Innovations for Poverty Action

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Sending Money Home to Mum and Dad

Imagine you are a bicycle rickshaw driver in Delhi who's migrated from your small hometown in Bihar to the Indian capital metropolis of close to 15 million. You earn on average about $5 a day peddling your clients around the city, out of which you spend $1.5 to pay rent on your bicycle, and another $1.50 on food, alcohol and other daily needs. Whatever remains of your meager income you send home to your mother and ailing father. In fact, taking care of your parents was one of the major factors that pushed you 1200 km from your childhood home and into your current job. But how do you move your hard-earned money to your folks back in Bihar? Do you turn to the formal mechanisms available such as banks or post offices? Do you use the informal services of hawala couriers, cash couriers or friends? Or do you do the job yourself with a 2400 Km remittance round trip?

The question of how to move relatively small sums of money is faced by many among India's estimated 100 million domestic migrants, though compared to the size of their demographic relatively little is known about their financial behaviors and preferences. Our friends over at the Centre for Micro Finance in Chennai including Dr. Ajay Tannirkulam, Justin Oliver and Shreyas Gopinath have just released a working draft of a study, "Putting Money in Motion: How Much Do Migrants Pay for Domestic Transfers?" that sheds some new light on the issue. The CMF team surveyed 274 Indian migrants and their families across four major migrant corridors. The data they assemble is an interesting glimpse at the financial life of the Indian migrant as well as an informational springboard from which more research can be conducted to test financial services to help improve migrants/migrants families well being.

Some highlights:

- 57% of respondents used an informal mechanism to move their money, 13% used the post office and 30% used a bank account
    - Interestingly 15% of those who were transferring money via a bank account were using someone else's account
- 49% of respondents said they prefer to use banks to send their money, but only 30% actually do - the team suggests this is a sign of unrealized demand for formal mechanisms
- How do they decide? The usual suspects are at work here, namely the tension between a preference for formal payment mechanisms against the inconvenience and opportunity cost that it entails
    - Although at the median remittance amount of Rs. 2000 the banks are the cheapest option at a cost of 3% of the remittance amount, they also take an

average of 150 minutes for a transaction (including both sender and recipient time). Compare this to the other options - post office charges 6% and takes an average 46 minutes, or the hawala courier costs 4.6% and takes 48 minutes.
- No surprise here, what migrants value most in a payment system is security (73% of respondents mentioned), followed by speed (37% of respondents mentioned) and the cost (17% of respondents mentioned).
- 51% of the migrants' families had access to a bank account, while only 22% of migrants did
    - Building off results found by previous CMF research, 25% of bank accounts were opened by remittance recipients were to receive government benefits, in particular pension and NREGA benefits. 12% of the accounts opened by remittance recipients were opened solely to receive remittances.

Some Implications

- In India, Business Correspondents (and their backend public sector bank accounts) have now been given permission by the Reserve Bank of India to charge end-user fees for access to savings accounts and remittance/payment facilities. Remember that BCs are the limberer relative of the brick-and-mortar banks, they can bob and weave and set up shop in small hamlets and bring more 'doorstop' services to clients. Some are wary of whether potential customers will want to take up these products if there are fees involved. To me, this CMF study lends hope that there is unmet need/demand for BC services among India's 100 million migrants as well others among the financially excluded. Also given the development potential of access to savings accounts, I think that this context provides a great opportunity to explore ways to help migrants and financially excluded find safe and cost-effective ways to send and save their money. Some food for thought given this context:
    - "Linking savings accounts to those who want to receive payments [both remittance and government] may be a good way to encourage...account usage," particularly if the migrant him/herself does not need to have an account and can transfer via another mechanism.
    - Need for Speed - Can BCs decrease the pace of service (a clunky 150 minutes!) to match their competitors (ranging from 48 to a lightning fast 18 minutes for cash couriers)?
    - "Lockbox" - Given the value placed by migrants on the security of their payment facility would emphasizing the safe and security of a BC savings account through marketing/information campaigns persuade informal remitters to defect?

Finally I think it would be fascinating to build off of this research to understand more about what happens once the money is moved, namely, how do remittance recipients spend the money and is it influenced by the mechanism used? And how is the decision over how to spend the money negotiated between sender and receiver?
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