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UNIVERSITAS INDONESIA

Policy Notes

WHY DON'T PEOPLE SAVE MORE IN BANKING AGENT?

EVIDENCE FROM LAKU PANDAI PROGRAM IN INDONESIA

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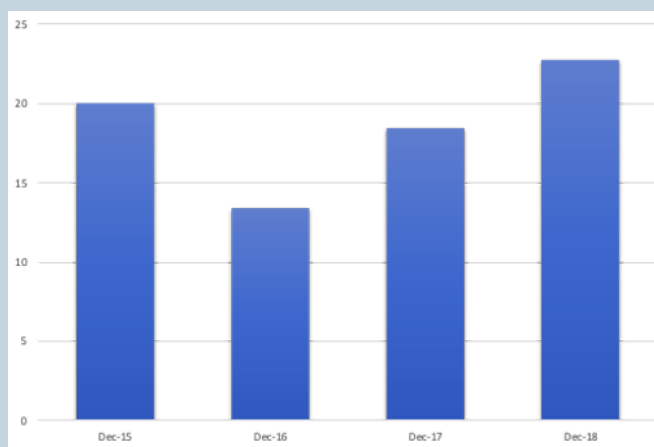
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Background

In the past decade, the Government of Indonesia has exerted significant efforts to increase access to formal financial services, particularly by encouraging branchless banking services for financial inclusion (Layanan Keuangan Tanpa Kantor Dalam Rangka Keuangan Inklusif/Laku Pandai). Branchless banking allows banks to penetrate remote and rural areas through their representative agents. However, despite the massive increase in the number of Laku Pandai (branchless banking) agents, the number of accounts opened per agent and the amount of savings put in the account per agent has not increased considerably (Graph 1 and 2). Furthermore, while 70.3% of adults have used a product or service from a formal financial institution, only around 55.7% of Indonesian adults are categorized as account holders in 2018, according to the Financial Inclusion Key Indicators issued by SNKI (Secretariat of National Strategy for Financial Inclusion)[1].

Graph 1. Number of Accounts Opened (BSA)[2] per Number of Agents Annually

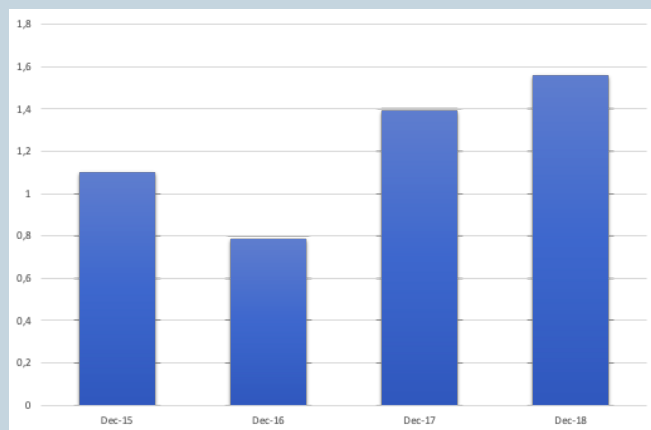


Source: Otoritas Jasa Keuangan

[1] Financial inclusion can be measured using various dimensions such as account ownership, account use, and penetration of financial accounts (Beck et al., 2004, 2009).

[2] BSA (Basic Saving Account) is a Laku Pandai savings product that does not charge administration and transaction fees and does not have a minimum limit for balances and cash deposits but has a maximum limit for balances and debit transactions.

Graph 2. Amount of Savings (BSA) in Million Rupiah per Number of Agents Annually



Source: Otoritas Jasa Keuangan

There is also the issue of urban and rural divide in account ownership. While rural areas have seen significantly higher growth in account ownership between 2016 and 2018, account ownership is still more common in urban areas[3]. Report from SNKI (2018) notes that even in the rural area, there is a gap of account ownership between sectors of occupation. The same report also notes that the number of account ownership is lowest in the agriculture sector and highest among professionals and government workers. Meanwhile, digitizing payments for workers in the agricultural and informal sectors are an essential means of expanding financial inclusion.

One of the ways to involve the public in the financial system is to increase access to banks. SNKI (2018) reported that 40.1 % of bank branches spread less than 1 kilometer from people's houses in rural areas. Also, 47.8% of ATMs are spread less than 1 kilometer from people's homes. Nevertheless, there are still more than half of the population lacking access to formal financial services.

Branchless banking aims to help the bank and government to deliver financial services closer to the users. Yet only 5.2% of adults owned BSA products in 2018, even though 20.1% of adults were aware of BSA products (SNKI, 2018).

[3] Between 2016 and 2018, account ownership grew by 24.2% in rural areas compared to growth of 16.4% in urban areas (SNKI, 2018).

Lack of money was the most frequently mentioned reason for not having a savings account, despite the availability of a BSA with the characteristics of no administration and transaction fees and low minimum balance requirements. Furthermore, payment and transfer services may be more in demand by lower-income adults than savings services.

Thus, this study aims to examine the root causes of the lagging in account ownership, especially BSA, and saving transactions in Laku Pandai, particularly by identifying barriers to opening an account and saving both on the demand side and supply side.

Literature Review

Several studies have identified and examined the impact of eliminating or reducing the barriers on saving decisions. Ashraf et al. (2006) identified hyperbolic preference or self-control problems among individuals as barriers to save and found that commitment devices have limited impact on savings. Another study explored little attention that shapes saving behavior (Karlan et al., 2016). To that end, Karlan et al. (2016) use a reminder intervention to help clients achieve their savings goals and found substantial impact on saving. Dupas et al. (2018), using data from Uganda, Malawi, and Chile, argued that the inability to save or "too poor to save" and financial products that do not match individual needs and habits contributes to under-saving, even though opening account fees and some other non-pecuniary opening costs are subsidized.

Other studies evaluated several interventions through randomized control trials (RCT) in the area of branchless banking. Calderone et al. (2018) conducted an RCT to gauge the causal relationship between financial literacy and saving behavior.

They found that the intervention increases savings in banks, while it only has a limited impact on savings in branchless banking agents. Another RCT conducted by Buri et al. (2018) investigated the effect of access to banking agents by explaining how to open an account and save. They found that individuals encouraged to open bank accounts at agents transacted more and bore lower transaction costs than their counterparts who were encouraged to open accounts at branch banks. However, the amount of transaction at the agent was only half as large as the bank branch's amount of transaction. They expected that the lack of trust, the lack of liquidity, security concern, and privacy concern when transacting at the agent contributed to clients' decisions to transact at a higher value at the bank than at the agent.

Several studies on financial inclusion that explore the barriers in account ownership and saving decisions have been conducted in Indonesia. Cole et al. (2011) suggested two leading views concerning limited demand on savings: the high fixed cost of services or low income of individuals and low financial literacy. They provided financial literacy intervention and price intervention to induce the demand for financial services. They found that financial literacy has little impact on the adoption of the bank account. Providing high incentives on bank account opening encourages the product's adoption and further increases banks' savings. Buvinic et al. (2020) conducted a similar study in the branchless banking ecosystem (Laku Pandai) by providing training and mentoring intervention for women business owners (WBO) as well as financial incentive interventions for banking agents. They found that both interventions increased WBO profits, but neither improved financial products' adoption.

Furthermore, Deserranno et al. (2021) found that the level and transparency of banking agent's financial incentives affect banking product adoption. Higher financial incentives increased the adoption of banking products as long as financial incentives' information remains unknown to the client. However, when the incentive is known to prospective clients, it might reduce the perception of the product's reliability and trust to the agent, and the bank, thus negating the impact of the incentives on account opening and savings transactions.

These previous studies show that incentives for agents effectively increase account opening and savings. In the context of Laku Pandai, however, BSA has enlarged the incentive for users by applying no charge for saving transactions. Such incentive schemes however (potentially) reduce agent's incentive to promote BSA. Furthermore, these studies suggest that financial literacy has a small or no impact on account opening and savings. Yet, continuously providing incentives to agents might not be sustainable.

Although many previous studies have not explored trust as a policy intervention that potentially determine account ownership and saving decisions, these studies suggested that lack of trust might be an essential barrier that causes reluctance in saving and account opening

(Ashraf et al., 2006; Buvinic et al., 2020; Calderone et al., 2018; Deserranno et al., 2021). Only Buri et al. (2018) and Mehrotra et al. (2019) use policy intervention to promote trust.

To the best of our knowledge, an RCT conducted by Mehrotra et al. (2019) is the only study that explored interventions that affect trust and adoption of financial services. They tried to influence the client's trust in agents through repeated interaction and further evaluated the impact of trust on savings. The result showed that facilitating the account opening process increases trust in banking agents in general, not trust in the client's specific agent (personalized trust). However, only personalized trust positively and significantly increases the amount of savings. To summarize, there is still a considerable knowledge gap on the driving forces behind low saving and account ownership in banking agents. Furthermore, previous interventions that have been tested still produce mixed results.

Study Objective

Thus, given those backdrops, our study aims to: (1) explore recent developments and policies on branchless banking (Laku Pandai); (2) identify the factors that can potentially increase Laku Pandai's account ownership and savings both on the demand side (user[4] of Laku Pandai) and supply-side (agent, bank, and government), including trust; and (3) formulate possible interventions that can potentially increase account ownership and savings.

[4] We use the term 'User' rather than 'Client' to include broad coverage of people who use Laku Pandai agent's services independent from whether they own an account affiliated with the banks.



Methodology

To answer the research objectives, we conducted a qualitative exploratory study. The data was collected using a series of online FGDs and in-depth interviews with Laku Pandai authorities, industry players (banks), and research institutes that focus on financial inclusion and phone interviews with agents and users/clients of Laku Pandai. As part of the phone interviews, we asked several screening questions about agents and users characteristics through an online survey platform prior to the phone interviews. Our access to the agents was facilitated by the bank while we acquired the users through snowball sampling from agents' recommendation. Both agents and users interviewed are from urban and suburban Jabodetabek areas.

Findings

1. Enabling Factors/Environment

Our study identifies the essential enabling factors related to general agent banking services. Liquidity problems due to lack of capital/funds and difficulties in depositing funds and technical problems are still two common problems experienced by agents. Since agents in our study are located in the urban area, competition is also a pronounced problem. However, agents also reported that they independently exert some efforts to develop their agent banking business, such as making banners, putting their place in Google Maps, giving a prize to frequent customers, and finding ways to resolve technical issues. These efforts suggest that agents' literacy and skills are high in this study.

2. Supply-Side

On the supply side, we found **insufficient information** to cause some agents not serving referral accounts opening directly, and some users not opening accounts at agents. Several agents do not know the procedure to provide a referral for account opening. We found that there is also no information on how to provide that service in mobile agent apps (Appendix A). Meanwhile, information and knowledge of the service's availability is the initial stage for agents and users in performing referral account opening and savings at the agent. Opening an account is a necessary condition for clients to save at an agent. Also, both agents and users are not familiar with the BSA account. Although half of the agents interviewed provided account opening services, the accounts opened in that case are not BSA [5].

Another major factor that might cause low account opening and savings is the **low monetary incentive** for the agent to open referral-based accounts despite its importance in inducing referral-based account opening and savings, as presented in the previous study (Deserranno et al., 2021). Furthermore, both users and agents have a massive prevalence in using the term "transfer" instead of "save" even though what they were actually transacting was saving service. We argue that this phenomenon further impedes familiarizing saving in the community and, in part, hampered the agent's incentive to serve the account opening. It is important to emphasize that an agent's incentive to promote account ownership mainly comes from their expectation of future revenue from fees of users' saving transactions.

[5] Meanwhile, OJK Regulation Number 19/2014 on Layanan Keuangan Tanpa Kantor dalam Rangka Keuangan Inklusif, Article 19 stipulates that agents may only open BSA type accounts.

Interestingly, we found that **mutual trust** is required between the user and the agent to provide referrals for account opening. From the supply side, agents are reluctant to provide this service to clients they do not know very well. We believe that agents require confidence in the user's credibility not to risk their business to fraud or be involved in the fraud by creating a fake account. This caution also might be the reason why the requirement to open an account at Laku Pandai agents set by the banks and agents is more stringent than what is required by OJK.

3. Demand-Side

On the demand side, we confirm that trust has a vital role in banking agents. The conventional assumption suggests that the user must perceive the agent as a bank agent, not as a traditional store or their neighbour they know, for transactions to happen. However, we found the closeness between agents and users personally is why users performed referral-based account opening and savings at agents. Also, the user needs a higher degree of trust in opening a referral-based account and saving than making general transactions like transfer or payment. The user needs to have a frequent transaction with the agent before they decide to open an account and save. This is consistent with the findings from Mehrotra et al. (2019) who argued that account opening could induce repeated interactions that will potentially affect saving.

Like agents, half of the users do not know that they can open a BSA at the agent, confirming a lack of **information** on the Laku Pandai agent's account opening referral service. Furthermore, **convenience of service** (e.g. – not having to queue for long in a bank) is also essential in the user's decision to save at the Laku Pandai agent.

Our study does not find evidence to support the “too poor to save” hypothesis. Part of the explanation for this could stem from the fact that the income of agent banking users in our study was not so low that they could not open an account or save. However, product compatibility might contribute to the low demand for BSA. While there are still people whose needs are best catered by BSA, such as migrant workers and homemakers, BSA is nonetheless restrictive in its features and does not match the needs of people who own SMEs or are engaged in other activities that involve financial transactions in high frequency or high amounts. The characteristics of users that we interviewed were more leaning towards the latter category.



Source: Otoritas Jasa Keuangan

Potential Interventions

We conclude that there are four main factors from the supply and demand side that are important to reduce barriers and increase account opening and savings, i.e., information, ease of procedure, incentives, and trust. Therefore, the potential interventions that we propose to address these four factors based on the previous studies and the findings of this study are the following:

A. The Client Gets Clients and Agent Reviews

Our findings show that trust is essential both for agents and clients in account opening and saving decisions. The client gets clients and agent review (carried out by banks and agents and users) is our intervention idea to increase trust both in agents and clients of Laku Pandai services. Numerous studies presented that trust may shape saving behaviors (Ashraf et al., 2006; Buvinic et al., 2020; Calderone et al., 2018; Deserranno et al., 2021). Our findings through user interviews point in the same direction. Trust is obtained from various sources, one of which is from testimonials and invitations from community members. Interviews with users indicate the importance of reviews from other users who transact on agents. The user's review then affects the user's trust towards the agent, assuming that s(he) did not know the agent personally. Therefore, we propose an intervention that makes trust in the agent spread from person to person through agent review. As for the client get client idea, we view that loyal clients of agents can be given incentives to invite other potential clients to carry out banking transactions, mainly opening accounts and savings transactions.

B. Provision of Account Opening and Savings Features in Agent Apps

Provision of account opening and savings features in the agent application is meant to eradicate limited information from the agent's side and ease procedures for serving account opening and savings. We did not find the account opening menu in the agent apps (Appendix A). We also found an agent who claimed that s(he) did not understand the account opening procedure. Therefore, providing this feature in the agent application and easy-to-understand application display are expected to make it easier for agents to access the opening accounts and savings guidelines. This convenience can also be felt in another context when opening a BSA account online. The opening account menu helps agents who have limited incentive to queue at the bank to apply for an account opening referral. Finally, another benefit that might be obtained is that agents are more exposed to information about account opening and savings services, which may lead them to promote these services more actively.

C. Provision of Posters at Agent Kiosk

Based on our interviews with agents and users, some users are not informed that they can open a BSA account at Laku Pandai agent (with referral system). Meanwhile, opening an account is the initial stage for a user to carry out financial transactions on an ongoing basis, especially savings. Therefore, we assume that the provision of posters containing information on opening accounts at agent kiosks can induce account opening at agents, especially for those prospective clients and existing unbanked users who have been transacting at agents.

The proposed intervention is reinforced by our findings which suggest that clients open accounts due to information obtained from posters. Furthermore, we include only information about the BSA account opening since many segments in the urban population need this type of account despite its limitation. It is in line with OJK regulation that agents only provide the BSA account opening.

D. Provision of Incentives for Saving Transactions

By default, BSA is designated as a no-frills account. The BSA holder is exempted from administrative and transaction fees, such as monthly administration, account opening, cash deposit transactions, incoming transfer transactions, book-entry transactions, and account closings fees. This feature is expected to increase access for the poor and unbanked population to access financial services. It might attract potential clients to open BSA since they will have to pay fees if they use other types of accounts (or when using financial services without owning an account). However, this setting makes agents not have the incentive to open a BSA account for their clients.

Meanwhile, providing incentives for agents have been shown to increase financial products' take-up by increasing agents' efforts (Deserranno et al., 2021). Yet we argue further that if banks and policy-makers seek to maintain long term usage of the account, then the incentive for agents might need to come in perpetuity instead of only one-time upon account opening since agent's incentive to promote account ownership mainly comes from their expectation of future revenue from fees of users' saving transactions. To this end, the government or bank can consider providing a voucher that BSA holders can use to transact at agents.

This voucher, when redeemed, can be a source of revenue for agents when serving BSA holders. This incentive scheme is expected to encourage the unbanked community to open a BSA and to save while also providing incentives for agents to serve banking transactions for BSA holders and to increase transactions from new clients who have not previously transacted at agents.

E. A.Provision of The Agent's Formal Outfit (Uniform)

The idea of providing the agents with formal outfit (uniform) as an intervention was obtained from several users' statements that the agent's appearance made them feel comfortable doing banking transactions. We also found that users' trust in the agent is based on the agent's affiliation with the bank. We view the potential that a professional agent's appearance strengthens the user's belief that agents are an extension of the bank's arm and in turn increase trust.

F. The Improvement of The Record System to Differentiate Between Transfer and Savings Transactions

This intervention is related to potential incentives that agents can realize if they know that the actual savings frequency is higher than what has been recorded so far. Some of the agents we interviewed could not differentiate between savings and transfer transactions. As such, many times they regard savings transactions as transfers (since saving transactions requires the agent transferring the fund from agent's account to the saver's account). As a result, the transfer frequency may be overestimated, and vice versa, the savings frequency may be underestimated. Results from our screening survey for agents shows that the high frequency of transfers is considered the most significant contributor to agent revenue.

Suppose the agent can distinguish between transfer and savings transactions in the recording system and find that the savings frequency is high, the agent may perceive saving as a profitable transaction, equal to or greater than transfers. Agents may strive to promote account opening and savings so that clients' potential to open an account and save is high.

G. Savings Combined with Credit

Savings combined with credit means providing loan services to clients and savings services to pay for these loans. Microcredit provision is based on customer needs, such as credit for education, health, and household needs. Based on the information we acquired from the bank, loans are very much needed by the community and oftentimes precedes any other transactions because loan takers are required to open a bank account before disbursement. Therefore, we consider combining loans with savings because the loan will encourage the account opening; thus, savings become a tool for commitment devices to repay the loan.



Source: Otoritas Jasa Keuangan

H. The Multiple Stages of Interventions: Provision of The Poster at Agent Kiosk, Incentive Scheme Arrangements, and The Client Gets Clients Intervention

To overcome barriers such as information, incentives, and trust, mixed interventions are required. The following are recommendations for interventions and stages of their implementation.

The first stage of the intervention is providing the information and knowledge for all selected individuals concerning the type of BSA products offered at the agent and the availability of referral-based account opening and saving services. Exposure to perfect information is the initial requirement for users to carry out banking transactions at agents, including opening accounts and savings.

After the information problem is tackled, the second stage of the intervention is the arrangements of incentive schemes to encourage both agents and users in performing referral-based account opening and savings. Without a proper incentive, agents will be reluctant to help their prospective clients to open a BSA since it generates minimal future fees for them compared to other saving accounts.

The final intervention stage is "clients get clients," and agents review to increase users' trust in the Laku Pandai services. All this time, the promotion of Laku Pandai services is carried out by banks and agents. Clients' referrals can potentially reduce trust issues for clients that can encourage them to open an account and save.



Source: Otoritas Jasa Keuangan

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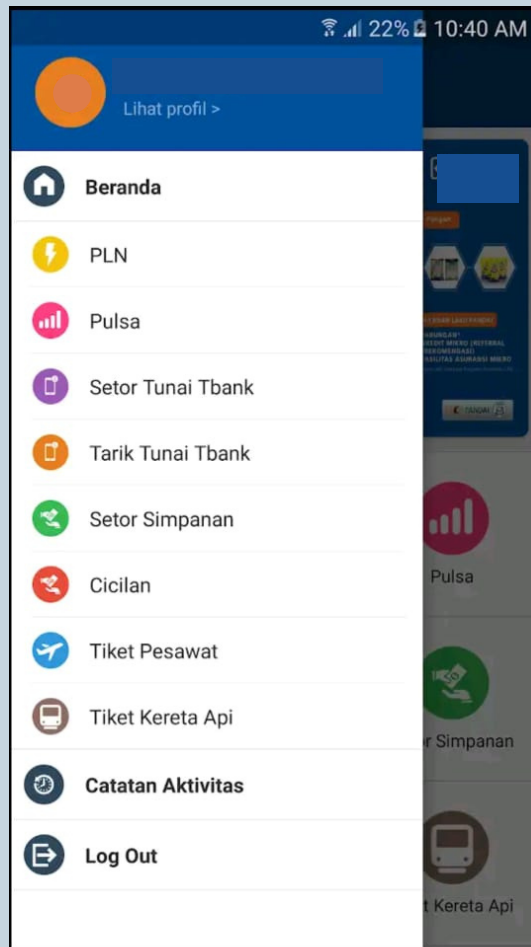
Appendix A

Figure 1. Display When Opening the Application for the First Time



Source: Google Play Store

Figure 2. Main Display of The Application



Source: Google Play Store

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