Digital nudge in online microfinance interfaces

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The services of microfinance organizations (MFO) are extremely popular in Russia nowadays - according to the Central Bank on April 1, 2020, 5.5 million Russians have debt to MFOs. In other words, on average, every 22nd Russian citizen over 18 has a microcredit. The uniqueness of MFOs in Russia lies in the fact that very often the reason for contacting MFOs is the inability of an individual to negotiate an existing bank credit.

We would like to pay special attention to one striking feature of the digitalization of the MFO market. The share of loans issued online is growing every year, and in the field of payday loans it has already grown to 68%. In our opinion, it is important that loans issued online are of significantly lower quality compared to offline. Thus, in the PDL segment, the share of overdue loans issued online is 50.4% versus 45.5% offline. And as the share of online loans is growing, this could lead to an increase in the share of overdue loans, which creates negative effects for both consumers and organizations.

Market experts say that spontaneity of decision-making is one of the biggest concerns for consumers of MFO services, and digitalization rises the spontaneity greatly.

The ethics of microfinance in general is a topic of discussion, it has been a target of much ethical criticism. Russian Orthodox Patriarch Kirill in 2017 proposed ban on microloans, because, in his opinion, this business is absolutely immoral. He labeled those who engage in the microcredit business as "parasites".

The spontaneity of decision-making is online MFO services is even higher because user can do it from his or her home and has no need to communicate with a manager, who can convince not to take out a loan.

In our opinion, the interfaces of online MFOs are designed in a way to increase the spontaneity of decision-making. Usability designers and engineers create such interfaces that nudge users to make decisions favorable to the MFOs. So, the usability of user interfaces as a tool, in our opinion, can be considered as a kind of digital nudge — a key method of behavioral paternalism. That makes the business of online MFOs much more unethical comparing to traditional microfinance.

The way to make online microfinance more ethically correct is to make decision-making process less spontaneous. The understanding of associated risk can be presented in the interface of the online MFO service as a page with a test with questions on how a person understands the terms of the loan that he or she plans to take — how much interest will be, what are the penalties for delay, how much will be his monthly budget by taking into account the mandatory and credit payments, and others. The application on the loan should be sent only in case of correct answers for each question.

The effectiveness of this practice can be analyzed by A/B testing, by creating treatment and control groups. It will be necessary to compare the following indicators: first, the conversion rate of site visits to applications, and secondly, over time, the repayment of loans. The first indicator will give the opportunity to understand how many users dropped out due to the need to understand and correctly answer all questions about the loan received. The second will provide information on how this method increases the rationality of the decision to take the loan.

In our opinion, the project of this experiment should be implemented within the framework of the program for increasing the financial, since if the experiment is successful, this will make it possible to reduce the spontaneity of decision-making in microfinance, as a result, to reduce the debt load of population and make the business of online MFOs much more ethically correct.