

Financial incentives and payment choice: evidence from a pensioner cashback program

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Abstract

This paper evaluates the impact of a large-scale government cashback program on non-cash payment adoption among pensioners in Armenia, a population traditionally reliant on cash. Using comprehensive administrative data covering all bank accounts of pension beneficiaries, we exploit the staggered rollout of the program across banks to identify causal effects on payment behavior. We document three main findings. First, financial incentives generate a substantial increase in non cash transactions, with effects reaching approximately 21 percentage points for transaction value and 24 percentage points for transaction counts after 18 months. Second, we find no evidence of broad-based digital payment adoption: the increase in non-cash payments is concentrated on the incentivized pension card and is partly offset by reduced use of other cards, suggesting substitution across payment instruments rather than a general increase in digital payment activity. Third, leveraging the removal of cashback eligibility for utility payments, we show that the effects are only partially persistent. Utility payments through pension cards decline sharply once incentives are withdrawn, with limited reallocation to other cards, indicating that a significant share of the observed behavior reflects strategic responses rather than durable habit formation. Overall, the results suggest that while financial incentives are effective in inducing short-run behavioral change, their ability to generate lasting shifts remains limited.

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