Exemplars

The Impact of Incentives and Transparency on Usage of New Financial Products in Indonesia

“New technologies are often promoted by local agents, who work to inform the population about their potential benefits and promote their take-up. To understand how to maximize technology adoption, one must carefully consider not only how to incentivize local agents to exert more effort in the promotion of new technologies, but also how to ensure that this extra effort translates into higher take-up.” (Desseranno et al., 2021)

In this study, Desseranno et al. study “the design of financial incentives offered to local agents for acquiring new clients, showing how the level of these incentives affects agent effort and technology adoption.” They examine “the effects on take-up when these incentives are transparent (i.e., disclosed to the community) or not...When disclosed, agent’s financial incentives can affect technology adoption through two main channels: directly, by increasing agent effort (supply-side effect) but also indirectly, through a signaling effect that impacts potential clients’ perceptions (demand-side effect).”

Quick facts

Barriers addressed

Accessibility
Distance from bank/FSP/CICO agent >

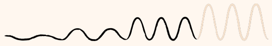
Information Availability & Capability
Unclear or unavailable information about products/uses >

Product & Service Quality
Reliability and quality of in-person services >

Segment focus

1 2 3 4

Customer Journey Relevance



Geography

Rural East Java, Indonesia >

Key stakeholders involved

401 rural villages (4,828 household respondents) and agents within Partner bank (undisclosed)

Sources

Deserranno et al., 2021.

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Key activities

- “Introduce exogenous variation in the level of the incentives paid to the agents. In the low incentives treatment, agents are paid 2,000 IDR (US $0.14) for each customer who signs up for a savings account (the status-quo), while they are paid 10,000 IDR (US $0.71) in the high incentives treatment.”
- “Introduce exogenous variation in the transparency of the incentives paid to the agents. In the public incentives treatment, potential customers are informed about the agent’s incentive level while in the private incentives treatment this information is not disseminated.”

Outcomes/results

- The study finds that “higher financial incentives increase take-up and usage of these products. This only holds, however, when financial incentives are unknown to potential clients (private——information). In villages where financial incentives are disclosed to potential clients (public information), raising incentives instead has no effect on take-up or usage, despite the fact that agent effort increases.”
- “When information on incentives is private, raising their level more than triples the take-up of new financial products, and increases the total amount of deposits/withdrawals, account balance, and savings by 18-20%. In line with an increase in agent effort, potential clients report that agents in the high incentives treatment are 2.7 times more likely to have offered them the products than in the low incentives treatment.”
- “When incentives are public information, the study instead finds that raising their level has a precise zero effect on the take-up or usage of the new financial products. Interestingly, this is not explained by agents responding less strongly to the incentives. In fact, they still prompt higher agent effort, even when they are public. Yet this additional effort does not translate into higher take-up due to a negative signaling effect.”

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Key enabling environment factors for the intervention

- The rural context in the Java region is “ideally suited to study whether financial incentives affect demand perceptions through a signaling channel. The population is highly unbanked, branchless banking is largely unknown, and the level of trust in financial institutions is limited. Such characteristics mean that potential customers will rely on different heuristics (e.g., agents’ incentive level) when evaluating the products’ benefits and their willingness to adopt them.”
- In addition, the setting is “one in which other people’s earnings are typically kept private unless explicitly revealed by an outsider. This provides researchers with the opportunity to create exogenous variation in pay transparency by randomizing whether potential clients are informed or not about the financial incentives paid to the agents.”
- “In 2014 the Government of Indonesia adopted a law that establishes 6 banking services without the need for branch offices, called ‘branchless banking.’”

Key design elements and principles that led to successful outcomes

- Focusing on both supply side and demand side impacts that the intervention could have (looking at both agents and customers).
- Considering customer reception of increased/no transparency in addition to agent performance/outcome.

Potential for scale/replicability

Financial incentives can be replicated with other financial products, however disclosure of the incentives might not be the best route. This study could be replicated across different markets and with financial customers with more trust and experience with DFS.

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Recommendations from the research

"In contexts with limited information and low trust about a new technology, financial incentives can affect technology adoption through a supply-side effect (agents' greater effort), but also through a demand-side signaling effect (change in demand perceptions)." In such settings, organizations promoting new technologies must carefully consider the signals they send to potential clients, as these end up shaping the demand for their products. Particular attention should be paid to the transparency of financial incentives.

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