Why finance apps save you money

Research shows that simply paying more attention to your bank account and credit card debt can change spending and savings patterns for the better. Even a single login can help to avoid unnecessary charges and fees

Finance vs. fitness

In the decade since the launch of the iPhone, personal finance apps have become ubiquitous. From banking and payments to budgeting and investing, these apps offer speed and convenience while promising to improve our overall financial well-being. Until now, though, there's been little evidence that personal finance apps have much more of an effect on our financial health than fitness trackers' dubious impact on our physical health.

According to our new study, consumer finance apps can actually generate returns for their users by reducing late fees, overdraft charges, and other avoidable consumer debt expenses. It appears as if people become more aware of their budgets, and therefore, they get better at avoiding fees.

Lower bank fees and debt expense

We collected data from Meniga, a software platform that lets people aggregate and manage all of their financial accounts in one place. According to the 2016 corporate blog post, the app has a 25% market penetration in Iceland. Having data from Iceland is advantageous because the country is a virtually cash-free society, compared with about 32% cash transactions in the US, which allows us to track all consumer spending as well as bank account balances and credit limits.

Relative to Baby Boomers, Millennials and Gen Xers are more likely to use financial apps, but each login saves members of all cohorts cash. In 2016, two years after the launch of the app, 52% of Millennials had adopted the new technology, along with 41% of Gen Xers, and 27% of Baby Boomers. With each login, the average user was found to lower their bank fee expenses by $2.24 with consumer debt expense savings of $1.77 per login. On the whole, Icelandic consumers thus reduced their consumer debt expenses substantially as a result of the personal finance app introduction.

We also found differences in usage of the app — and returns on that usage — between genders. Across all three age groups, men were slightly more likely to use the app. However, again, both groups of users benefited from each login via substantial savings in consumer debt expenses.

Paying attention = better behaviour

While no one would argue with saving a few bucks on avoidable bank charges, we could not fully pinpoint how the use of the platform encouraged greater savings or changed spending patterns. At the point of the app introduction, there were no push messages or financial advice part of the package. We thus hypothesize that the mere act of paying more attention to bank account balances and consumer debt holdings, such as credit card debt and overdrafts, induced individuals to be better behaved and reduce some of that high-interest expensive debt.

We thus provide evidence for a hitherto unknown mechanism whereby solely accessing information about your account more frequently changes your spending and savings patterns for the better.

Helpful for everyone

Furthermore, in a previous paper, we found that individuals do not like to pay attention to their personal finances when they are in dire financial standing, potentially agonising over each up and down. Looking at logins more generally, this study found that individuals log in less after spending heavily and when they hold greater consumer debt relative to their own histories of consumer debt holdings. We suspect that something similar could be happening here as individuals become more aware of their finances as a result of using the app more frequently.

However, the app is not making people log in, it is just making accessing the information less time-consuming and from anywhere. Nobody is forced to look at their consumer debt. But because people log in more, they reshuffle their debt holdings to pay fewer fees. That seems like a helpful thing rather than a harmful thing and it is true for everyone.

You can find the full report on our TFI website here.