MicroSave India Focus Note 29

Potential for E-/M-Banking Enabled Migrant Remittances

Nitin Garg, Krishna Thacker, Venkata N.A., Sachin Bansal and Graham A.N. Wright

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Background: India Focus Note 27 "Migrant Remittances – An Untapped Market" distinguished between four categories of migrants and three types of recipients, analysed their patterns of remitting money and assessed their preferences for remittance products and services. India Focus Note 28 assessed the potential role for MFIs. This Note examines harnessing technology to optimise the delivery of remittance services – particularly for banks.

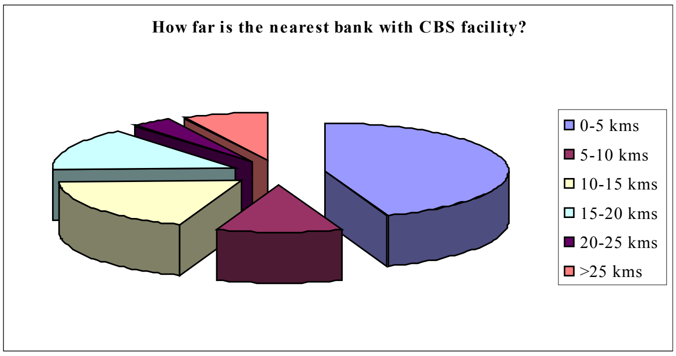
The largest challenge for banks that want to tap the huge market for remittances – estimated to be at Rs. 26,000-40,000 crore per annum – is to provide a convenient service at a very low price. As the table below shows, the market is evolving rapidly and both migrant remitters of money, and the courier services[1] that many of them use, are changing behaviour to use the opportunities offered by the rollout of core banking systems by the public sector banks.

Place	Service Providers	Price	Time	Trend / Remarks
Kolkota	*Dakiya*/ Courier Family and friends	3-5% for money, Rs.5 per kg for any other material	5-7 days	Earlier people used to send money only through family and friends, but the convenience of *Dakiya* (informal courier) is replacing this approach. Family and friends returning to the village are still used to remit money, but this is now less frequent.
Delhi	Courier and ATM Self and ATM/ Bank	3-5% Free	1-2 days at times immediate or Transferred immediately, withdrawn on same or next day depending upon the need.	Earlier people were only sending money through courier, but now many of them have opened an account and use the core banking systems of banks to transfer money. The couriers are now also using core banking systems: the courier representative deposits money in the city and another courier representative in village withdraws it from nearest ATM for on-distribution to the recipient.
Mumbai	Self and ATM/ Bank Family and friends Courier	Free 3-5%	Transferred immediately, withdrawn on same or next day depending upon the need. 5-7 days	People are mostly using bank accounts to transfer money; this is because of a higher penetration of bank branches in Mumbai. Even couriers/family friends use bank accounts to transfer money.

Challenges of Remitting Through Core Banking Systems: The move towards using banks' core banking systems to transfer money is taking off rapidly and has several implications:

1. Increased costs for the banks as they process the money transfers and manage the deposits and withdrawals;
2. Loss of potential revenue on demand drafts, etc. for the banks; and
3. Increased over-crowding of banking halls in Uttar Pradesh, Bihar and other states from where large numbers of migrants originate.

However for recipients, and (to a lesser extent) remitters, the use of core banking systems remains inconvenient. For all the rhetoric about financial inclusion, many banks



[1] Courier – This is an informal way of transferring money through agents against a charge. These are normally referred to as couriers/*hawala* /*hundi*/*dakiya*

simply do not want to serve the poor for fear of crowding out more affluent customers. So poor people entering the banking halls to remit or receive are often badly treated and have to wait a long time for service. Migrant remitters in particular do not have the time to wait; and often, banking hours are inconvenient for them because they clash with the hours migrants have to work. Where ATMs are used, many of the recipients are intimidated by the technology and have to get help from friends and relatives to withdraw amounts remitted - with all the attendant additional costs and loss of confidentiality.

Furthermore, although account to account transfers are free using core banking systems, this approach is not without cost to the remitters and recipients. Both lose time, but recipients also very often have to travel considerable distances (sometimes as much as 30 km.) at significant expense to go to the bank to pick up their money. This explains why a significant market remains for couriers, despite their relatively high charges - they deliver door-to-door service.

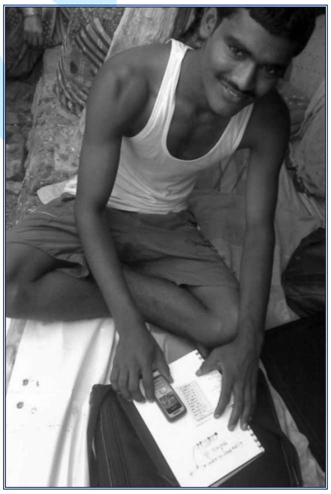
Implications for E/M-banking Systems: Unsurprisingly, banks are not promoting the use of their core banking systems as a way to remit money, and this provides a great opportunity for e-/m-banking systems to serve this market. With an extended network of agents that penetrates deep into the rural villages (typically provided by mobile network operators, retail networks or other business correspondents already contracted to provide basic banking services in the villages) e-/m-banking systems can offer convenience to match courier service providers. With couriers offering their services at 3-5% of the amount sent, e-/m-banking systems potentially have quite a significant margin to work with in order to ensure that the agents, the technology provider and the bank behind the system are adequately remunerated.

Furthermore, *MicroSave* research shows that many migrants remit on a monthly basis, so this product would be a regular, relatively high volume business that could begin to exploit e-/m-banking systems' potential (and indeed need) to handle large numbers of transactions. Only in this way, can banking correspondent agent network systems hope to begin to be sustainable.[2]

For the banks, not only does leveraging e-/m-banking systems provide an opportunity to reduce transaction costs and de-congest banking halls, it also provides an opportunity to restore at least some marginal income. Also, since e-/m-banking systems that have already enrolled clients will have completed the necessary Know Your Customer formalities on them, bank staff will not be burdened with this obligation.

Trusted local agents can help recipients manage the technology and user interfaces, although there is growing evidence that even for illiterate villagers, mobile-based interfaces are not as challenging as previously feared. The remittance business will generate increased footfall from recipients anticipating the arrival of money, even when the remittance has not necessarily been received. And of course, since many local agents are also retail outlets, they can reasonably expect that the recipient might choose to spend some of the cash she/he receives in their shops.

But Do Poor People Have Mobile Phones? And Can They Use Them?: Recent *MicroSave* research in UP, Bihar and Karnataka found that most of the respondents had at least one mobile in the household/family and that all the migrants had access to mobile phones. "*Sahab yeh mat puchiye ki mobile phone kiske paas hai balki yeh puchiye ki kiske pass nahin hai!*" ("Don't ask who has a mobile, but ask who does not have one!") Most of the respondents were using their mobile phone to receive calls and rarely made calls. When they did make calls, most of the women took help from the children/young person in family to dial the numbers for them - in all the respondents' families there was at least one person who was able to dial numbers. However, in the north at least, few of the respondents were using other functions of the mobile like Short Messaging Service (SMS), address book, other applications etc.



The levels of mobile penetration and usage can be judged from the fact that in villages where there is no electricity, people pay Rs. 5-Rs 10 to get their phone batteries charged for half an hour by retailers with a generator and an extension board. The competition is so fierce in this space that players like Idea and Aircell are offering lifetime connections for as low as just Rs. 9. During *MicroSave*'s interviews with the retailers selling telecom connections and recharge coupons, it was found that a typical retail shop in rural Bihar sells about 8-10 new connections every month and does 30 recharges every day. The average amount of recharge was typically between Rs. 10-Rs. 20. And several mobile phone handset producers are working on low cost models that are expected to further increase the current penetration by 2.5 times in the next 5 years. So it is fair to assume most households do already, or will soon have, access to mobile phones.

Conclusion: There is clearly both the potential and a business case for serving the large market for remittances in India using e-/m-banking platforms using the banking correspondent networks currently being developed. This will provide a valued services for migrants, important revenue streams for agents and could save banks considerable transaction costs.

[2] See India Focus Note # 18: "MFIs as Business Correspondents – To Be or Not to Be?" by Anup Singh and Krishna Thacker