Chapter 25
Collaborative Finance and Its Hurdles to Overcome

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ABSTRACT

Using survey data from an online Spanish university, real and perceived financial literacy levels, social interactions and personal trust with the social network are measured as key elements for collaborative finance development. This is the first study regarding the factors that may affect the use of collaborative finance. Results show levels of financial literacy are quiet low as in prior studies and individuals consider that the bank manager, friends, and parents can manage financial issues better than them, with the last two peers being those who most trust to discuss financial issues. The findings also provide information about how little individuals trust online networks when it comes to financial matters. Besides, respondents interact moderately with their social network missing the benefits of peer-to-peer learning. Overall, lack of financial literacy, low social interaction, and personal trust may be affecting the short use of collaborative financial services.

INTRODUCTION

With the development of today's new economy -global, networked and digital- a new way of social action is emerging, based on cooperation and sharing. This phenomenon is manifested, among other things, by the development of the collaborative economy, which also could be seen in finance through the increase of alleged collaborative finance. This phenomenon is also driven by the socio-economic consequences of the last global economic and financial crisis. The crisis raised uncertainties about the current economic system and its function and triggered off a lack of trust in financial institutions and governments as well. Additionally, this crisis generated awareness about the deficiency of financial literacy around the world.

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Since social networks and collaboration fuel collaborative consumption, direct peer-to-peer interactions and the sharing of personal experiences allow individuals to create and maintain social connections with others. Hence, while studying collaborative finance, we cannot neglect the role of social interactions when analysing financial literacy. According to Hirshleifer and Teoh (2009), most individuals watch each other's behaviour and learn about each other's choices and beliefs through dialogue. Many studies have shown that social interactions can have a meaningful influence on the process of making financial decision, demonstrating that individual financial decisions can be affected by the behaviour and outcomes of individuals' social network.

In the context of financial system and other financial decisions, the role of trust, social interactions and the level of financial literacy have become a focus, particularly among low-income households. Trust and financial literacy are both important factors in the development of the collaborative finance. Collaborative finance is a significant piece of the collaborative economy and it is understood as a financial transaction which occurs peer-to-peer without the intermediation of a traditional financial institution. However, this new system has not expanded as fast as other types of collaborative economies. There are different factors that may influence the development of collaborative finance. While there is some research regarding crowdfunding (for review of the academic research on crowdfunding see e.g. (Moritz & Block, 2015), alternative currencies (e.g. Diniz et al., 2016; Place, 2013) or P2P lending (Bachmann & Funk, 2011), a lack of research on the determinants of collaborative finance development in general could be observed. Collaborative finance is still a novel phenomenon and it should be understood in a broader sense, including all different kinds of financial transactions. To the best of authors' knowledge, this is the first study that relates the level of financial literacy with social networks interaction and trust and how all these elements could affect the development of collaborative finance.

The study uses a data set collected by a Spanish university during the academic year of 2015/2016. Financial literacy is measured using questions from Lusardi & Mitchell (2011). As in prior research, data shows that the majority of respondents display low financial knowledge, failing to distinguish basic concepts such as the difference between a credit and a debit card or understanding the time value of money or the annual interest rate. Additionally, subjective measures of perceived financial knowledge of seven groups in individual's social network have been included in the survey, as well as the intensity of their relation when it comes to financial issues.

The findings of this research suggest individuals don't use their online social network regarding financial matters and they prefer to trust these topics with those who are closer to them, such as friends, parents and co-workers. Likewise, although respondents perceive their bank manager with the highest financial knowledge, they don't relate to them very often. These conditions could be a real hindrance to expanding collaborative finance services. So that, higher levels of financial literacy may reduce the cost barriers, increasing trust and encouraging participation in the financial sector, either through a more regulated or more collaborative system. The contribution of this research is an attempt to paint a picture of financial literacy, financial social interaction and personal trust in order to reach conclusions concerning the conditions for collaborative finance development.

The remainder of this paper is organized as follows. A review of the related literature is provided in Section 2, followed in Section 3 by an analysis of trust and financial literacy and how they affect collaborative finance. A description of the methodology is presented in Section 4. Measures of financial knowledge, sociability and trust are defined in Section 5. Data analysis and results are provided in Section 6. Finally, future research directions and conclusions drawn from this study are presented in Section 7 and 8.

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