

# Entropy\*

Fabian Gunzinger                      Neil Stewart  
Warwick Business School          Warwick Business School

April 21, 2022

## Abstract

...

## Contents

<b>1</b>	<b>Introduction</b>	<b>3</b>
<b>2</b>	<b>Results</b>	<b>4</b>
2.1	Main results . . . . .	4
2.2	Tables . . . . .	5
2.3	Exploration . . . . .	8
<b>3</b>	<b>Discussion</b>	<b>10</b>
<b>4</b>	<b>Methods</b>	<b>10</b>
4.1	Dataset description . . . . .	10
4.2	Preprocessing and sample selection . . . . .	11
4.3	Dependent variables . . . . .	11
4.4	Spending profile . . . . .	11
4.5	Control variables . . . . .	13
4.6	Summary statistics . . . . .	16
4.7	Model specification . . . . .	16
<b>A</b>	<b>Data</b>	<b>17</b>
A.1	Data preprocessing . . . . .	17
A.2	Variabel description . . . . .	18
A.3	Data issues . . . . .	18
<b>B</b>	<b>Entropy</b>	<b>19</b>
B.1	Entropy calculation . . . . .	19
<b>C</b>	<b>Effect of entropy on overdraft fees</b>	<b>20</b>

---

\*This research was supported by Economic and Social Research Council grant number ES/V004867/1. WBS ethics code: E-414-01-20.



# 1 Introduction

Overall plan for paper

- Question: is the way people spend related to how they save? (I.e. is there a relationship between spend profiles and savings behaviour?)
- Analysis: at user-month level (initially) and user-level (maybe later)
- We can think of total savings as the sum of long-term and short-term savings. Long-term savings are savings for retirement, either individually or through an employer-linked pension scheme. These kinds of savings, and especially savings through pension schemes, are well researched. In contrast, there is almost no research on short-term savings, which comprise savings for particular goals such as a new car, a holiday, or a wedding, and emergency savings to have a buffer for unexpected events. (See nest2021supporting for more on emergency savings)
- We aim to close this gap. In our data, we cannot distinguish between goal-oriented and emergency savings, so we focus on total short-term savings<sup>1</sup>

Old version - reuse what is useful.

- This paper explores the effect of spending profiles on financial outcomes.
- Spend profile: distribution of txn spend txns across txn categories.
- Financial outcomes: spending, saving, overdraft fees
- Financial wellbeing is important.
- People in UK and US also don't have enough to cover unexpected outlays. (See reports)
- This has important consequences:
  - Short-term: financial well-being (see reports)
  - Long-term (viscious cycle): scarcity hypothesis - makes it harder to focus on important things (plan for retirement, focus on healthy lifestyle, support children, ...) and might lead to vicious cycle (less savings leading to increased risk of financial hardship leading to more stress leading to less savings...)
- Spending and savings behaviour is important component - it's not all about lack of income.
- Structure paper:
  - Part I: descriptive states of when people spend, save, and pay od fees
  - Part II: define measures that characterise spend profile

---

<sup>1</sup>MDB allows users to create custom tags and some users use them to indicate the intended use for their savings transactions (e.g. "wedding", "holidays"). But only a very small number of transactions have such tags, and we do not pursue this further.

- Part III: regression analysis
- Part IV: cluster analysis: do outcomes differ by groups? (poss sep ml focused paper)
- Part V: predict non-saving, high-spend, and od fee months (poss in separate paper with above section)
- While there is large literature on long-term / pension savings, very little work on short-term financial spending and savings behaviour.
- In doing so, we aim to contribute to three literatures:
  - Main 1: Understanding emergency savings behaviour (nest, aspen reports)
  - Main 2: Understanding effect of behavioural entropy - eliciting useful personality characteristics from large-scale data
  - Also 1: More broadly: part of savings literature (pension literature, savings buffer)
  - Also 2: Use of high-frequency transaction data (itself a sub-literature of use of newly available large-scale datasets)
- 

## 2 Results

### 2.1 Main results

## 2.2 Tables

Table 1: has\_sa\_inflows on unsmoothed entropy

Dependent Variable: Model:	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Variables</i>								
Entropy (9 cats)	0.037*** [0.030; 0.043]				0.014*** [0.004; 0.023]			
Entropy (48 cats)		0.046*** [0.039; 0.052]				0.031*** [0.020; 0.042]		
Entropy (merchant)			0.058*** [0.052; 0.064]				0.024*** [0.014; 0.035]	
Entropy (groceries)				0.027*** [0.023; 0.030]				0.009*** [0.005; 0.014]
Paid with credit (%)	-0.002*** [-0.002; -0.002]	-0.002*** [-0.002; -0.002]	-0.002*** [-0.002; -0.002]	-0.002*** [-0.002; -0.002]	0.000 [-0.000; 0.000]	0.000 [-0.000; 0.000]	0.000 [-0.000; 0.000]	0.000 [-0.000; 0.000]
Month spend	-0.000 [-0.002; 0.002]	-0.002* [-0.004; 0.000]	-0.004*** [-0.006; -0.002]	-0.001 [-0.003; 0.001]	0.010*** [0.008; 0.013]	0.010*** [0.007; 0.012]	0.009*** [0.007; 0.012]	0.010*** [0.008; 0.013]
Urban	0.009* [-0.001; 0.018]	0.010*** [0.001; 0.019]	0.008* [-0.001; 0.017]	0.008* [-0.001; 0.017]	-0.026 [-0.233; 0.181]	-0.024 [-0.235; 0.187]	-0.023 [-0.234; 0.187]	-0.029 [-0.235; 0.177]
Month income	-0.020*** [-0.023; -0.018]	-0.021*** [-0.023; -0.018]	-0.020*** [-0.023; -0.018]	-0.019*** [-0.021; -0.016]	0.002 [-0.005; 0.009]	0.002 [-0.005; 0.009]	0.002 [-0.005; 0.009]	0.002 [-0.004; 0.009]
Has income in month	0.126*** [0.097; 0.155]	0.124*** [0.094; 0.153]	0.119*** [0.090; 0.148]	0.120*** [0.091; 0.149]	0.045*** [0.015; 0.075]	0.044*** [0.014; 0.074]	0.043*** [0.013; 0.073]	0.045*** [0.016; 0.075]
Income variability	-0.024*** [-0.028; -0.019]	-0.024*** [-0.029; -0.019]	-0.023*** [-0.028; -0.019]	-0.023*** [-0.027; -0.018]	-0.003 [0.012; 0.006]	-0.003 [0.012; 0.006]	-0.003 [0.012; 0.006]	-0.003 [0.012; 0.006]
Rent payment	-0.011** [-0.021; -0.001]	-0.015*** [-0.025; -0.005]	-0.011** [-0.021; -0.001]	-0.015*** [-0.025; -0.005]	0.028*** [0.008; 0.047]	0.024*** [0.005; 0.044]	0.027*** [0.008; 0.046]	0.027*** [0.008; 0.047]
Mortgage payment	-0.021*** [-0.030; -0.012]	-0.029*** [-0.037; -0.020]	-0.025*** [-0.034; -0.017]	-0.020*** [-0.029; -0.011]	0.022* [-0.002; 0.046]	0.017 [-0.007; 0.041]	0.020 [-0.004; 0.044]	0.022* [-0.002; 0.046]
Loan repayment	0.017*** [0.010; 0.024]	0.013*** [0.006; 0.020]	0.011*** [0.004; 0.018]	0.020*** [0.013; 0.027]	0.008 [-0.008; 0.023]	0.005 [-0.011; 0.020]	0.006 [-0.009; 0.022]	0.008 [-0.007; 0.024]
Benefits	0.022*** [0.008; 0.035]	0.018*** [0.004; 0.031]	0.018*** [0.004; 0.031]	0.016*** [0.003; 0.030]	-0.005 [-0.043; 0.033]	-0.007 [-0.045; 0.031]	-0.007 [-0.045; 0.031]	-0.007 [-0.045; 0.031]
(Intercept)	0.316*** [0.285; 0.346]	0.321*** [0.291; 0.352]	0.325*** [0.294; 0.355]	0.330*** [0.300; 0.361]				
<i>Fixed-effects</i>					Yes	Yes	Yes	Yes
User id					Yes	Yes	Yes	Yes
Calendar month					Yes	Yes	Yes	Yes
<i>Fit statistics</i>								
Observations	83,935	83,935	83,935	83,935	83,935	83,935	83,935	83,935
R <sup>2</sup>	0.01875	0.01932	0.02135	0.01996	0.02806	0.02841	0.02828	0.02813
Within R <sup>2</sup>					0.00280	0.00341	0.00317	0.00292

Signif. Codes: \*\*\*, 0.01, \*\*, 0.05, \*, 0.1

Notes: Spend and income variables are in £'000.

Table 2: has\_sa\_inflows on smoothed entropy

Dependent Variable:		Has savings						
Model:	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Variables</i>								
Entropy (9 cats, smooth)	-0.001 [-0.005; 0.003]				-0.004 [-0.010; 0.002]			
Entropy (48 cats, smooth)		-0.028*** [-0.032; -0.023]				-0.016*** [-0.023; -0.008]		
Entropy (merchant, smooth)			-0.027*** [-0.031; -0.023]				-0.017*** [-0.025; -0.010]	
Entropy (groceries, smooth)				-0.017*** [-0.021; -0.014]				-0.010*** [-0.016; -0.004]
Paid with credit (%)	-0.002*** [-0.002; -0.002]	-0.002*** [-0.002; -0.002]	-0.002*** [-0.002; -0.002]	-0.002*** [-0.002; -0.002]	0.000 [-0.000; 0.000]	-0.000 [-0.000; 0.000]	-0.000 [-0.000; 0.000]	0.000 [-0.000; 0.000]
Month spend	0.001 [-0.001; 0.003]	-0.002* [-0.004; 0.000]	-0.003*** [-0.005; -0.001]	-0.000 [-0.002; 0.002]	0.011*** [-0.008; 0.013]	0.009*** [-0.007; 0.012]	0.009*** [-0.006; 0.011]	0.010*** [-0.007; 0.012]
Urban	0.008** [-0.001; 0.017]	0.004 [-0.006; 0.013]	0.004 [-0.005; 0.013]	0.007 [-0.003; 0.016]	-0.028 [-0.233; 0.177]	-0.027 [-0.231; 0.178]	-0.027 [-0.231; 0.178]	-0.030 [-0.235; 0.175]
Month income	-0.019*** [-0.022; -0.017]	-0.020*** [-0.023; -0.018]	-0.021*** [-0.024; -0.018]	-0.019*** [-0.022; -0.017]	0.002 [-0.004; 0.009]	0.002 [-0.005; 0.009]	0.001 [-0.006; 0.008]	0.002 [-0.005; 0.009]
Has income in month	0.127*** [0.098; 0.156]	0.123*** [0.093; 0.152]	0.125*** [0.095; 0.154]	0.124*** [0.094; 0.153]	0.046*** [0.016; 0.076]	0.043*** [0.013; 0.073]	0.044*** [0.015; 0.074]	0.045*** [0.015; 0.074]
Income variability	-0.024*** [-0.029; -0.020]	-0.024*** [-0.029; -0.020]	-0.025*** [-0.029; -0.020]	-0.024*** [-0.029; -0.020]	-0.003 [-0.012; 0.006]	-0.003 [-0.012; 0.006]	-0.003 [-0.012; 0.005]	-0.003 [-0.012; 0.005]
Rent payment	-0.014*** [-0.024; -0.004]	-0.014*** [-0.024; -0.004]	-0.014*** [-0.024; -0.004]	-0.014*** [-0.024; -0.004]	0.027*** [0.008; 0.047]	0.028*** [0.009; 0.048]	0.028*** [0.009; 0.048]	0.028*** [0.008; 0.047]
Mortgage payment	-0.019*** [-0.028; -0.011]	-0.013*** [-0.022; -0.005]	-0.015*** [-0.024; -0.006]	-0.018*** [-0.024; -0.009]	0.022* [-0.002; 0.046]	0.023* [-0.001; 0.047]	0.023* [-0.001; 0.046]	0.022* [-0.002; 0.046]
Loan repayment	0.022*** [0.015; 0.029]	0.024*** [0.017; 0.031]	0.024*** [0.017; 0.031]	0.023*** [0.016; 0.030]	0.009 [-0.007; 0.025]	0.009 [-0.006; 0.025]	0.009 [-0.007; 0.024]	0.009 [-0.007; 0.024]
Benefits	0.017*** [0.004; 0.031]	0.015** [0.001; 0.028]	0.013* [-0.001; 0.026]	0.017** [0.003; 0.030]	-0.006 [-0.044; 0.032]	-0.007 [-0.045; 0.031]	-0.008 [-0.046; 0.030]	-0.006 [-0.044; 0.032]
(Intercept)	0.323*** [0.293; 0.354]	0.331*** [0.301; 0.362]	0.339*** [0.308; 0.369]	0.330*** [0.299; 0.360]				
<i>Fixed-effects</i>								
User id					Yes	Yes	Yes	Yes
Calendar month					Yes	Yes	Yes	Yes
<i>Fit statistics</i>								
Observations	83,935	83,935	83,935	83,935	83,935	83,935	83,935	83,935
R <sup>2</sup>	0.01726	0.01924	0.01924	0.01844	0.42798	0.42823	0.42832	0.42815
Within R <sup>2</sup>					0.00265	0.00309	0.00325	0.00294

Signif. Codes: \*\*\*, 0.01, \*\*, 0.05, \*, 0.1

Notes: Spend and income variables are in £'000.

## 2.3 Exploration

Table 3: Entropy exploration

Dependent Variable: Model:	(1)	(2)	(3)	Has savings (4)	(5)	(6)
<i>Variables</i>						
Entropy (48 cats)	0.031*** [0.020; 0.042]	0.057*** [0.044; 0.070]	0.031*** [0.021; 0.042]	0.006 [-0.008; 0.021]	0.040*** [0.029; 0.052]	0.049*** [0.023; 0.074]
Entropy (48 cats, smooth)		-0.034*** [-0.043; -0.026]				-0.027*** [-0.046; -0.008]
Spend txns			0.001*** [0.001; 0.001]			0.001*** [0.000; 0.001]
Unique categories				0.006*** [0.004; 0.008]		-0.001 [-0.004; 0.002]
Category count variation					0.000*** [0.000; 0.000]	-0.000** [-0.000; -0.000]
Paid with credit (%)	0.000 [-0.000; 0.000]	-0.000 [-0.001; 0.000]	-0.000 [-0.001; 0.000]	-0.000 [-0.000; 0.000]	-0.000 [-0.000; 0.000]	-0.000 [-0.001; 0.000]
Month spend	0.010*** [0.007; 0.012]	0.006*** [0.003; 0.008]	0.005*** [0.003; 0.008]	0.008*** [0.005; 0.010]	0.008*** [0.005; 0.010]	0.005*** [0.003; 0.008]
Urban	-0.024 [-0.235; 0.187]	-0.019 [-0.233; 0.196]	-0.019 [-0.230; 0.192]	-0.024 [-0.234; 0.187]	-0.022 [-0.235; 0.190]	-0.018 [-0.230; 0.195]
Month income	0.002 [-0.005; 0.009]	0.000 [-0.007; 0.007]	-0.000 [-0.007; 0.006]	0.001 [-0.005; 0.008]	0.001 [-0.006; 0.008]	-0.000 [-0.007; 0.007]
Has income in month	0.044*** [0.014; 0.074]	0.035*** [0.005; 0.065]	0.038** [0.008; 0.068]	0.040*** [0.010; 0.070]	0.041*** [0.011; 0.071]	0.035** [0.006; 0.065]
Income variability	-0.003 [-0.012; 0.006]	-0.003 [-0.012; 0.006]	-0.003 [-0.012; 0.005]	-0.003 [-0.012; 0.006]	-0.003 [-0.012; 0.006]	-0.003 [-0.012; 0.005]
Rent payment	0.024** [0.005; 0.044]	0.023** [0.004; 0.043]	0.024** [0.005; 0.043]	0.022** [0.002; 0.041]	0.024** [0.005; 0.043]	0.024** [0.005; 0.043]
Mortgage payment	0.017 [-0.007; 0.041]	0.014 [-0.009; 0.038]	0.016 [-0.008; 0.040]	0.013 [-0.011; 0.037]	0.016 [-0.008; 0.040]	0.016 [-0.008; 0.040]
Loan repayment	0.005 [-0.011; 0.020]	0.003 [-0.013; 0.018]	0.004 [-0.012; 0.019]	0.001 [-0.014; 0.017]	0.004 [-0.011; 0.020]	0.003 [-0.012; 0.019]
Benefits	-0.007 [-0.045; 0.031]	-0.011 [-0.049; 0.027]	-0.011 [-0.048; 0.027]	-0.009 [-0.047; 0.029]	-0.009 [-0.047; 0.029]	-0.011 [-0.049; 0.027]
<i>Fixed-effects</i>						
User id	Yes	Yes	Yes	Yes	Yes	Yes
Calendar month	Yes	Yes	Yes	Yes	Yes	Yes
<i>Fit statistics</i>						
Observations	83,935	83,935	83,935	83,935	83,935	83,935
R <sup>2</sup>	0.42841	0.42940	0.42929	0.42879	0.42877	0.42950
Within R <sup>2</sup>	0.00341	0.00512	0.00494	0.00406	0.00403	0.00530

Clustered (User id) co-variance matrix, 95% confidence intervals in brackets  
Signif. Codes: \*\*\*, 0.01, \*\*, 0.05, \*, 0.1

Notes: Spend and income variables are in £'000.



Table 4: Entropy exploration

Dependent Variable: Model:	(1)	(2)	Entropy (48 cats) (3)	(4)	(5)
<i>Variables</i>					
Entropy (48 cats, smooth)	0.274*** [0.264; 0.285]				0.539*** [0.528; 0.550]
Spend txns		0.001*** [0.001; 0.002]			0.010*** [0.010; 0.010]
Unique categories			0.097*** [0.096; 0.099]		0.081*** [0.079; 0.082]
Category count variation				-0.000*** [-0.000; -0.000]	-0.000*** [-0.000; -0.000]
<i>Fixed-effects</i>					
User id	Yes	Yes	Yes	Yes	Yes
Calendar month	Yes	Yes	Yes	Yes	Yes
<i>Fit statistics</i>					
Observations	83,935	83,935	83,935	83,935	83,935
R <sup>2</sup>	0.66423	0.59311	0.77939	0.61808	0.92879
Within R <sup>2</sup>	0.17916	0.00530	0.46067	0.06634	0.82592

Clustered (User id) co-variance matrix, 95% confidence intervals in brackets  
Signif. Codes: \*\*\*: 0.01, \*\*: 0.05, \*: 0.1

Notes: Spend and income variables are in £'000.

Table 5: Entropy exploration

Dependent Variable: Model:	(1)	(2)	Entropy (48 cats) (3)	(4)	(5)
<i>Variables</i>					
Entropy (48 cats, smooth)	0.212*** [0.208; 0.216]				0.530*** [0.526; 0.533]
Spend txns		0.003*** [0.003; 0.003]			0.010*** [0.010; 0.010]
Unique categories			0.098*** [0.097; 0.098]		0.080*** [0.080; 0.081]
Category count variation				-0.000*** [-0.000; -0.000]	-0.000*** [-0.000; -0.000]
(Intercept)	0.501*** [0.497; 0.504]	0.213*** [0.205; 0.221]	-1.079*** [-1.088; -1.069]	0.508*** [0.503; 0.512]	-1.228*** [-1.232; -1.223]
<i>Fit statistics</i>					
Observations	83,935	83,935	83,935	83,935	83,935
R <sup>2</sup>	0.10447	0.04296	0.56104	0.02614	0.88513
Adjusted R <sup>2</sup>	0.10446	0.04295	0.56104	0.02613	0.88513

IID co-variance matrix, 95% confidence intervals in brackets  
Signif. Codes: \*\*\*: 0.01, \*\*: 0.05, \*: 0.1

Notes: Spend and income variables are in £'000.

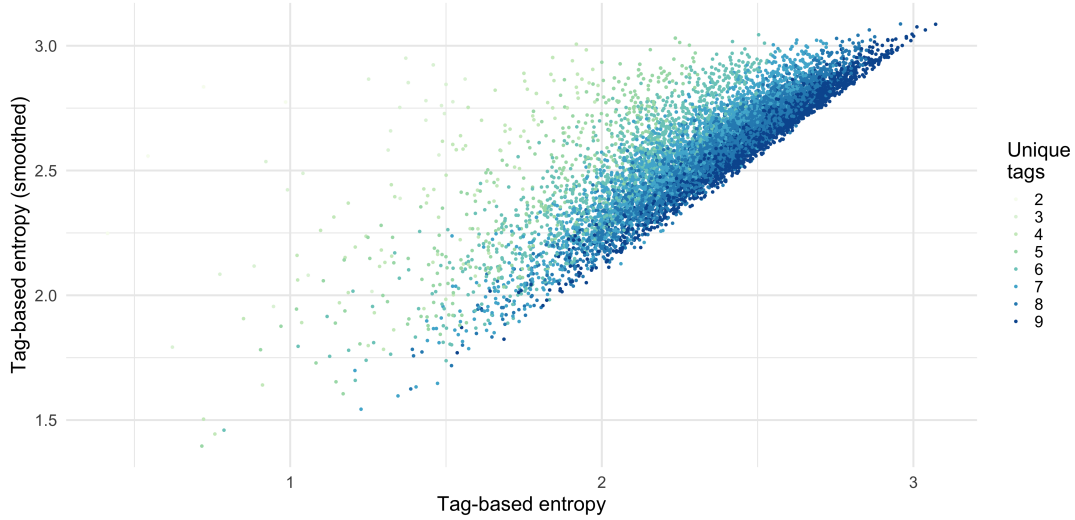
Table 6: Entropy exploration

Dependent Variable: Model:	Has savings (1)
<i>Variables</i>	
Entropy (48 cats, smooth)	-0.012*** [-0.016; -0.008]
(Intercept)	0.369*** [0.366; 0.373]
<i>Fit statistics</i>	
Observations	83,935
R <sup>2</sup>	0.00040
Adjusted R <sup>2</sup>	0.00039

IID co-variance matrix, 95% confidence intervals in brackets  
Signif. Codes: \*\*\*: 0.01, \*\*: 0.05, \*: 0.1

Notes: Spend and income variables are in £'000.

Figure 1: Entropy and unique tags



### 3 Discussion

## 4 Methods

### 4.1 Dataset description

We use data from Money Dashboard (MDB), a financial management app that allows its users to link accounts from different banks to obtain an integrated view of their finances.<sup>2</sup> The dataset contains more than 500 million transactions made between 2012 and June 2020 by about 250,000 users, and provides information such as date, amount, and description about the transaction as well as account and user-level information.

The main advantages of the data for the study of consumer financial behaviour are its high frequency, that it is automatically collected and updated and thus less prone to errors and unaffected by biases that bedevil survey measures, and that it offers a view of consumers' entire financial life across all their accounts, rather than just a view of their accounts held at a single bank, provided they added all their accounts to MDB. The main limitation is the non-representativeness of the sample relative to the population as a whole. Financial management apps are known to be used disproportionately by men, younger people, and people of higher socioeconomic status (Carlin et al. 2019). Also, as pointed out in Gelman et al. (2014), a willingness to share financial information with a third party might not only select on demographic characteristics, but also for an increased need for financial management or a higher degree of financial sophistication. Because our analysis does not rely on representativeness, we do not address this.<sup>3</sup>

---

<sup>2</sup><https://www.moneydashboard.com>.

<sup>3</sup>For an example of how re-weighting can be used to mitigate the non-representative issue, see Bourquin et al. (2020).

## 4.2 Preprocessing and sample selection

We restrict our sample to users for whom we can observe a regular income, can be reasonably sure that they have added all their bank account to MDB, and for whom we observe at least six months of data. Table 7 summarises the sample selection steps we applied to a 1 percent sample of the raw data, associated data losses, and the size of our final sample. A detailed description of the entire data cleaning and selection process is provided in Appendix A.

Table 7: Sample selection

	Users	User-months	Txns	Txns (m£)
Raw sample	25,321	570,959	55,254,410	7,434
Annual income of at least £10k	8,646	181,371	19,140,155	2,588
Income in 2/3 of all observed months	8,646	181,371	19,140,155	2,588
At least one savings account	5,155	117,796	12,945,209	1,866
At least 6 months of data	4,552	116,369	12,820,830	1,847
Monthly debits of at least £200	4,259	109,026	12,176,779	1,758
Five or more monthly current account txns	3,982	102,589	11,397,058	1,635
Minimum level of spend diversity	3,978	102,437	11,384,817	1,633
Complete demographic information	3,333	89,169	9,901,333	1,416
Final sample	3,333	89,169	9,901,333	1,416

## 4.3 Dependent variables

Identifying savings transactions: We classify as payments into savings accounts all savings account credits of £5 or more that are not identified as interest payments or automated "save the change" transfers (similarly for debits).<sup>4</sup>

Dummy for savings txn in current month. Motivation: MPS (2018) finds that saving habit is often more important than amount saved.

Gross and net inflows into savings accounts in current month. We winsorise the top end of the distribution at the 1 percent level.

## 4.4 Spending profile

- Two ways to characterise spend profile: intra-period and inter-period. For proof-of-concept study, we focus on former, and on calendar month as period.<sup>5</sup>

Measures of spending profiles:

- Tag-based entropy
- Smoothed tag-based entropy
- Grocery-shops based entropy

<sup>4</sup>While standing order transactions are unlikely to be related to entropy in the short-run, we do not exclude such transactions since, best we can tell, the only account for a small fraction of total transactions.

<sup>5</sup>For intra-period characterisation, consistency over time will be particularly interesting. Might be able to capture this using Jensen-Shannon divergence.

- Composite measure based on PCA from combination of base entropy scores (similar to Eagle et al. (2010))

**Tag-based entropy** Our variable of interest is spending entropy, a measure of how predictable an individual’s spending pattern is at a given point in time, which we interpret more broadly as a measure of the degree to which an individual’s life is chaotic. Entropy is a cornerstone of information theory, where it measures the amount of information contained in an event. In the behavioural sciences, behavioural entropy has recently been shown to predict the frequency of grocery visits and the per-capita spend per visit (Guidotti et al. 2015), the amount of calories consumed (Skatova et al. 2019), and the propensity for financial distress (Muggleton et al. 2020).

We calculate spending entropy using the formula proposed by Shannon (1948), which defines entropy as:<sup>6</sup>

$$H = - \sum p_i \log(p_i), \quad (1)$$

where  $p_i$  is the probability that an individual makes a purchase in spending category  $i$ , and  $\log$  is the base 2 logarithm.

We normalise  $H$  by  $\log(N_{SC})$ , the entropy of completely random shopping behaviour, so that it takes value between 0 and 1.<sup>7</sup>

The higher the value of entropy, the less predictable an individuals spending pattern.

To calculate entropy scores, we group spending into 9 spending categories (SC) based on the classification used by Lloyds Banking Group as discussed in Muggleton et al. (2020). Also following that paper, we use additive smoothing to calculate probabilities to avoid taking logs of zeroes in cases where an individual makes no purchases in a given spending category. We thus calculate  $p_i$  as:

$$p_i = \frac{\text{Count of purchases in } SC_i + 1}{\text{Count of all purchases} + N_{SC}}, \quad (2)$$

where  $N_{SC}$  is the total number of categories.

Issues from imperfect labelling of MDB data:

- Transaction tagging in the MDB data is imperfect: about 20 percent of transactions have no tag.
- This creates two issues for entropy calculation.
- First, entropy scores of high-entropy individuals are biased downwards - relatively more than those of low-entropy individuals. Reason: missing tags are not random: more common transactions such as groceries or take-away purchases are more likely to be tagged ...
- All zero count-cases: ... Solution: require minimum number of txns in two different labels (for all categories we use to calculate entropy). Two to avoid 0 entropy cases that are

---

<sup>6</sup>Shannon entropy is customarily denoted as  $H$  following Shannon’s own naming after Ludwig Boltzman’s 1872 H-theorem in statistical mechanics, to which it is analogous.

<sup>7</sup> $\log(N_{SC})$  is the probability of a completely random shopping pattern because for in this case, for  $N_{SC}$  different spending categories, we would have  $p_i = 1/N_{SC}$  for each category  $i$  so that  $H = -N_{SC}p_i \log(p_i) = -\log(p_i) = \log(N_{SC})$ .

unlikely to be genuine but probably artefacts of missing labelling.

### Auto-tag-based entropy

- Use apriori algorithm
- minsup: minimum number of baskets a pattern is required to appear (else it's dropped)
- In our context: basket is collection of auto tags with positive txsn counts in a user month, while pattern is pattern of such auto tags.
- Patterns also called 'representative baskets'.
- Algorithm steps (adapted from guidotti2015behavioural)
  - Identify all patterns (representative baskets)
  - Discard representative baskets that appear in fewer than minsup months we observe for a user.
  - Assign representative basket to each of the user's months.
  - Calculate probabilities of observing a representative basket based on occurrences across all of a user's month. E.g. user with 5 months of data with representative baskets [1, 1, 2, 3, 4] has representative basket probabilities 2/5 for repr basket 1, and 1/5 for repr baskets 2-4.
  - Calculate user-level entropy based on probabilities.

**Shopping-time based entropy** We calculate entropy based on the probability of  $(dayofweek, merchant)$  tuples, where we follow Guidotti et al. (2015) and bin *day of week* into *weekends* and *weekday*, to reduce excessive fluctuations. Because banks tend to process weekend transactions on Monday, as shown in Figure 4, we cannot distinguish transactions made on Saturdays or Sundays from those made on Mondays, and thus classify all of them as weekend transactions.

We drop the about 25 percent of transactions for which we cannot identify a merchant. The alternative would be leaving these transactions in the sample and treating "unknown merchant" as a single merchant. But for user-months for which the merchant is unknown for all transactions, this would lead to an entropy score of 0, which is undesirable.

**Grocery shop entropy** We consider purchases at Tesco, Sainsbury's, Asda, Morrisons, Aldi, Co-op, Lidl, Waitrose, Iceland, and Ocado, which have a combined market share of 96.5 percent.

## 4.5 Control variables

We classify potential determinants of savings behaviour into *financial behaviours*, *financial planning*, and *individual or household characteristics*, a classification frequently used in policy research on the financial wellbeing (CAN 2019, CFPB 2017, MPS 2018).

Financial behaviour

- Regular savings, dummy for 10 out of last 12 months

- Proportion of purchases paid with credit card. This is only about 6 percent in our final sample, whereas it is 12 percent in the full sample.<sup>8</sup>
- Month total and category spend (category spend for robustness)

#### Planning

- Regular login, dummy for 1 / month in 10 out of last 12 months. Have login data for about 50 percent of sample, so best to work with full sample once I use it. Implement once I can do that. – not yet implemented –

#### Individual and household characteristics

- Gender
- Age
- Urban
- Region
- Year income, winsorised at the 1 percent level. We include year-rather than month-income because the latter can be quite variable (e.g. irregular work, changing jobs, etc.), and we assume people to base their consumption on their annual income. (Could test this in appendix: is correlation between annual and spend stronger than between monthly and spend?)
- Regular income, dummy for 10 out of last 12 months
- Month income std – not implemented yet –
- Income current month, dummy for month income  $> 0$
- Has children, imperfect – not yet implemented –
- Index of multiple deprivations from nspl – not implemented yet –
- Received benefits
- Receives pension
- Housing tenure: mortgage, rent, other (owning outright implied)
- Takes out (payday) loan
- Total balance or balance / avg. month spend – not yet implemented –

Table 8: Summary statistics

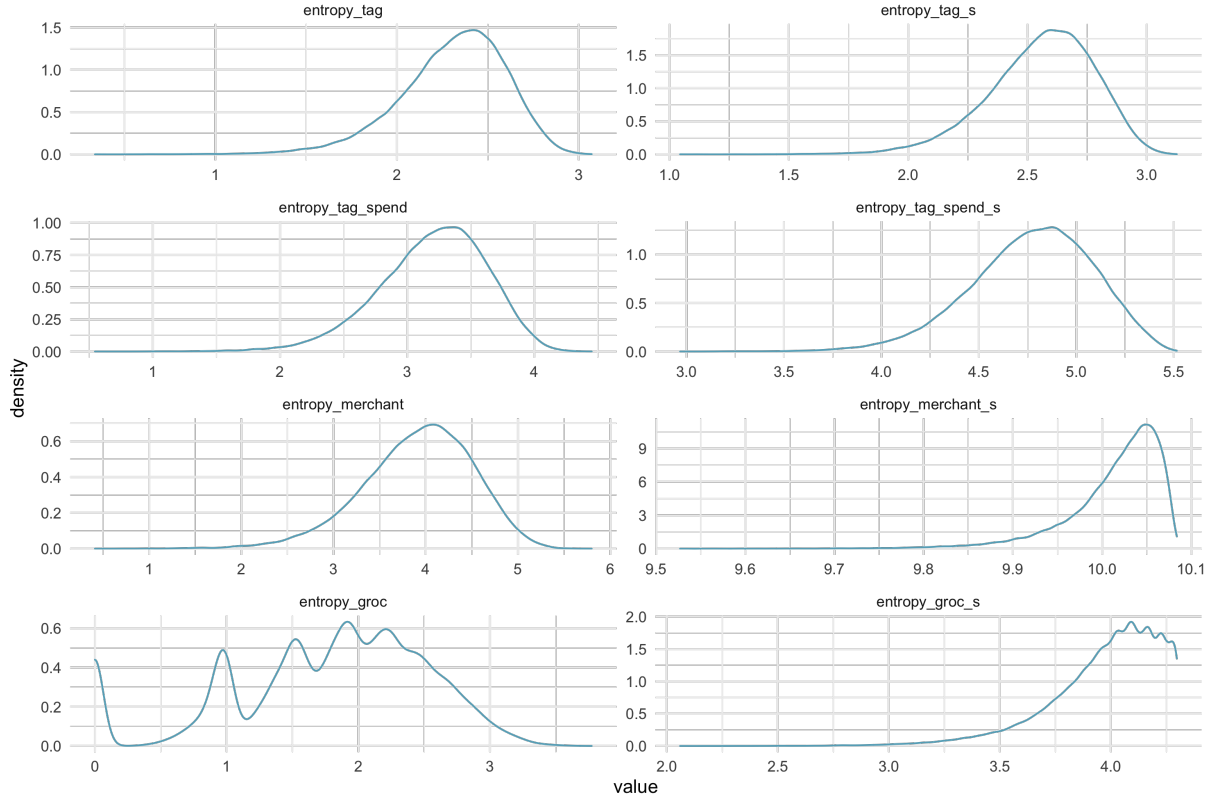
Statistic	Mean	St. Dev.	Min	Pctl(25)	Median	Pctl(75)
user_id	339,307.600	176,950.900	37	192,077	385,257	481,637
ym	574.885	19.168	506	564	578	590
txns_count	111.356	51.168	6	74	102	139
txns_volume	16,103.990	18,130.210	256.890	6,100.892	10,178.220	18,288.650
txns_count_spend	69.144	34.466	4	44	63	87
txns_count_sa	4.275	7.921	0	0	2	5
txns_count_ca	91.093	46.683	5	57	83	117
nunique_tag	7.651	1.145	2	7	8	9
nunique_tag_spend	15.615	4.156	2	13	15	18
nunique_merchant	23.769	9.080	2	17	23	29
pct_credit	11.178	20.716	0.000	0.000	0.000	13.032
month_income_effective	2.812	1.927	0.000	1.584	2.295	3.517
month_income	2.793	1.630	0.833	1.632	2.324	3.455
year_income	33.520	19.559	10.000	19.588	27.891	41.458
income_var	0.760	0.795	0.000	0.180	0.476	1.085
has_month_income	0.987	0.112	0	1	1	1
age	36.783	11.133	13	29	34	43
is_female	0.372	0.483	0	0	0	1
sa_inflows	635.443	1,730.259	0	0	0	400
sa_outflows	629.668	1,698.602	0	0	10	454.2
sa_netflows	5.774	1,752.201	-11,500	-95	0	0
has_sa_inflows	0.415	0.493	0	0	0	1
has_reg_sa_inflows	0.152	0.359	0	0	0	0
has_benefits	0.061	0.239	0	0	0	0
has_pension	0.031	0.172	0	0	0	0
has_rent_pmt	0.126	0.332	0	0	0	0
has_mortgage_pmt	0.229	0.420	0	0	0	0
has_loan_funds	0.030	0.171	0	0	0	0
has_loan_repmt	0.364	0.481	0	0	0	1
is_urban	0.858	0.349	0	1	1	1
has_od_fees	0.216	0.412	0	0	0	0
month_spend	2.639	2.240	0.201	1.251	1.988	3.249
spend_tag_services	0.490	1.086	0.000	0.169	0.318	0.564
spend_tag_other_spend	0.316	1.090	0.000	0.058	0.160	0.349
spend_tag_household	1.044	1.674	0.0004	0.313	0.683	1.290
spend_tag_travel	0.171	0.682	0	0	0.03	0.1
spend_tag_communication	0.068	0.068	0	0.03	0.1	0.1
spend_tag_finance	0.355	1.002	0	0.03	0.1	0.4
spend_tag_motor	0.087	0.120	0	0	0.1	0.1
spend_tag_retail	0.160	0.268	0	0.02	0.1	0.2
spend_tag_hobbies	0.031	0.165	0	0	0.01	0.03
spend_tag_spend_vehicle	0.185	0.625	0	0.01	0.1	0.2
spend_tag_spend_cash	0.276	1.052	0.000	0.040	0.130	0.300
spend_tag_spend_groceries	0.335	0.334	0.0002	0.119	0.245	0.462
spend_tag_spend_public_transport	0.046	0.179	0	0	0	0.04
spend_tag_spend_phone_and_mobile	0.053	0.062	0	0.02	0.04	0.1
spend_tag_spend_bank_charges	0.033	0.244	0	0	0.005	0.02
spend_tag_spend_household	0.198	0.494	0.000	0.020	0.086	0.229
spend_tag_spend_entertainment	0.010	0.042	0	0	0	0
spend_tag_spend_eating_out	0.113	0.232	0	0.03	0.1	0.1
spend_tag_spend_entertainment,_tv,_media	0.073	0.086	0	0.02	0.1	0.1
spend_tag_spend_appliances	0.018	0.255	0	0	0	0
spend_tag_spend_financial	0.005	0.229	0	0	0	0
spend_tag_spend_clothes_and_shoes	0.089	0.181	0	0	0.03	0.1
spend_tag_spend_home	0.070	0.282	0	0	0.005	0.05
spend_tag_spend_personal_care	0.025	0.068	0	0	0.004	0.03
spend_tag_spend_administration	0.001	0.089	0	0	0	0
spend_tag_spend_energy_and_water	0.090	0.118	0	0	0.1	0.1
spend_tag_spend_reading	0.007	0.032	0	0	0	0.01
spend_tag_spend_holidays	0.066	0.358	0	0	0	0
spend_tag_spend_taxes	0.152	0.925	0	0	0.1	0.2
spend_tag_spend_flowers	0.001	0.017	0	0	0	0
spend_tag_spend_gifts	0.006	0.057	0	0	0	0.003
spend_tag_spend_insurance	0.078	0.241	0	0	0.03	0.1
spend_tag_spend_charity	0.003	0.027	0	0	0	0
spend_tag_spend_alcohol	0.004	0.034	0	0	0	0
spend_tag_spend_legal	0.018	0.755	0	0	0	0
spend_tag_spend_sports	0.016	0.082	0	0	0	0
spend_tag_spend_office	0.002	0.017	0	0	0	0
spend_tag_spend_hobbies	0.012	0.138	0	0	0	0
spend_tag_spend_flights	0.034	0.242	0	0	0	0
spend_tag_spend_health_care	0.015	0.068	0.000	0.000	0.000	0.011
spend_tag_spend_diy	0.02115	0.148	0	0	0	0
spend_tag_spend_business_expenses	0.023	0.207	0	0	0	0
spend_tag_spend_gambling	0.023	0.301	0	0	0	0.01
spend_tag_spend_housing	0.350	1.114	0.000	0.000	0.000	0.456
spend_tag_spend_jewellery	0.004	0.068	0	0	0	0

## 4.6 Summary statistics

Table 8 provides summary statistics.

Figure 2

Figure 2: Entropy distributions



Notes:

## 4.7 Model specification

We estimate models of the form:

$$s_{i,t} = \alpha_i + \lambda_t + \beta H_{i,t} + x'_{i,t} \delta + \epsilon_{i,t}, \quad (3)$$

where  $s_{i,t}$  is an indicator variable equal to one if individual  $i$  made one or more transfers to any of their savings account in month  $t$  and zero otherwise,  $H_{i,t}$  is  $i$ 's spending entropy in month  $t$ ,  $x_{i,t}$  a vector of control variables,  $\alpha_i$  an individual fixed effect,  $\lambda_t$  a calendar month fixed effect, and  $\epsilon_{i,t}$  the error term.

Issues to think about:

- Unbalanced panel is not random - people using MDB for longer are different. Should we just use first  $x$  months for every user? E.g. first year?

<sup>8</sup>Across the UK, the proportion of credit card purchases is about 17 percent in a typical month (Finance 2021). The proportion in our data is likely lower because the sample is skewed towards more affluent individuals.



## References

- Bourquin, Pascale, Isaac Delestre, Robert Joyce, Imran Rasul, and Tom Walters (2020). “The effects of coronavirus on household finances and financial distress”. In: *IFS Briefing Note BN298*.
- CAN, Commonwealth Bank of Australia (2019). “Improving the Financial Wellbeing of Australians”. Tech. rep. URL: [https://www.commbank.com.au/content/dam/caas/newsroom/docs/CWM0375\\_Financial%20Wellbeing%20Report\\_v4.pdf](https://www.commbank.com.au/content/dam/caas/newsroom/docs/CWM0375_Financial%20Wellbeing%20Report_v4.pdf).
- Carlin, Bruce, Arna Olafsson, and Michaela Pagel (2019). “Generational Differences in Managing Personal Finances”. In: *AEA Papers and Proceedings*. Vol. 109, pp. 54–59.
- CFPB, Consumer Financial Protection Bureau (2017). “Financial Well-being in America”. Tech. rep. URL: <https://www.consumerfinance.gov/data-research/research-reports/financial-well-being-america/>.
- Eagle, Nathan, Michael Macy, and Rob Claxton (2010). “Network diversity and economic development”. In: *Science* 328.5981, pp. 1029–1031.
- Finance, UK (2021). “Card Spending Update for November 2021”. Tech. rep. URL: [https://www.ukfinance.org.uk/sites/default/files/uploads/Data%20\(XLS%20and%20PDF\)/Card-Spending-Update-November-2021-final.pdf](https://www.ukfinance.org.uk/sites/default/files/uploads/Data%20(XLS%20and%20PDF)/Card-Spending-Update-November-2021-final.pdf).
- Gelman, Michael, Shachar Kariv, Matthew D Shapiro, Dan Silverman, and Steven Tadelis (2014). “Harnessing naturally occurring data to measure the response of spending to income”. In: *Science* 345.6193, pp. 212–215.
- Guidotti, Riccardo, Michele Coscia, Dino Pedreschi, and Diego Pennacchioli (2015). “Behavioral entropy and profitability in retail”. In: *2015 IEEE International Conference on Data Science and Advanced Analytics (DSAA)*. IEEE, pp. 1–10.
- Krumme, Coco, Alejandro Llorente, Manuel Cebrian, Alex Pentland, and Esteban Moro (2013). “The predictability of consumer visitation patterns”. In: *Scientific reports* 3.1, pp. 1–5.
- MPS, Money and Pension Service (2018). “Building the Financial Capability of UK Adults”. Tech. rep. URL: <https://moneyandpensionsservice.org.uk/2019/02/06/adult-financial-capability-building-the-financial-capability-of-uk-adults-survey/>.
- Muggleton, Naomi K, Edika G Quispe-Torreblanca, David Leake, John Gathergood, and Neil Stewart (2020). “Evidence from mass-transactional data that chaotic spending behaviour precedes consumer financial distress”. Tech. rep. DOI: [10.31234/osf.io/qabgm](https://doi.org/10.31234/osf.io/qabgm). URL: [psyarxiv.com/qabgm](https://psyarxiv.com/qabgm).
- Shannon, Claude Elwood (1948). “A mathematical theory of communication”. In: *The Bell system technical journal* 27.3, pp. 379–423.
- Skatova, Anya, Neil Stewart, Edward Flavahan, and James Goulding (2019). “Those Whose Calorie Consumption Varies Most Eat Most”. In:

## A Data

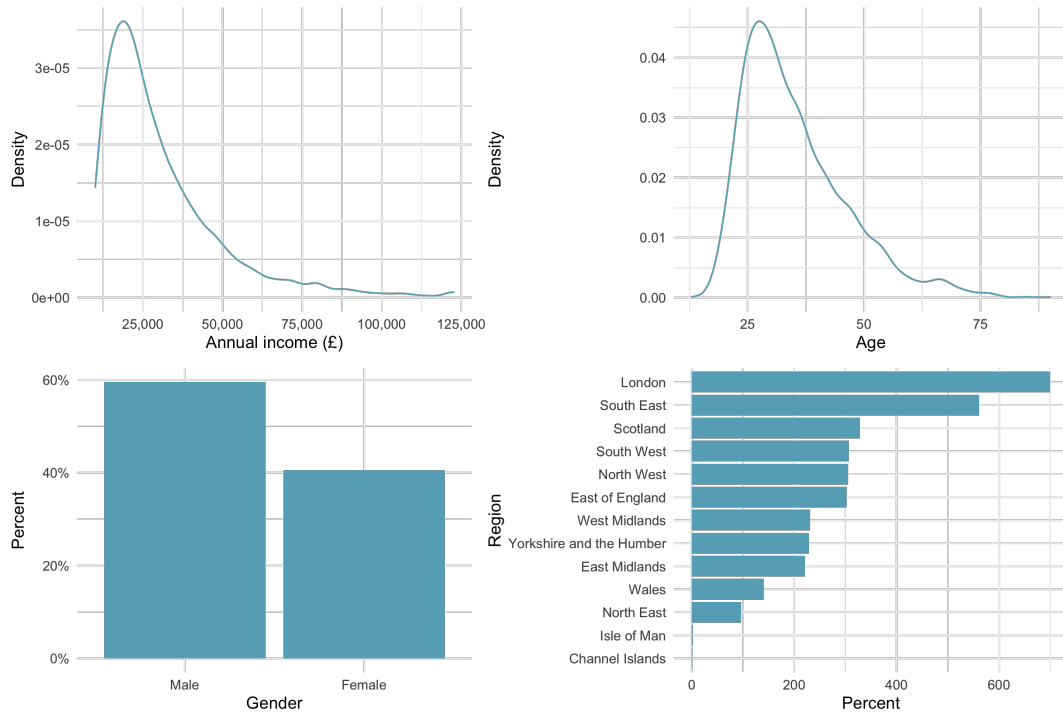
### A.1 Data preprocessing

Preprocessing steps (provide details and links to relevant code files)

- Duplicates handling.
- We trim all variables at the 1-percent level on the upper end of the distribution for variables that take non-negative values only and on both ends of the distribution for all other variables. We trim (replace outliers with missing values) rather than winsorise (replace outliers with the cutoff percentile value) because we believe that outliers result from errors in the data rather than represent genuine information.
- Actually, we don't do either of the above. With the harsher selection methods, the statistics are very reasonable, which, if anything, would suggest using winsorizing. However, [this](https://blogs.sas.com/content/iml/2017/02/08/winsorization-good-bad-and-ugly.html) article convincingly argues that we shouldn't do that in our case.

## A.2 Variabel description

Figure 3: Demographic characteristics of Money Dashboard users



Exploration of control variables here (e.g. like jpmorgan2019weathering for income stability)

## A.3 Data issues

Bourquin et al. (2020) argue that because some of the accounts in the data will be joint accounts, units of observations should be thought of as "households" rather than "users". We do not agree that this is the most prudent approach. The validity of thinking of units as households depends on the proportion of users in the data who add joint accounts and on the proportion of transactions – out of a user's total number of transactions – additionally observed as a result. Given that

the sample is skewed towards younger individuals we think it is unlikely that a majority of them has added joint accounts. Furthermore, it seems reasonable to assume that in most cases, joint accounts are mainly used for common household expenditures similar that are similar to those of a single user (albeit in higher amounts), and are thus unlikely to alter the observed spending profile much. Thus, we think of units of observations as individuals, not households.

Some accounts might be business accounts. Using versions of the algorithms used by Bourquin et al. (2020) to identify such accounts showed, however, that such accounts only make up a tiny percentage of overall accounts and would not influence our results. We thus do not exclude them.

## B Entropy

In equation 1 we have defined entropy as  $H = -\sum p_i \log(p_i)$  and pointed out that it can loosely be interpreted as the predictability of an individual's spending behaviour. In this section, we provide a more detailed discussion of the formula.

The building blocks of entropy is the information content of a single event. The key intuition Shannon (1948) aimed to capture was that learning of the occurrence of a low-probability event is more informative than learning of the occurrence of a high-probability event. The information of an event  $I(E)$  is thus inversely proportional to its probability  $p(E)$ . One way to capture this would be to define the information of event  $E$  as  $I(E) = \frac{1}{p(E)}$ . Yet this implied that an event that is certain to occur had information 1, when it would make sense to have information 0. To remedy this (and also satisfy additional desirable characteristics of an information function), we can use the log of the expression. Hence, the information of event  $E$ , often called *Shannon information*, *self-information*, or just *information*, is defined as:

$$I(E) = \log\left(\frac{1}{p(E)}\right) = -\log(p(E)) \quad (4)$$

Entropy, often called *Information entropy*, *Shannon entropy*, or just *entropy*, is the information of a random variable and captures the expected amount of information of an event drawn at random from the probability distribution of the random variable. It is calculated as:

$$H(X) = -\sum_x p(x) \times \log(p(x)) = \sum_x p(x) I(x) = \mathbb{E}I(x). \quad (5)$$

**todo:** Discuss link to spending behaviour

### B.1 Entropy calculation

Entropy can be calculated along a number of dimensions.

- Category-based vs time-based vs category-time based (Guidotti et al. 2015, Krumme et al. 2013)
- Count-based vs value-based
- Intratemporal vs intertemporal (Krumme et al. 2013)

- Based on behaviour within a given time period or changes in behaviour across time periods.

Desireable features of entropy variable:

- Based on a large enough number of categories so that spend on many of them can reasonably be interpreted as chaotic (the 9 LBG tags seem insufficient for this, especially because most of them are vital life expenses). Use of auto tags or merchant seems preferable.
- 

## C Effect of entropy on overdraft fees

- Table 9 replicates results from Muggleton et al. (2020) Tables S20 (Columns 1 and 2) and Table S40 (columns 3 and 4).
- Similar to their results, higher entropy is positively related to negative financial outcomes.
- Yet, contrary to their findings, the effect becomes stronger in the presence of fixed effects.
- Also, in contrast to above findings, using non-smoothed entropy doesn't reverse the effect but strengthen it.
- Differences to Muggleton et al. (2020) could be due to a number of factors: we use a different dataset, a different and self-selected sample of people that is skewed towards younger and wealthier individuals, as well as a longer panel.

## D Spending patterns

Figure 4

Table 9: Effect of entropy on overdraft fees

Dependent Variable: Model:	(1)	(2)	has_od_fees (3)	(4)
<i>Variables</i>				
entropy_tag_sz	0.011*** [0.007; 0.014]		0.010*** [0.006; 0.015]	
entropy_tag_z		0.081*** [0.075; 0.086]		0.040*** [0.032; 0.048]
Spend communication	0.706*** [0.657; 0.755]	0.596*** [0.546; 0.645]	0.122*** [0.051; 0.194]	0.091** [0.020; 0.162]
Spend finance	0.035*** [0.029; 0.041]	0.028*** [0.022; 0.033]	0.015*** [0.007; 0.023]	0.013*** [0.005; 0.021]
Spend hobbies	0.026 [-0.027; 0.079]	-0.078*** [-0.131; -0.025]	0.052* [-0.003; 0.108]	0.019 [-0.037; 0.076]
Spend household	-0.002 [-0.005; 0.001]	0.0003 [-0.003; 0.003]	0.003 [-0.0010; 0.007]	0.003* [-0.0005; 0.007]
Spend other	0.024*** [0.015; 0.032]	0.010** [0.002; 0.018]	-0.003 [-0.011; 0.004]	-0.008** [-0.015; -0.0003]
Spend motor	0.103*** [0.073; 0.132]	0.014 [-0.016; 0.044]	0.019 [-0.021; 0.059]	-0.010 [-0.050; 0.030]
Spend retail	0.006 [-0.008; 0.020]	-0.018** [-0.033; -0.004]	-0.006 [-0.018; 0.006]	-0.015** [-0.027; -0.003]
Spend services	-0.010*** [-0.017; -0.003]	0.002 [-0.005; 0.009]	-0.005 [-0.012; 0.002]	-0.003 [-0.010; 0.003]
Spend travel	-0.033*** [-0.042; -0.023]	-0.045*** [-0.054; -0.035]	-0.0005 [-0.007; 0.006]	-0.005 [-0.011; 0.002]
Female	0.041*** [0.035; 0.047]	0.036*** [0.030; 0.042]	-0.342 [-78,543.0; 78,542.3]	-0.317 [-78,455.4; 78,454.7]
Age	-0.002*** [-0.003; -0.002]	-0.002*** [-0.003; -0.002]		
Year income	-0.002*** [-0.002; -0.001]	-0.002*** [-0.002; -0.001]	0.0002 [-0.0003; 0.0006]	0.0001 [-0.0003; 0.0006]
(Intercept)	0.274*** [0.263; 0.284]	0.266*** [0.255; 0.276]		
<i>Fixed-effects</i>				
User id			Yes	Yes
Calendar month			Yes	Yes
<i>Fit statistics</i>				
Observations	89,169	89,169	89,169	89,169
R <sup>2</sup>	0.02481	0.03254	0.63854	0.63944
Within R <sup>2</sup>			0.00182	0.00431

*Signif. Codes: \*\*\*: 0.01, \*\*: 0.05, \*: 0.1*

Figure 4: Spending behaviour

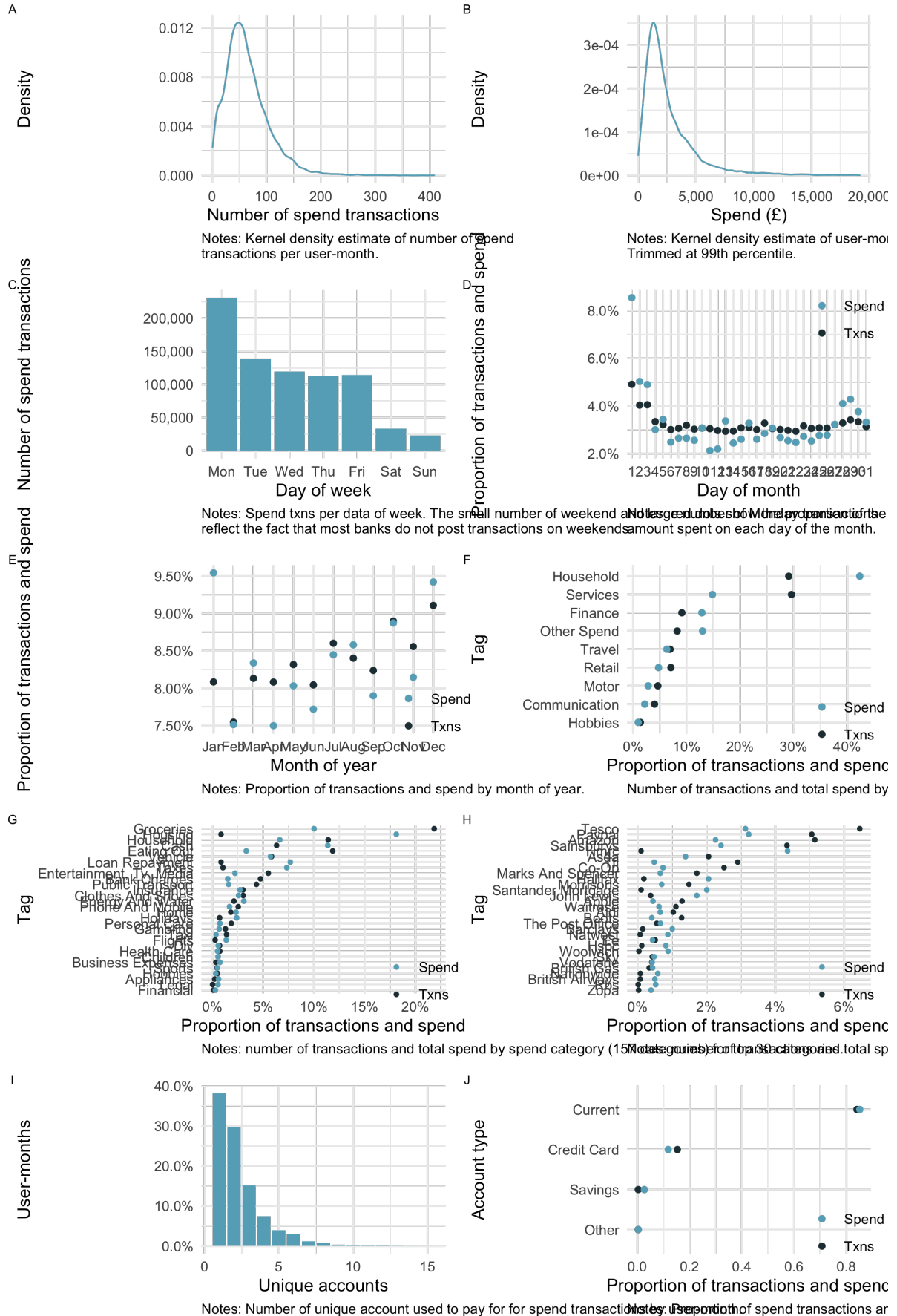


Figure 5: Savings behaviour

