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Putting Money in Motion: How Much Do Migrants Pay for Domestic Transfers

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Introduction

Many of India's domestic migrants (a group that numbers 100 million by some estimates) regularly confront a significant problem: how to move money from where it is earned in one part of the country to another part of the country where it is needed. To better understand just how difficult it is for migrants to transfer money within their own country, researchers interviewed 274 Indian migrants and their families along four major migrant "corridors".

Researchers surveyed 274 migrants at their work towns and cities and 219 households at the migrants' villages and towns of origin, along these four corridors:

1. Bihar to Hoskote, Karnataka (a small town)
2. Semi-urban Tamil Nadu to Mumbai
3. Rural Orissa to Surat
4. Semi-urban West Bengal to New Delhi

Researchers then used purposive sampling to ensure a good mix of economic status and occupations. The respondents included construction workers, factory workers, skilled labourers, self-employed shop owners and drivers, and casual and domestic laborers. We find that there are five main channels used to transfer money over distances in India: 1) banks; 2) post offices; 3) hawala couriers; 4) cash couriers and 5) friends and self transfers. For the purposes of the study, banks and post offices are considered formal mechanisms; all others are informal.

Findings

Fifty-seven percent of respondents in our sample most recently used an informal mechanism to transfer money – most commonly hawala couriers. While half of migrants would like to make their transfers through banks, the "hidden" costs of doing so: obtaining the documents needed to open an account, traveling to the nearest branch, and waiting in line to send or receive a payment, may explain why only 30% of sample respondents use banks to transfer money. Of households that do not use a bank account to transfer money, 19% would like to use banks but are currently unable to.

Poor households incur significant costs when sending and receiving money: the median cost of a domestic remittance of Rs. 2000 is Rs. 80, or 4 % of the transfer amount. This suggests that among poor households there is considerable willingness to pay for a safe and convenient way to send and receive money. Indeed, when asked what migrants value in a payment system, by far the most common answer is security (mentioned by 72% of migrants) followed by the speed of delivery at 37%. The cost of transferring money is only the third criteria mentioned, at 17%.

Researchers found that costs vary significantly across the method used to transfer funds. For the typical domestic remittance of Rs. 2000 ($44), transferring money through a bank account costs Rs. 60 (or 3%) on average, including all direct and indirect costs. This is significantly cheaper than other commonly used methods, such as India Post (6%) (by far the most expensive transfer method in our survey), or informal hawala networks (4.6%).

Conclusions

For many migrants, there is a clear trade-off between the cost of remitting money and the convenience of remitting, depending how money is transferred. Banks have the security, speed of delivery, and cost-effectiveness that migrants most want, but they are frequently far from migrants' homes, require onerous documentation many migrants do not have, and are generally inconvenient for most rural poor. More convenient informal mechanisms that do not require as much time, effort, literacy, or documentation continue to be pervasive, despite being more expensive and less desired.

Even a small improvement in the costs of remitting money can have big implications. Priya Deshingkar and Shaheen Akter estimate that domestic migrants contribute 10% of India's GDP.[1] In this study, 23% of migrants' annual incomes were remitted to their families. This implies a total market of 1.3 lakh crore ($28 billion USD) of domestic remittances sent annually in India. If all that is currently lost to informal couriers were to cost only what bank transfers do, migrants would save nearly 1000 crore ($200 million USD) over what they currently spend. If costs could be lowered even further, migrants would benefit even more.

Policy Recommendations

The challenge facing policy makers and financial institutions is to marry cost-effectiveness and security with access and convenience. The relatively cheap payment and transfer services that banks provide need to be made more accessible and convenient to the poor. The decision to distribute government benefits through banks appears to have had the fortunate consequence that people use those same accounts to transfer money reliably amongst themselves. Policymakers could capitalize on this success by ensuring that households receiving payments from the centre and state governments have bank accounts to receive these payments and that they are encouraged to use them. Note that for the purpose of migrant remittances, it is more valuable for migrants' families to have convenient access to banking than migrants themselves, since a migrant can deposit money in his family's account even if he does not have an account himself. Targeting bank services in geographical areas that produce a lot of migrants may be a good policy for making migrant remittances more efficient.

Of course, just opening accounts does not help if banking access continues to be inconvenient: the poor badly need more places where they can transact with formal financial institutions to make and receive payments and these places need to be close to them. Banks could help improve access in several ways if the Reserve Bank of India would allow them to and if they are provided the incentive to do so. Possibilities for adding formal transfer capacity to hard-to-reach areas include: a) building more branches; b) making it easier for banks and non-banks to propagate business correspondent networks to expand physical proximity to payment outlets (perhaps enabled by mobile verification of transfers); c) widely distributing ATMs and debit cards and d) expanding the range of institutions that are enabled to process payments safely and efficiently.

This last option evokes changes that could be made to the postal money order system to make it a cheap and desirable way of transferring money. India Post is relatively expensive and slow at making transfers - its vast network could be much better utilized. Encouragingly, the Post is in the process of adding and expanding Electronic Clearance Services and online Instant Money Orders. If these transfers can be done as cheaply and as quickly as electronic transfers through banks, the Post could again become a desirable money transfer option. To further improve services for migrants, electronic clearance services could be linked to the many savings services India Post offers, enabling payments and deposit facilities through the same account.

A final option would be to consider policies which lower the costs of informal couriers or encourage informal couriers to become more formalized (possibly though registration or partnerships with banks) but we see few incentives for informal couriers to do so, unless they begin to face competition from the formal sector. Making formal payments and transfer services cheaper and more convenient for families of migrants would significantly increase prospects for the financial inclusion of India's domestic migrants.

1 Deshingkar, Priya and Shaheen Akter. "Migration and Human Development in India." (UNDP Human Development Reports, 2009).