the 57% of American adults who are struggling financially and are looking for help to achieve financial health, King said. The app provides daily updates, a spending meter and periodic reminders to save. Customers can choose to stash money at any time or when Moven detects and

recommends an opportune savings moment. Through a partnership with Envestnet and its Yodlee financial data platform, Moven integrates with customers' other investment and retirement savings accounts.

"All this changes people's habits in terms of spending, then they lock away the savings," King said.

Moven impulse savings

As part of the upgrade, Moven will introduce a Fitbit-like feature that has users compete against themselves to increase the amount of savings they put away every month, the way users of fitness trackers sometimes become obsessed with increasing their steps.

"We gamify that element as well," King said. "We say, 'Hey, you saved \$600 this month, can you beat it next month?'"

Ke wonders if people will care enough to respond to this psychological inducement. "Setting a goal for savings is definitely coherent from a cognitive standpoint, but setting up competitive saving is further removed," he said. "Nobody goes around and talks about their savings."

This could work, however, within a close circle of friends who are saving, say, for a group vacation. "There's peer pressure, there's stuff you're able to buy through more diligent savings behavior," Ke said. "It could work if everyone's working toward that."

Ready to Launch

Moven's revised app is currently being used by staff, friends and family and will likely be launched to the public later this month or in early January — ideally, to coincide with New Year's resolutions, King said.

Along with the updated app, Moven last week began offering a 5% annual percentage rate on up to \$5,000 in its Smart Savings Account for customers who spend \$500 a month on the Moven debit card. The standard rate is 0.5%.

The 5% return is remarkably high.

"We hope it gets some attention, some noise," King said. "This is a trial thing; I don't know if we'll be able to sustain it." The company may end up charging those who receive the higher APR a higher monthly fee. "That's the great thing about being a startup," King said. "You can try it out, pivot or iterate."

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