

A social nudge towards saving more?

Too few households are saving for a rainy day. But you can forget the sanctimonious lectures; no one's listening. Poor financial planning is a difficult habit to break and if things are going to change, we need a new approach. Could social norm nudging be the answer?



In the Netherlands, about one in three households has a lower financial buffer than is recommended, according to the Dutch non-profit organisation Nibud. Banks and other institutions want this to change and, for several years, have been testing options to get their customers to set aside more money. But simply providing information about the benefits of saving more has had little impact.

Enter, the social norm nudge.

A nudge is like a push in the right direction, which slightly alters the environment without reducing freedom of choice. The social norm nudge, which has proven to be particularly fruitful, specifically points out how people differ from the rest of the pack.

The power of others

Research has shown that social norms strongly influence human behaviour.

For example, a classical social psychological experiment found that hotel guests were more likely to re-use their towels when told that the vast majority of guests did this as well. Similarly, taxpayers were more likely to pay their taxes on time when told that 90% of taxpayers paid

promptly.

Households seem to benefit from nudges, too; they save more energy when they know their energy consumption is substantially higher than their neighbours'.

Such 'social norm messages', describing how *other* people behave, are much more effective than 'injunctive norm messages', describing what people *should* be doing.

As for saving, there's only been a single experiment involving social norm messages, by Beshears et al. In a field experiment, the researchers tested whether employees of an industrial company could be nudged into larding their pension, by learning how much their co-workers were saving. The answer was negative. Most employees ignored the nudge, and some actually responded by saving even less. The researchers suspected that this was simply due to an unhappy choice of the comparison group: employees within the same age category got the same message, regardless of their income. Co-workers with relatively low income gave into a stubborn impulse to save even less than they did before they received the message in which they were compared to colleagues with a higher salary.

Social norm nudge take two

We thought the whole idea of social norm nudging deserved a second chance. To find out how a nudge could help people save more, we redesigned Beshears' version, making sure that the nudge message compared the saver in question to a *similar* group of savers.

We focused on various neighbourhoods in the Netherlands, inhabited by the same kind of people: ING customers who resembled one another in terms of age as well as income. We sent out a social norm email message that talked about other people living in the same area: "You have a significantly smaller financial buffer than most other ING customers in your area."

We were interested in ING customers with a bank balance that was not negative but still significantly lower than the median in their area. These customers got an email with our social norm message, accompanied by a short post about automatic saving. The post included a link to a landing page, where customers were gently guided towards increasing their financial buffer.

Our control group consisted of ING customers with similar features and living in almost identical areas. They got the same email – but without the social norm message. We deliberately excluded ING customers who saved more than the median in their area as the message could have had a negative impact on them if they realised they were actually saving *more* than the norm.

More traffic, but how about saving more?

We found that the households who received the social norm nudge visited the online landing page 26% more often (3.4% in the intervention group versus 2.7% in the control group). That sounds promising and seems as though the social norm message did get people to *think* about saving more. But did they act on it?

Unfortunately, they didn't. Three months after the email, their buffer hadn't changed even a little bit. While the social norm nudge sparked some attention initially and helped people find their way onto the landing page, the message failed to produce the result we were hoping for. Saving behaviour, it seems, is hard to change.

Author

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.