Branchless Banking Agents' Profile, Limitations, and Potential for Agent Network Expansion and Improvement"

Sector(s): Finance

J-PAL office: J-PAL Southeast Asia

Fieldwork: SurveyMETER

Sample: 4,828 household respondents

Target group: Rural population

Outcome of interest: Productivity Savings/deposits

Intervention type: Information Monetary incentives

Partner organization(s): Mercy Corps, Mitra Samya

Branchless banking offers the potential to increase access to financial services among unbanked populations, but there is a lack of evidence on how to best design incentives for branchless banking agents in order to reach more people. Researchers conducted a randomized evaluation in East Java, Indonesia to investigate the impact of the level and transparency of financial incentives on the take-up of these new banking services. They found that larger incentives caused an increase in take-up, but only when the incentives were not publicized among the community. When incentives are made public, higher incentives instead have no effect on take-up, despite greater agent effort.

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Worldwide, many individuals do not have access to or experience with financial products such as bank accounts. One proposed solution is branchless banking, in which local individuals (called branchless banking agents) work to inform their community about the potential benefits of financial products and encourage people to use them. Branchless banking agents are typically business owners with an existing clientele (such as shop owners, restaurant owners, cell phone top-up station owners, etc.) and are asked to promote savings accounts as a side job. They do not receive a fixed wage from the bank and are instead paid a commission for each new customer who signs up for an account and for each transaction made.

Financial incentives can be used to boost the effort that branchless banking agents put into finding new clients, therefore increasing take-up of the financial products they are promoting. However, in a context with low levels of information about and limited trust in financial institutions, providing the public with information about financial incentives for agents could affect potential clients' trust in the agent, the product, or the bank. Specifically, this information could lead potential clients to believe that agents are overly motivated by money or that the bank is not reliable, thereby reducing their interest in the product. How do the level and transparency of financial incentives for branchless banking agents affect the take-up and usage of new financial technologies?

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The Government of Indonesia issued a new law in 2014 to promote branchless banking as a means to increase access to financial services among its largely unbanked population. Local agents are tasked with promoting savings accounts in their community as

well as making deposits and withdrawals to and from customers' accounts. In the communities where this intervention took place, households had low levels of financial literacy and low levels of trust in the financial sector. This was reflected in their usage of banking products, which was also very low. Only one-third of villages in the study had access to a bank, only 43 percent of individuals had made a transaction in the past 30 days, and only 8 percent of respondents had heard of branchless banking before the study began.

The study took place in 401 rural villages in five regencies (Tuban, Bojonegoro, Gresik, Ngawi, and Lamongan) of East Java between 2016 and 2019.



Bojonegoro, East Java, Indonesia. February, 2018. A community agent retailer involved in the Branchless Banking project.

Photo: Lukman Edwindra | J-PAL

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Researchers conducted a randomized evaluation to test the impact of varying the amounts and transparency of financial incentives given to branchless banking agents on the take-up and usage of the products they were promoting. Agents were randomly assigned to receive one of two levels of financial incentives:

- *High Incentive*: Branchless banking agents received IDR 10,000 (USD 0.72) for each new customer who signed up for a savings account, conditional on the client keeping a minimum balance of 20,000 IDR (1.42 USD) in the account for at least two weeks.

- *Low Incentive (status quo)*: Bank agents received IDR 2,000 (USD 0.14) for each new customer who signed up for a savings account, with the same minimum balance conditions.

To further understand whether public knowledge of the incentives among potential clients influenced demand for the financial products promoted by the agents, the research team also varied the transparency of the incentives:

- *Public Information*: Potential clients received information (via a pamphlet and, for some, an additional phone call) about the product, the name of the agent, and the incentive earned by the agent.
- *Private Information*: Potential clients received information about the product and the name of the agent, but no information about the incentive earned by the agent.

To measure the impact of the intervention, researchers used survey data collected between November 2016 and January 2019 as well as the bank's administrative data.

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Providing agents with higher financial incentives led to an increase in take-up and usage of the financial products when information about these incentives was not made public to potential clients. The increase in incentives caused take-up of the new financial products to increase by 2.1 percentage points (a 350 percent increase) compared to the lower incentive amount when the incentives were not disclosed. Similarly, usage (including deposits, withdrawals, account balance, and total savings) also increased by 18 to 20 percent. The increase in take-up and usage of these products can be explained by an increase in agents' effort: agents receiving the higher incentive promoted the product more proactively, and potential clients were more likely to be aware about the existence of the product.

Instead, when the incentive amount was made public, higher incentives did not translate into higher take-up or usage of the financial products (compared to the lower incentive amount), despite agents' increased effort. This lack of increased take-up occurred because clients' trust in the agent, product, and/or bank decreased as they learned about the agents' higher incentives.

Taken together, these results suggest that increasing the level of the incentive given to a branchless banking agent can increase his or her effort, in turn increasing take-up of the product being promoted and promoting access to financial products for previously unbanked populations. However, this may not be the case when potential clients are aware of the high incentives, as this knowledge may decrease their trust in the agent and the product in question. Organizations designing incentive schemes to promote take-up and access to banking products should therefore pay close attention to both the level and the transparency of such incentives.