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**November 2010**

## Executive Summary

Many among India's enormous population of domestic migrants – 100 million people by some estimates – regularly confront a significant problem: how to move money from where it's earned in one part of the country to another part of the country where it's needed. To better understand just how difficult it is for migrants to transfer money within their own country, we interviewed 274 Indian migrants and the families who receive their remittances along four major migrant "corridors":

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 obtaining the documents needed to open an account, traveling to the nearest branch, and waiting in line to send or receive a payment mean that only 30% of our sample use banks to transfer money. Of households who don't use a bank account to transfer money, 19% expressed a desire to use a bank.

Poor households incur significant costs when sending and receiving money: the median cost of a domestic remittance of Rs. 2000 was Rs. 80, or 4% of the transfer amount. This suggests that there is considerable willingness to pay among poor households 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%.

We find 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%).

## ***Sending and Receiving Money can be a Significant Cost for Migrants***

Bhaskar D. migrated 2000 kilometers in 2007 from Bihar to Karnataka to work as a construction labourer. Though his grandmother and his mother Lakshmi are both eligible for the Indian Government widow's pension program, they have never been offered the opportunity to enroll. Neither is the government workfare program, enabled by the Mahatma Gandhi Rural Employment Guarantee Act (MGREGA), available in their Bihar village. To make ends meet and to care for her ailing mother, Lakshmi had been supplementing her meager earnings from sporadic farm labour with loans from a moneylender at 5% interest per month. Bhaskar knew he had to leave his hometown for better work prospects and to get his mother out of debt, and followed other village friends to Hoskote, Karnataka.

Though his new monthly income of around Rs. 4500 was a big jump for Bhaskar, sending money back to Lakshmi and the family is far from costless. He sends an average of Rs. 2000 each month through a hawala courier, an informal money transferring operator who picks up the cash at Bhaskar's doorstep. When he gives Rs. 2000 to the hawala courier in Hoskote, the courier transfers money to the bank account of another hawala agent 15 kilometers from Bhaskar's mother's village. Lakshmi then rides a bicycle one hour each way to reach her local hawala agent, who gives her Rs. 1850 in cash. Not only is the 7.5% commission steep, the system is not fool-proof: Bhaskar and Lakshmi were duped by a different courier once in the past year, losing Rs. 2500 in the process. Thus, over the past year, of the roughly Rs. 24,000 Bhaskar had sent his family, they had only received Rs. 19,850, and Lakshmi had spent 24 hours on a bicycle to retrieve it.

In cases such as Bhaskar's, the formal fees of the hawala courier, and indirect costs from the risk of theft and time spent to receive the transfer can add up to as much as 20% of the total amount. Unfortunately, poor households – who are most likely to use domestic migration as an economic strategy – often lack access to the formal financial system. Unable to satisfy banks' Know-Your-Customer (KYC) requirements, ignored by bank officers, or simply living too far from the nearest branch, a majority of poor migrants use one of several informal means to send money.

To better understand the difficulties and costs involved in transferring money across India, we surveyed 274 migrants at their work towns and cities and 219 households at the migrants' villages and towns of origin, along four migrant corridors: 1) from Bihar to Hoskote, a small

town in Karnataka; 2) from semi-urban areas in Tamil Nadu to Mumbai; 3) from rural Orissa to Surat; and 4) from semi-urban West Bengal to New Delhi (these corridors are detailed further in Appendix A).

We used purposive sampling to ensure a good mix of economic status and occupations. The results should not be considered representative of the migrant population in India, or even along any of the four corridors studied. Our results are rather meant to be indicative of a range of migrant experiences, and intend to provide clear insights into different remittance channels and associated money-transfer costs. Our migrant respondents included construction workers, factory workers, skilled labourers, self-employed shop owners and drivers, and casual and domestic laborers.

We categorize five 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. We describe each of these transfer mechanisms in greater detail in Appendix B. Banks and post offices are considered formal mechanisms; all others are informal. Whether formal or

informal, costs of transferring money are incurred both by senders and the receivers, and include 1) formal fees and commissions, 2) travel costs, 3) opportunity costs of the time spent, 4) risk of loss, fraud, or theft, and 5) demands for bribes and tips. We describe each of these cost components in greater detail in Appendix C.

## Prevalence of and Preference for Various Transfer Methods

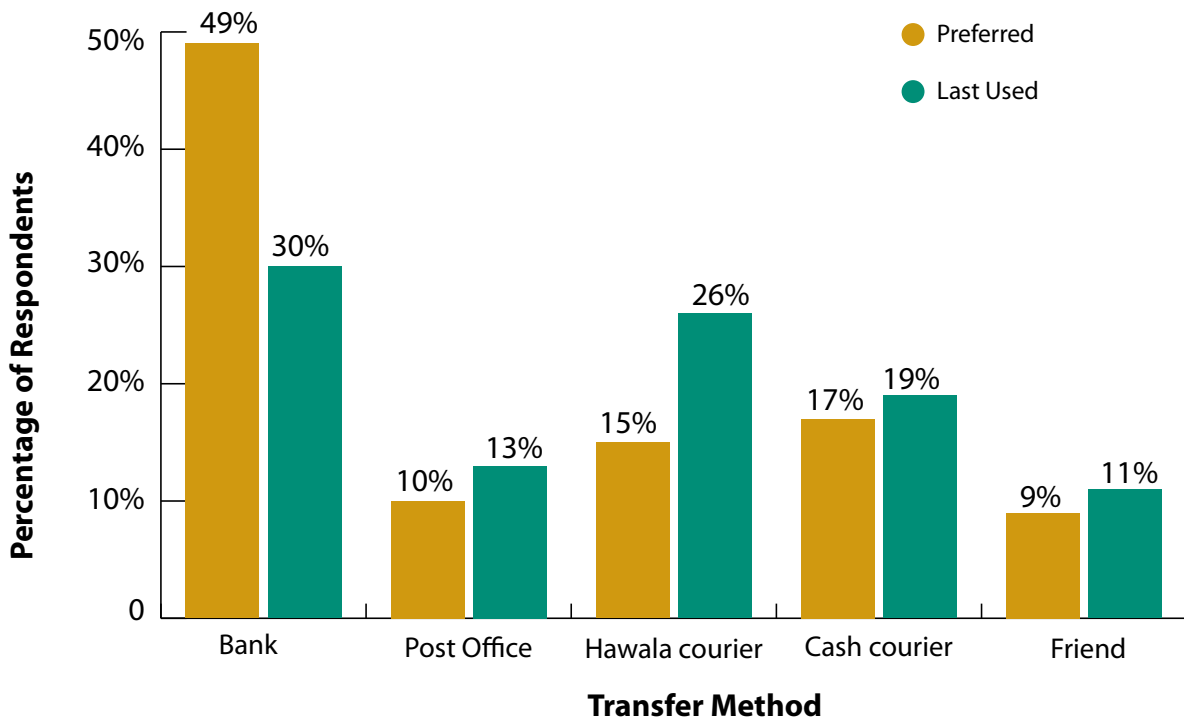
By comparing preferences of migrants to their patterns of usage, we get an indicative picture of migrant demand for the various modes of transferring money. When the actual usage of a particular method is less than the stated preferred usage, it implies that the individual is constrained from using his preferred remittance method. Overall, migrants strongly prefer electronic bank transfers to all informal mechanisms, and are least likely to state a preference for post office transfers or sending with a friend.

That 49% of migrants would prefer to use banks but only 30% do so is a strong indication of unrealized demand for remitting through banks (Figure 1). For all other transfer methods, usage exceeds preferences, suggesting that circumstances force 19% of migrants to use methods they do not prefer. The large number of migrants who use hawala couriers are particularly likely to prefer other methods: though 26% of migrants use hawala couriers, nearly half of them would prefer to be using some other mode.

The vast majority of migrants who are using a method they do not prefer would prefer to transfer through a bank. Figure 2 shows that of the 49% of migrants who would prefer to use banks, 14% end up using hawala or cash couriers, 3% use post offices, and 4% use friends. For every other mechanism, only one or two percent of those who prefer it are not currently using it – suggesting that demand is essentially saturated given current conditions.

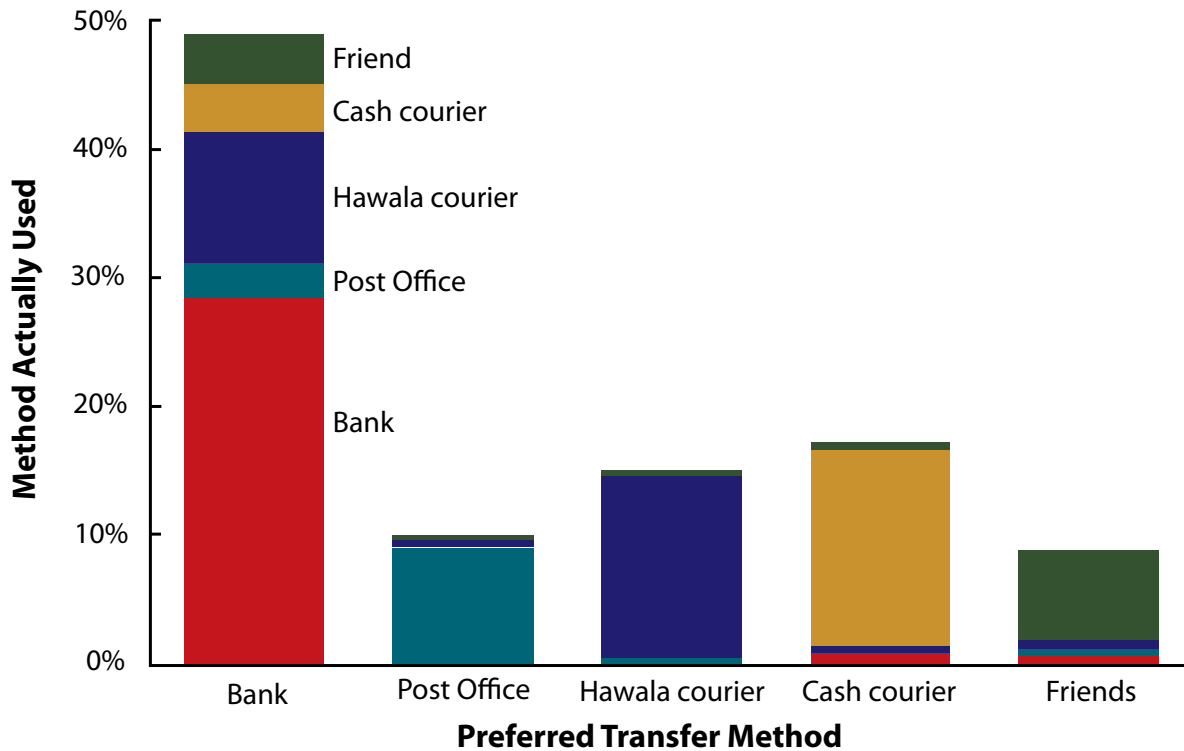
That pent-up demand exists for the use of banks as a remittance channel is further supported by evidence of the channels migrants have switched to over time. In particular, people have been shifting away from using post offices. Of those migrants who had changed how they sent remittances over time, 62% had stopped using post offices, of whom 70% had shifted to using banks. An additional 13% of those who had changed from other channels had switched to banks, such that a total of 58% of those who switched channels now use banks for transfers.

Figure 1: Preferences vs. Usage of payment systems by migrants



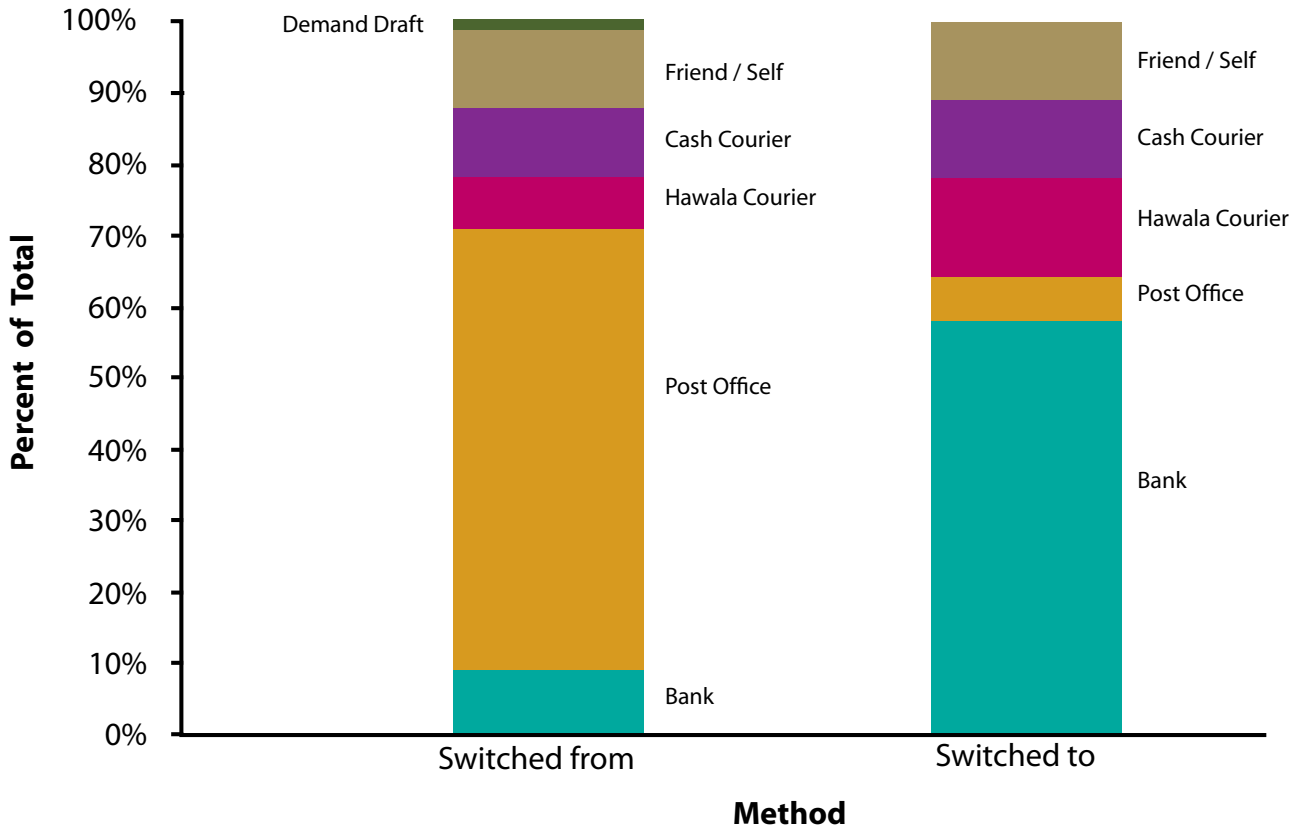
Source : Centre for Micro Finance, IFMR Research

Figure 2: Many who state a preference for bank transfers end up using other means



Source: Centre for Micro Finance, IFMR Research

Figure 3: Post offices are losing share to banks in transferring remittances



Source : Centre for Micro Finance, IFMR Research

High fees were cited as the main reason for switching from postal money orders. Results on the decline of post offices for domestic remittances are corroborated by Thorat et al 2009, who found that post-offices have reported a decline of up to 30 percent in money-transfers in Uttar Pradesh and up to 50 percent in Maharashtra.<sup>1</sup>

However, some people also stopped using banks. Nine percent of migrants who have switched methods have stopped using bank transfers because of the time it takes for the receiver to travel to the bank branch to collect money. The inconvenience perhaps prompted them to switch to couriers who promise doorstep delivery to the receiver.

<sup>1</sup> Thorat, Y. S. P., Ramana, N. V., Ramakrishna, R. V., Koshy, A. and Zak, T. "Remittance Needs in India," (NABARD – GTZ Technical Study 2009).

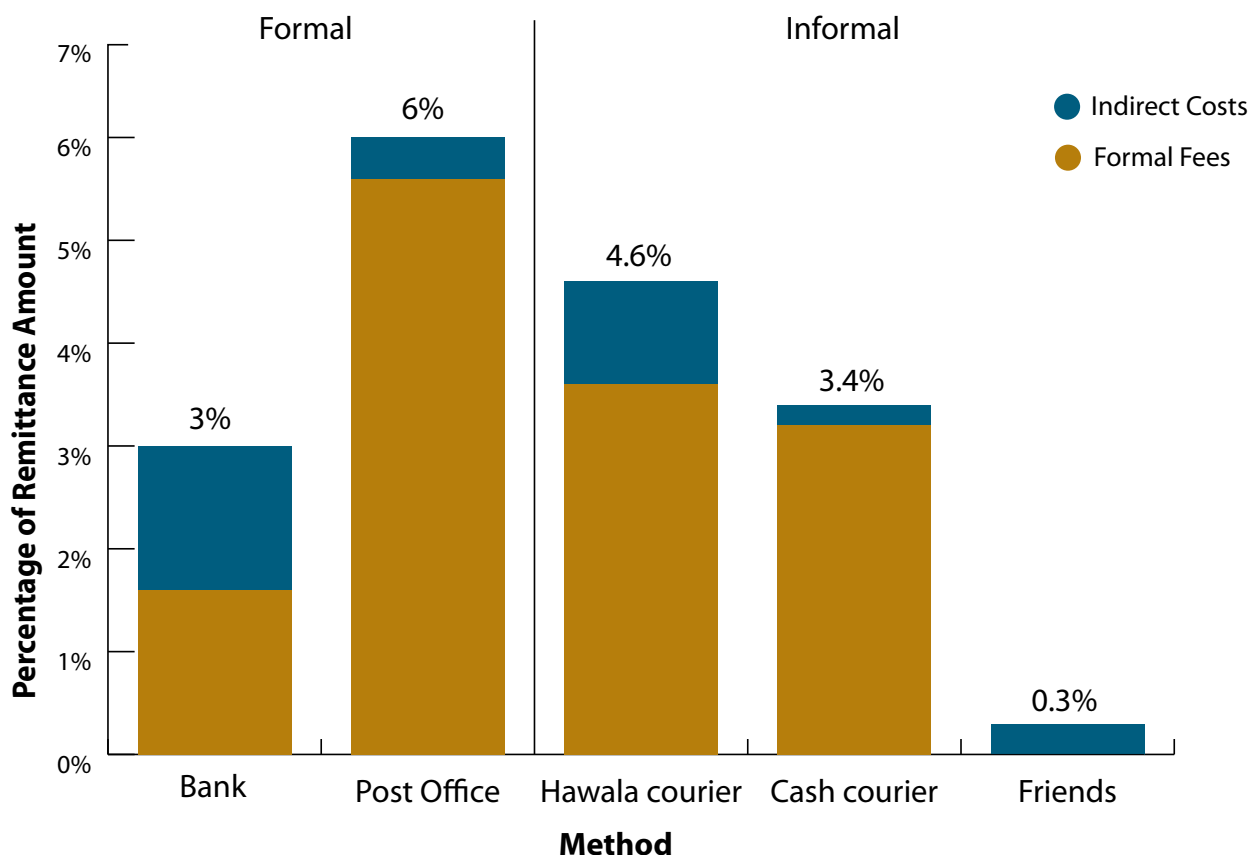
# Costs and Time Involved in Transferring Money

Transferring money can be quite expensive for migrants, though costs vary depending on how money is sent. Even more importantly for some migrants, transferring money cheaply can be terribly inconvenient. Though a transfer through a bank is much cheaper than through the post office, for example, the inconvenience of opening an account and regularly traveling to one of India's 31,625 rural bank branches is generally greater than visiting one of India's 140,000 rural post offices to transfer money. Transferring through informal agents is usually even more convenient and less time-consuming, and although people perceive the risk to be much higher than through formal means, the total calculated risk is only marginally so. Transferring money free of charge through

a friend or relative who is traveling back to a migrant's hometown is consistently the cheapest remittance option, regardless of the amount sent. Although cheap and fairly common, sending money with a friend is the least preferred option by migrants in our sample (as shown in Figure 1), perhaps because migrants find it difficult to match such payments to financial needs back home.

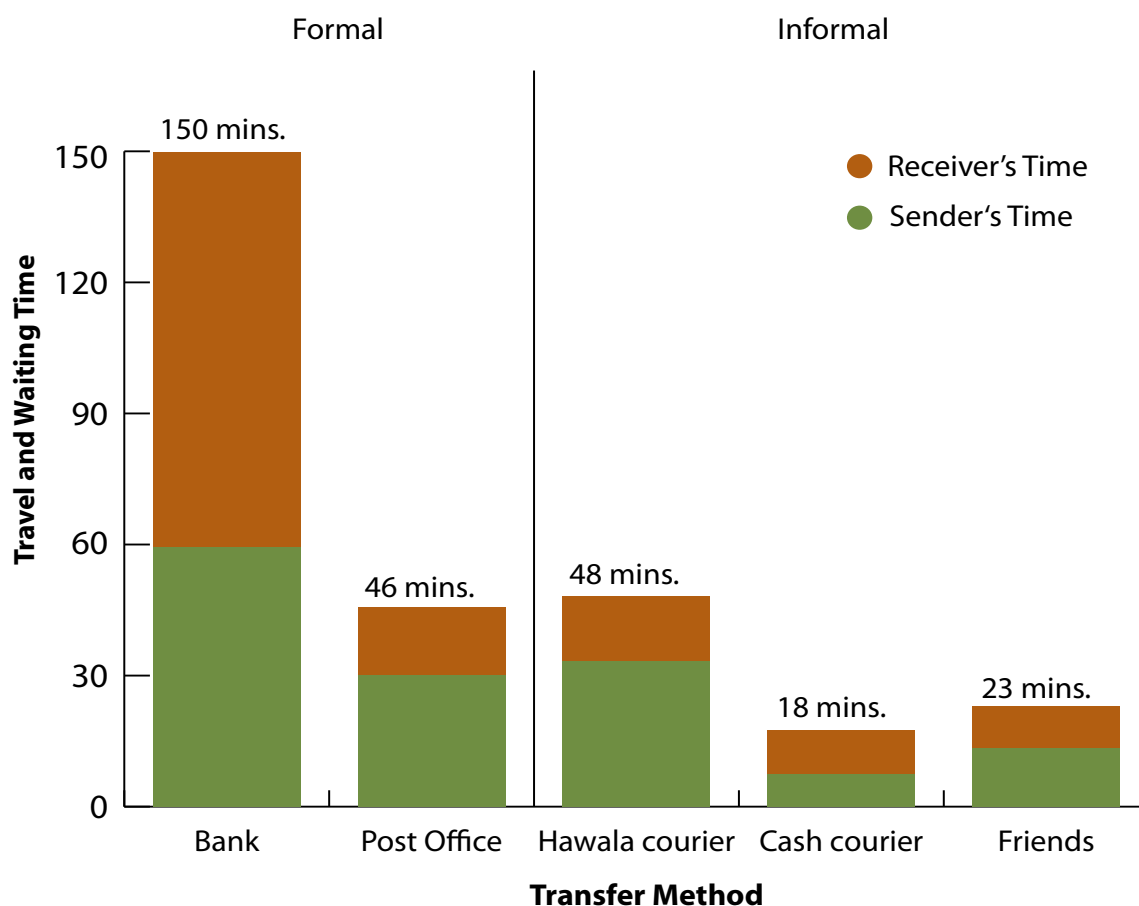
Among the four remittance options involving a paid intermediary, for our sample's median migrant transfer of Rs. 2000, banks are the cheapest option at 3%, including all costs. Post office transfers are twice as expensive as bank transfers, and hawala couriers cost 50% more. Interestingly, cash couriers cost only a bit more

Figure 4: Total costs as a percentage of remittance amount at the median remittance value of Rs. 2000



Source : Centre for Micro Finance, IFMR Research

Figure 5: Travel and waiting time involved in making a transfer



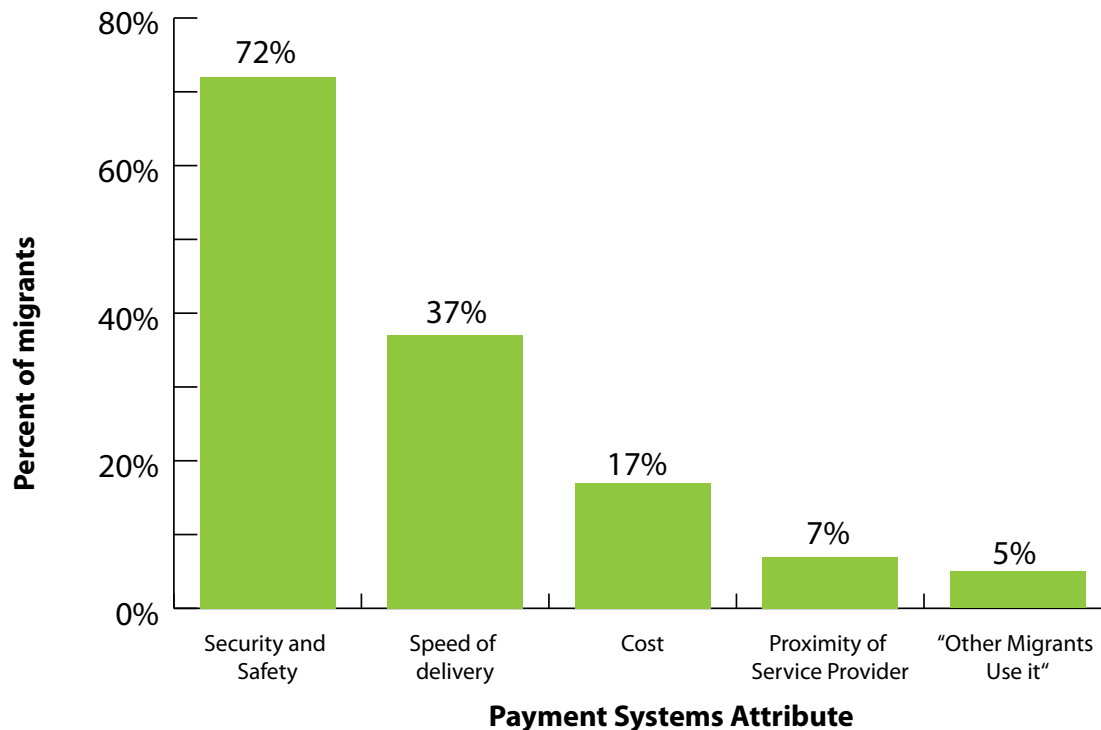
Source : Centre for Micro Finance, IFMR Research

than banks, at 3.4%, with almost all of the costs as commission. The story is more complicated, however, when we look at the inconvenience to migrants and their families to send money (Figure 5). Sending a transfer through a bank requires an average of 15 minutes of travel and 45 minutes at the bank for senders, plus an additional 40 minutes of travel and 50 minutes of waiting time for recipients, for a total of 2.5 hours. All other transfer methods are a bit more convenient: 46 total minutes for post offices, 48 for hawala couriers, a mere 18 for cash couriers, and 23 minutes to send with friends.

#### ***What do users value in payment systems?***

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%. Those migrants who state a preference for transferring through banks and post offices cite security as the attribute they value most. Migrants who prefer the informal courier network appear to do so for the convenience – quick delivery and the proximity of service provider.

Figure 6: Percent of migrants who value a payment system attribute



Source : Centre for Micro Finance, IFMR Research

## Bank Transfers: Best for Larger Amounts, but Access is Still Limited

Transferring through banks involves mostly fixed direct and indirect costs, such that transferring larger amounts is relatively cheap, but smaller amounts are relatively more expensive. Thus, for the 8% of migrants who transfer amounts less than Rs. 800, transferring money through the bank is as expensive as the post office and slightly more expensive than hawala or cash couriers.

Banks are also inconvenient, requiring greater travel costs, travel time, and waiting time at the branch than any other transfer method (Figure 5). In fact, if all opportunity time costs were calculated at wage rates, rather than only calculating opportunity costs due to missed work as we've otherwise done, then costs of remitting Rs. 2000 rise to Rs. 82 for banks at the

median, only Rs. 18 cheaper than hawala couriers, and more expensive than cash couriers.

The larger the amount, however, the cheaper it is to transfer through banks: the 25% of the respondents we spoke with who were sending Rs. 5000 or more each time paid only 1.4% of the remittance amount in total costs, while post offices cost 5.1%, and hawala and cash couriers cost 2.6% and 3.0% respectively. Not surprisingly, those transferring through banks also report higher incomes and higher remittance amounts (see Figure 10). It seems likely that most of this relationship is simply because those with access to bank accounts are more likely to be wealthier. It is possible that

some of those who transfer larger amounts through banks do so because of the cost-savings and security relative to other remittance mechanisms, but our data cannot distinguish between these scenarios.

### ***Access to banks is low, but higher for migrants' families than migrants themselves***

Access to bank accounts amongst our sample is low overall: only 52% had an existing account either at the migrant's end or back home. Predictably, due to the difficulties migrants face in fulfilling KYC requirements at banks, access is much higher for receivers than migrants themselves: 51% vs. 22%. In Mumbai, the No-Frills Accounts drive, launched by a bank branch opened exclusively to meet the banking needs of migrants in the Dharavi slum, has helped improve banking access (50% of all migrants we interviewed in Mumbai had a bank account). This is an aberration when compared with other locations where banking access for senders

is poor. If senders from Mumbai are excluded, banking access for senders falls from 22% to 12%.

Twelve percent of the accounts opened by the recipients of migrant remittances were opened in order to receive these payments (see Figure 7). One quarter of the accounts owned by the recipients of migrant remittances were opened to receive government benefits – particularly the government workfare scheme and pension benefits. Including the 2% who opened their accounts to pay for their life insurance plans, fully 40% of all savings accounts were opened not to save, but rather to receive payments. This has important implications, indicating that linking savings accounts to those who want to receive payments may be a good way to encourage financial inclusion and savings account usage, including usage for purposes other than the reason the account was originally opened.

### ***Tamil Migrants in Mumbai – A Preference for Bank Transfers***

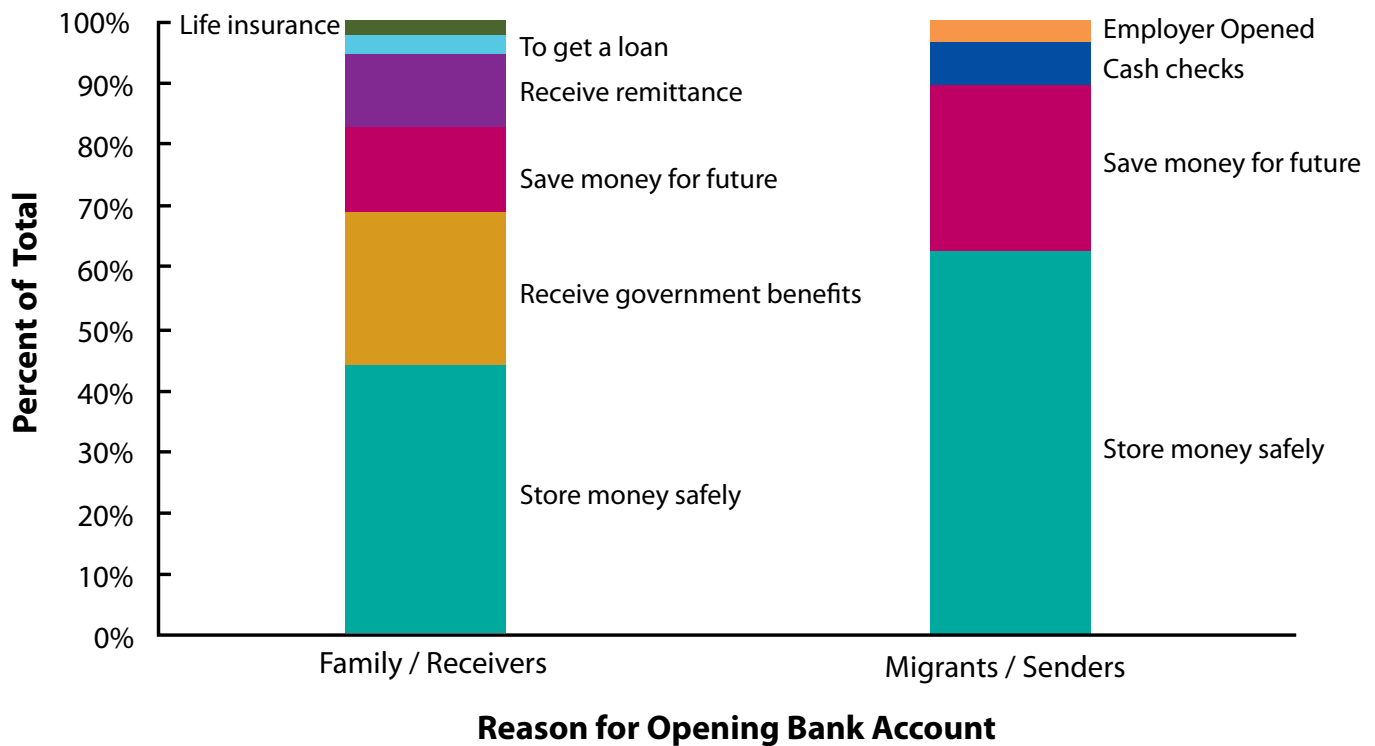
Tamil migrant Manoharan has been a cook in Mumbai for fifteen years and earns about Rs. 3000 every month. He lives in Dharavi, Asia's largest urban slum, and followed in the footsteps of his father, who worked as a tailor in Dharavi before him. Migrants in Dharavi work in a variety of industries – leather tanneries, dyeing, small hotels and snack-factories.

Manoharan, like other older migrants, has managed to have most of his close family members move with him. He now lives with his wife, a sister and his mother. His brother stays back home in Tamil Nadu and works in a textile factory. As a cook, Manoharan says he earns three times the amount he'd be able

to earn in his hometown. This allows him to manage expenses back home, including maintenance of the house and occasional household expenses of his brother.

In 2007, Indian Bank opened the first bank branch in this slum of a million people. Manoharan has an account with Indian Bank and uses it to transfer money to his brother's account in Tamil Nadu. He also carries money occasionally with him but is skeptical of doing so in the future because he has heard of a few robberies on the train. Earlier, he used to send money through post-office money-order but finds the several-day wait too long, compared to the immediacy of a bank transfer.

Figure 7: Reasons for opening a bank account



Source : Centre for Micro Finance, IFMR Reserach. Receivers-104, Senders-59

For the purpose of making a bank transfer, a bank account is only necessary for the recipients to have, not the migrants themselves. With an account holder’s bank information, anyone in India can make a deposit in another’s account at any of India’s 62,000 (out of 75,000 total) bank branches connected to the National Electronic Funds Transfer system. Thus, if policymakers would wish to extend the use of banks to capture remittances currently sent through other means, perhaps more focus should be on the locations where migrants come from rather than migrants themselves.

The fact that a household has a bank account does not always mean that the account is used for

remitting, however; 16% of remittance recipients with a bank account receive remittances through other means. This may indicate that the household is unaware that such transfers can be conducted through a bank account, or that the household simply prefers other means, perhaps because of the inconvenience of the bank.

Seventy-seven percent of senders cite not having official identity and residency documents as the biggest reason for not having a bank account. Only 11% of respondents believe that they do not have enough money to save for a bank account to be necessary or even possible. The lack of banking access also seems to impose other costs. Nine percent of all

households we spoke with reported having cash stolen from their homes in the past year. The probability of losing money due to theft is four times greater for those who store money at home, as opposed to saving it elsewhere (12% vs. 3%). Though the risk of having money stolen in transit is captured in our overall cost calculations in Figure 4, the greater risk of storing money at home is not, since that risk is not merely

a function of the remittance. It may, however, imply much greater risk costs for non-bank transfer methods.

But even bank transfers are not risk-free. Fifteen percent of those who were transferring money via bank accounts were using someone else's account. In some cases, depositing money in others' accounts is risky.

### ***When Dependent on Others, even Bank Transfers are not Risk-Free***

Sixty-year-old M.D. Musthakim is a tailor in Bhagwan Bazaar of Chhapra district in rural north-west Bihar. He and one of his sons, also a tailor, manage to earn Rs. 3000 together in good months to support a household of 10. Seeking better opportunities to earn money for his family, another son, Ahmad, migrated 2000 kilometers to Hoskote, Karnataka where he works as a painter, earning Rs. 3000 per month.

The household struggles to meet daily needs and is severely dependent on the remittances sent by Ahmad. They have no savings and are forced to borrow from friends and relatives for health expenses and other emergencies.

Ahmad usually remits money into the bank account of a relative who stays in the neighbourhood. In a

couple of instances, the relative decided to use the money himself and has promised to repay it later; the relative currently has Rs. 7000 that was intended to be remitted to Mr. Musthakim's household.

For a poor family such as Mr. Musthakim's, Rs. 7000 is a huge amount (two months worth of earning) and even a day's delay in receiving the remittance might result in high interest payments incurred on loans borrowed elsewhere to replace this shortfall. The absence of a bank account and dependence on an unscrupulous relative combine to rob them of an important source of income.

Remittance recipients without a bank account may become dependent upon a relative or friend who uses his position as the account-holder to seek favors, borrowing forcibly in this case.

## Post Office Transfers: Expensive and Slow, but Common for Smaller Amounts

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With over 150,000 post offices, India Post has a high degree of penetration throughout the country and has been a traditionally important remittance channel. Not all migrants are comfortable with postal money orders, however, as the requirement that forms must be filled out either in English or in the local language may pose a challenge (or risk being misdirected) among migrants with low literacy and from other language backgrounds.

Contrary to popular perception, sending money through the post-office is expensive, because in addition to the 5% formal fees, informal costs in the form of bribes and tips and opportunity costs are high. A postman is supposed to deliver money at the home, but we find that in many

cases receivers in remote locations have to travel to the post-office instead to receive the money. It is clear this is happening in a large number of cases from the high incidence of opportunity costs incurred by post-office receivers.

On average, migrants who use post offices to transfer money also report having lower incomes than those using other methods, and send smaller average amounts (see Figure 10). Because post offices charge a percentage of the remitted amount rather than a fixed fee, the costs are less than those of banks for transactions less than Rs. 800. Usage is also much higher among those sending smaller amounts, dropping off to only 6% for those sending Rs. 5000 or more.

## Informal Transfers: Hawala Remains Common Despite the Costs

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According to a 2009 study led by Y.S.P. Thorat, about 50 to 60 percent of remittances in India are transferred through informal or semi-formal systems involving family, friends and private couriers.<sup>2</sup> Our results corroborate these findings, with 57% of respondents having most recently used an informal mechanism to remit money – most commonly, hawala couriers.

Somewhat surprisingly, the use of hawala couriers does not appear to change with the

size of the remittance amount in the way that it does with banks (increasing use with remittance amounts) and post offices (decreasing). Hawala is consistently somewhat more expensive than bank transfers – between 4%-45% depending on remittance amount and opportunity cost calculations. But migrants' responses show that use of the hawala network is frequently not by choice, but due to lack of other options. Only 15% of migrants we spoke with describe hawala as their preferred transfer method, though 26% of all migrants used it. In contrast, 49% of respondents would prefer to use banks, but only 30% manage

<sup>2</sup> Thorat, Y. S. P., Ramana, N. V., Ramakrishna, R. V., Koshy, A. and Zak, T. "Remittance Needs in India," (NABARD – GTZ Technical Study 2009).

### ***The Economics of a Hawala Courier***

Manoj, aged 26, migrated from Ganjam district in Orissa to Surat in 2006 to work with his father, an established master in the textile industry there. Manoj established an electronic and mobile shop at Surat after he arrived. In 2008, he also began operating as a hawala courier, offering remittance services for fellow migrants from Orissa, especially to those from Ganjam. He now has 120 clients and remits a total of Rs. 200,000 to Rs. 300,000 every month. He collects money from clients in Surat and deposits the collected money in his bank account. His elder brother Rajesh withdraws the money and delivers it to client families in person. Manoj and Rajesh earn about Rs. 7500 each month from the remittance business.

Manoj charges a tiered commission based on the remittance amount:

- Between Rs. 500 and Rs. 5,000 - 3% of the remittance amount

- Between Rs. 5,001 and Rs. 10,000 - 2.5% of the remittance amount
- Greater than Rs. 10,000 - 2% of the remittance amount
- For remittances of more than Rs. 20,000, the rate of commission discount varies from case to case
- There are no charges at the point of delivery

Manoj and Rajesh use the banking network for the remittance services. They have bank accounts with State Bank of India and ICICI Bank at their village in Orissa, to which Manoj deposits the money. The banks charge Rs. 25 for transactions up to Rs. 5,000 and Rs. 35 for transactions above Rs. 5,000. Somewhat paradoxically, the presence of a bank network has opened up a business opportunity for agents like him who earlier had to carry the money physically.

to do so. And of that half of respondents who prefer to transfer with banks, 28% end up using hawala or cash couriers to remit.

Cash couriers whose livelihood is to travel and physically deliver cash for migrants were once common. Widespread use of mobile phones to communicate about transfers, and the increased availability and speed of formal transfers have enabled migrants like Manoj to become hawala couriers without incurring travel costs like cash couriers. All of the use of cash couriers found in our study of 274 migrants was confined to those remitting money from Surat, Gujarat to Orissa, and are known in Surat as “tappawalas.” Surat has long been a major destination for migrants

from all over India to work in a variety of fields, particularly diamond processing and textiles, and informal institutions that cater to migrant needs are common. We suspect that the history and strong network of Oriya cash couriers in Surat explains their continued dominance there – 62% of migrants we spoke with along this corridor used cash couriers. The line between cash couriers and hawala couriers is becoming increasingly blurred; some cash couriers deposit money in banks and use their family networks to distribute cash in Orissa. Others create a bank draft for themselves before traveling to avoid carrying too much cash – which can be as much as Rs. 15 lakhs per month.<sup>3</sup>

<sup>3</sup> Sainath, P. “Put your money down, boys.” The Hindu. July 18th, 2009.

According to our results, using cash couriers seems to be a reasonably affordable and convenient option for migrants who use it. At the median remittance amount, total costs are similar to bank transfers (3.4%), but the inconvenience, given the door-to-door delivery, is much less: at 18 minutes of average travel and waiting time, cash couriers are the most convenient option in our sample. It also remains a popular option amongst migrants sending larger amounts: 28% of all migrants in our sample sending more than Rs. 5000 per month were Oriya migrants in Surat using

cash couriers. Because this is limited to a single corridor, we cannot infer that it is necessarily a preferred option for sending larger amounts overall; it is perhaps more likely that the cash courier business continues to exist specifically along routes where remittance amounts are high (double along the Surat-Orissa route than other routes), so couriers' revenues can more easily cover their high costs of travel. It may be that the success and relative value of cash couriers reflects the particular characteristics of this well-travelled migration route.

### ***For Those without Better Options, Hawala Couriers are Common***

Sukumar Manna is the head of a household of nine members in the East Midnapore district of West Bengal. His younger son, Shubhashish, moved to Delhi eight years ago when he turned 20, and comes back only once every year for three weeks each summer. Shubhashish has held his marriage off due to financial commitments and sends back Rs. 2,000 twice every year to his family, paying 2%, or 40 rupees each time to do so. Sukumar and his older son both work as agricultural labourers through the government's workfare scheme, which provides them with six to seven days of work every month. The combined monthly household income is less than Rs. 1,500, not including what Shubhashish sends.

Apart from household consumption and paying back creditors, Shubhashish's remittances are primarily used for medical emergencies, especially on Sukumar's grandchildren. Sukumar is satisfied with the hawala couriers who deliver him the money each time, although they demand a hefty tip (Rs. 30) at the time of delivery, which irritates Sukumar a little. But he is reluctant to refuse them, as he is afraid of problems

arising in future payment deliveries. Although impressed by the network of these hawala couriers and the fact that they deliver to the most remote destinations, he has heard of an instance when one of the other hawala networks unexpectedly shut down and disappeared without a trace, taking with them several thousand rupees of client money.

He doesn't think he has the option but to trust them, since the post office is very expensive, and often takes too long to deliver. Sukumar also thinks that since Shubhashish does not have all the relevant documents to open a bank account in New Delhi, transferring money through the bank will not be possible. Sukumar has a bank account, but does not know that his son could transfer money directly into that account.

Sukumar would like Shubhashish to return to West Bengal in the near future, but doesn't think this is very likely, given how Shubhashish currently has a stable income source in a jewelry workshop. For now, Sukumar has to remain content with his son sending him back money twice every year.

# Sending through Friends or Carrying Oneself: Taking Advantage of the Opportunity

During trips to their origin villages and towns for social occasions and between jobs, a large fraction of migrants carry cash to their families. Family and friends traveling between origin and destination towns and cities are usually trusted and cheap remittance options. When visiting the migrant, they can collect cash and physically deliver to migrants' families or transfer the money through bank accounts, if they own one. Carrying money oneself and sending money through friends and relatives do not cost the sender or receiver any fee but there is a higher risk of theft during travel. Obviously, taking advantage of this depends upon the opportunity arising, whenever the migrant or a friend is planning to travel.

Eleven percent of the migrants in our study had last transferred money through a friend, and the typical migrant did so twice a year. No formal costs are associated with such transfers, and risks of loss were low among the migrants we spoke with – less than one-half of one percent. Though

cheap and convenient, transferring with a friend appears to be rarely a planned-out strategy: only 9% of respondents indicated that it was the way they prefer to transfer money.

Similarly, many migrants carry cash with them when they travel back to their places of origin. This also depends on whether migrants have the opportunity to travel back. Nearly half (46%) of the respondents said they used this mode because it was the most convenient since they would have been traveling home in any case for an alternate purpose. We do not find evidence of migrants travelling only to remit money; they carry money with them when they would have been traveling anyways. For many migrants far from their home villages, the cost of traveling to their homes exceeds the amount they would likely remit.

Migrants carrying cash are targets for thieves, however, resulting in higher risk costs than for any other transfer method.

## ***The Risks of Carrying Money***

Gopal Ghorui from West Bengal has been working as a jeweler in Delhi for the past fourteen years, where he earns an average of Rs. 3,600 per month.

Since he doesn't have the required documents to open a bank account, Gopal is forced to send money back to his 11-member family using a hawala courier or carrying the money himself. He thought that the latter was a cheaper and simpler option, because it did not require him to depend on a courier. On two separate occasions while carrying home Rs. 30,000 in cash, he was drugged on the

train and robbed of all of his savings. Despite this, Gopal continues to prefer carrying money himself over sending money through a hawala courier, who he views as equally risky.

To mitigate the risk, he tried coming home more often to bring back smaller amounts, but missed so many days of work that he lost his job. Carrying money oneself or giving it to a friend or relative from the same village to take it home continues to remain a popular mode of remittance transfer despite the risks involved.

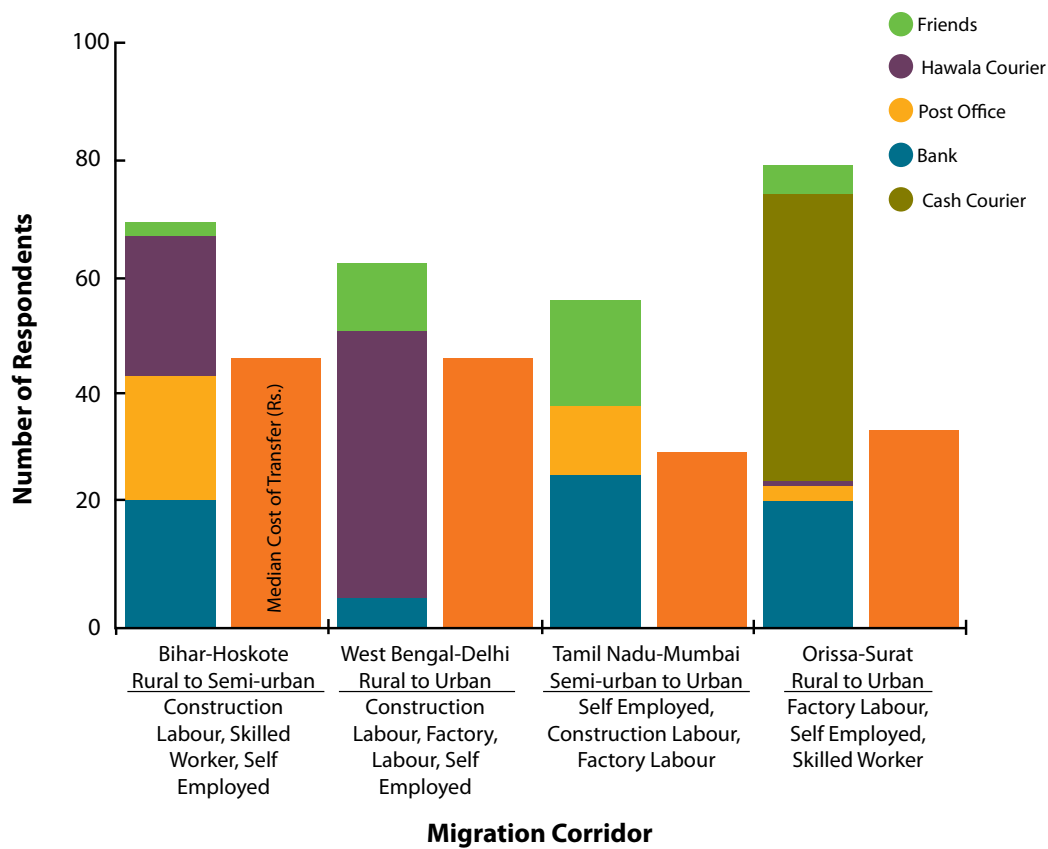
# Remittance Behavior Varies with Occupation, Location, and Income

Characteristics of migrants and how they transfer money varied widely among the four common “migrant corridors” we studied: from rural Bihar to Hoskote, a small town in Karnataka; from semi-urban areas in Tamil Nadu to Mumbai; from rural Orissa to urban Surat; and from rural West Bengal to New Delhi. With so few routes, and finding such variation between them, we are unable to reliably distinguish remittance attributes that are related to geography from those related to occupation, income, or culture; we can merely describe what was found and conjecture why this may be the case.

## Geographic or Cultural Differences

Migrants originating from towns in Tamil Nadu to Mumbai had the highest rate of transferring through banks amongst the four routes. Since these migrants are mostly from small towns (as opposed to rural villages, as are the migrants on the other corridors), we suspect that their families have more convenient access to banks than others. These migrants in Mumbai also had the highest rate of bank accounts, at 50%. This may also be due to the fact that a Tamil Nadu-based bank opened a branch in the Mumbai slum

Figure 8: Remittance mechanisms and costs by migrant corridor



Source : Centre for Micro Finance, IFMR Research

where these migrants live in 2007 – the first bank branch in this slum of a million people. Interestingly, we found no informal couriers transferring money on this route; all migrants either used banks, post offices, or sent money with friends. The high rate of sending with friends for free also made this route the cheapest on average of the four.

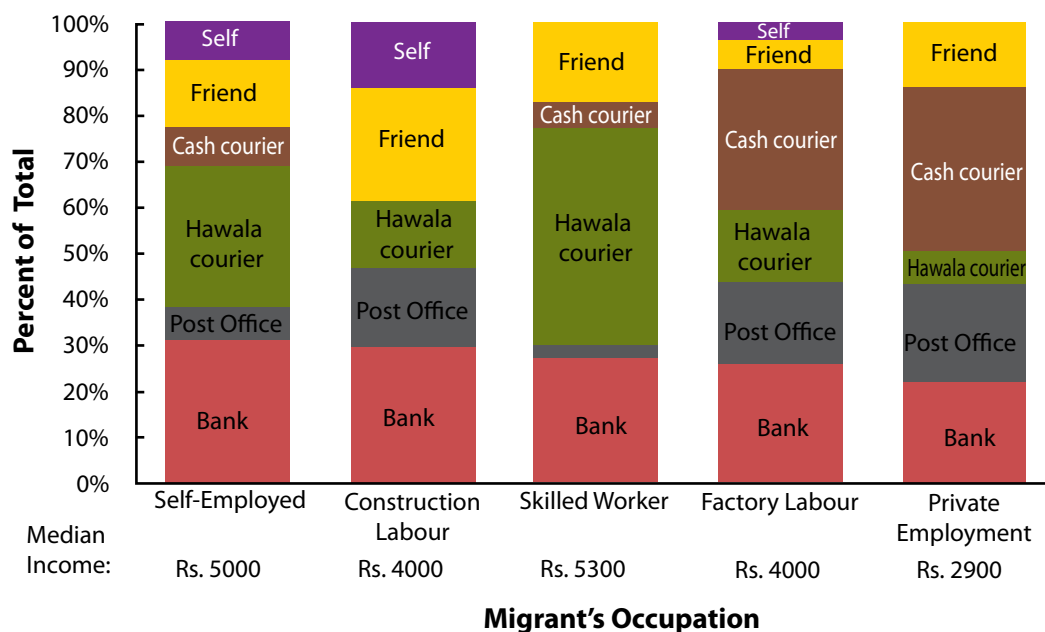
Migrants along the two common rural-to-urban routes, Orissa-Surat and West Bengal-Delhi, had the highest rate of using informal couriers, comprising more than half of all transfers for each. Interestingly, each had different informal mechanisms in place: the West Bengal to Delhi route had only hawala operators, and the Orissa to Surat route had only cash couriers except for a single person using hawala. The use of postal money orders was also rare along these routes: none along West Bengal-Delhi and only two along Orissa-Surat. Migrants on the Bihar-Hoskote route used an even mix of banks, post offices, and hawala couriers.

### Occupation

We categorize five primary groups of occupations amongst migrants in our study.

- Self-employed – Migrants who work as priests, barbers, daily vendors, and shopkeepers.
- Construction labour – Migrants engaged as masons, painters, carpenters, plumbers, road-diggers who are directly related with the construction industry
- Skilled workers – Migrants who are trained to perform skilled jobs such as diamond-polishing and jewelry-making
- Factory labour – Migrants employed in textile factories, iron foundries, timber yards, and other small enterprises that do not require extensive skills.
- Private employment – Migrants engaged as servants, cooks, cleaners, and gardeners in houses or hotels.

Figure 9: Remittance mechanism by migrant's occupation



Source : Centre for Micro Finance, IFMR Research

Skilled workers and self-employed workers have the highest median incomes amongst occupation categories, and, surprisingly, are the most likely to use hawala couriers for transfers (Figure 9).

### Income and Amounts

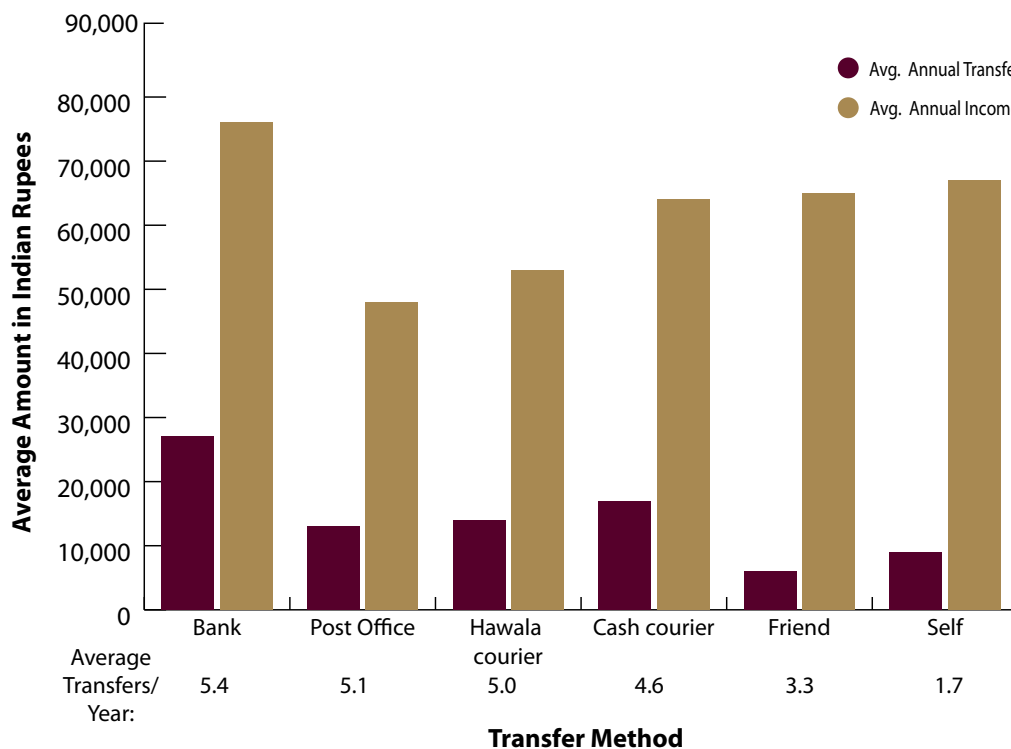
Migrants who transfer through banks have the highest average annual incomes, and transfer the highest percentage of that income (36%). Those who use banks are wealthier on average than those who do not by 20% (see Figure 10). It could be that higher amounts are transferred through banks because they are perceived to be safer than other modes, and because the fixed costs of a bank transfer make it relatively cheaper to send larger amounts. In general, very small amounts are transferred through friends or carried in person. Sending larger amounts through friends could be perceived to be risky, or even rude to put the responsibility on the friend. On the other

hand, post-office users send the least amount per year on an average (excluding self-carry and friends and relatives). Since post-office transfers are easily accessible and a reasonably good value for small transfers (amounts less than Rs.1000), migrants may be compelled to send smaller amounts through the post-office.

### Other Types of Transfers

Other than the remittances from migrants, respondents reported very few additional cash payments that they sent or received – only three respondents reported receiving non-remittance money other than government benefits transferred to them. One respondent received Rs 1200 as flood relief in cash, another received a check for his retirement fund for Rs 12,300 which he deposited into his bank account, and a third received Rs 20,000 as a check from a mutual fund. We found no cases of salaries being paid remotely.

Figure 10: Average annual income and remittance amounts, by primary transfer method



Source : Centre for Micro Finance, IFMR Research

We suspect that this underestimates somewhat how often other types of transfers are made, but that respondents had difficulty remembering specific instances. However, it is clear that other cash transfers are rare for these migrants and their families.

Much more commonly reported were non-cash transfers that migrants made. Of the 164

instances of non-cash transfers, over 94% (155) were sent through friends, relatives or carried in person. The use of formal channels to send goods or gifts is not common across any of the four routes. Clothes, food items and household articles are the commonly transferred gifts and goods. Though usually transferred for free, friends and relatives charged a median fee of Rs 50 in 12.5% of cases.

## How Transferring Money Can Be Made Easier for Migrants

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For many migrants, there's 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 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, providing doorstep delivery on both ends, continue to be pervasive, despite being more expensive and less desired.

Even a small improvement in costs of remitting money can have big implications. Priya Deshingkar and Shaheen Akter estimate that domestic migrants contribute 10% of India's GDP.<sup>4</sup> In our study, 23% of migrants' annual incomes

<sup>4</sup> Deshingkar, Priya and Shaheen Akter. "Migration and Human Development in India." (UNDP Human Development Reports, 2009).

were remitted to their families. This implies a total market of 1.3 lakh crore (\$28B 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 (\$200M USD) over what they currently spend. If costs could be lowered even further, they would benefit even more. The challenge is to marry cost-effectiveness and security with access and convenience. In this spirit, we have several suggestions of changes that could be considered that would achieve this. First, 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. This could be capitalized upon further, by ensuring that households receiving payments from the centre and state governments

have bank accounts to receive these payments, and are encouraged to use them. Note that for the purpose of migrant remittances, it is more valuable for migrants' families have convenient access to banking than only migrants themselves, as what's most necessary is the ability to deposit money in their family's account. 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 the accounts does not help if banking access continues to be inconvenient. The poor badly need more places at which they can transact with formal financial institutions to make and receive payments, and these places need to be near them. This could be accomplished in several ways by banks if the RBI would allow it and if they have the incentive to do so. Possibilities for adding formal transfer capacity in 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 for transferring money. India Post is relatively slow and expensive at making transfers, and its vast network could be much better utilized. It is a good sign that they are 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, this could again become a desirable money transfer option. This may also be further improved upon if the electronic clearance services could be linked to the many savings services India Post offers, enabling payments and deposit facilities through the same account. While a final option could be considering policies that lower the costs of informal couriers or encourages informal couriers to become more formalized (possibly through registration or partnerships with banks), we see few incentives that might encourage informal couriers to do so, other than making the formal sector compete more effectively. Making formal payments and transfer services cheaper and more convenient for families of migrants would significantly increase the positive effects of financial inclusion in India.

# Appendix A:

## Putting Money In Motion, Study Methodology

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### *Migration Routes and the Migrants*

#### *Rural and Semi-urban Tamil Nadu in the South to Mumbai in the West*

People from Tamil Nadu have been migrating to Mumbai in large numbers since the 1960s. Dharavi in Mumbai is the largest urban slum in Asia and houses a large fraction of these migrants. Early migrants and their families have settled in Mumbai, becoming somewhat permanent residents of the city. Recent migrants come in search of construction labor work or jobs in shipping rigs.

#### *Rural Bihar in the East to Semi-urban Hoskote in the South*

Hoskote, near the city of Bangalore, has benefitted from Bangalore's rapid urbanization. Small-scale timber yards, brick kilns and iron foundries are widespread around Hoskote, attracting migrant workers from Bihar, a state that in recent areas has suffered droughts and floods. Migrants travel over 2,000 kilometers in search of jobs and find them in Hoskote's small-scale industries.

#### *Semi-Urban West Bengal in the East to Delhi in the North*

Migrants from eastern West Bengal come to Delhi, the Nation's capital, and many settle down

in slums. They work in numerous household textile and jewelry workshops. The long history of migration means that migrant community is well organized with many migrants working to support the community as cooks, barbers, and priests.

#### *Rural Orissa in the East to Surat in the West*

Migration from east to west, between the Eastern State of Orissa and Surat in the State of Gujarat is also a route that has grown popular in recent years. Workers from Orissa arrive in Surat to primarily work in the successful and large diamond-processing industry. Similar to migrants in Delhi, the community here is close-knit. Migration along this corridor has been previously studied by Sahu and Das.

While each route is unique in its composition and nature of migration, the challenges of remitting money are present in every location. Migrants have to decide among few options for storing, carrying and remitting their savings. While many non-governmental organizations (NGO) work with urban migrants on issues of health, sanitation, and education, access to financial services has received little attention.

## Migrant Identification for Interviews

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To target a wide range of migrants for our surveying, we worked with local NGOs to identify large migrant communities in the area. During a transect walk, local-community leaders from the migrants' place of origin were identified, who provided details on the occupations and geographical distribution of migrants by profession. This information was then used to schedule interviews with migrants from particular states but with diversity in incomes and job profiles.

Upon successful completion of an interview, the respondent was requested to provide contact information for those to whom they send money,

to ensure that we complete the interview on the receiving end. To elicit accurate responses, migrants were informed that if we successfully identified their origin households then the origin household would be provided a survey fee of Rs. 100.

Due to the purposive sampling methodology, the results should not be considered representative of the migrant population in India, or even along any of the four corridors studied. Our results are rather meant to be indicative of a range of migrant experiences, and intend to provide clear insights into different remittance channels and associated money-transfer costs.

## Appendix B: Remittance Transfer Mechanisms

**Banks:** Money is either deposited directly in the recipient's bank account, or transferred within 48 hours from one account to the recipient's through electronic funds transfer. The cost is typically Rs. 25 for transfers less than Rs. 10,000. Demand drafts (a type of pre-paid check costing around Rs. 30) can be purchased for deposit only into the recipient's bank account, and must be mailed to the recipient.

**Post Offices:** The sender fills out his name and address on a money order form in the post office and collects a receipt for amount deposited. A fee of Rs.1 is charged for every Rs. 20 remitted with an additional fee for the form. A postman delivers the cash remittance to the receiver at her residence and collects an acknowledgement receipt, which is sent back to the remitter as evidence for delivery. Transfers are completed in 3-6 working days. India Post is in the process of adding and expanding Electronic Clearance Services and online Instant Money Orders, but the effort is still nascent.

**Hawala couriers:** Agents collect money directly from the sender and informs another hawala courier in the recipient's location, who delivers

the payment, minus a percentage of the remittance. The hawala couriers settle the payment between themselves either through a bank transfer or at a later date. The transaction takes place on an honor system with informal records of all payments.

**Cash couriers:** Cash couriers charge a percentage of the remittance amount to physically transport cash between migrant destination and origin locations. These couriers collect money from senders and use the bus or train network to move money to the receiver location within a few days. Though formerly common, cash couriers now appear to exist only along the biggest migration routes. We only found cash couriers working to transfer money along one remittance corridor (from Surat) to Orissa, and 62% of all migrants we spoke to in Surat use them.

**Friends and Self:** Migrants traveling back to their home often collect and deliver payments for other migrants free of charge. Many migrants also carry cash with them when traveling home.

## Appendix C: Description of Remittance Costs

**Fees and Commissions:** Banks charge a flat fee for electronic bank transfers, while hawala and cash couriers tend to charge fees as a percentage of the amount transferred. In this study, formal fees include both fees and commissions, and comprise the majority of the cost incurred for both sender and receiver (except for those transferred through friends). As a portion of the total cost, it is higher for the sender since most service providers charge the formal fee upfront.

**Travel Costs:** The sender and receiver also incur costs when traveling to the service provider, depending on distance and the mode of transport. This is the second-largest component of costs for senders, and makes up a quarter of all costs for bank transfers.

**Opportunity Costs:** Senders and receivers incur hidden opportunity costs in terms of time lost due to travel and transaction with the service providers. For receivers, this is a larger cost than travel itself, possibly due to the longer distances they need to travel to reach the service provider.

**Risk of Loss in Transit:** Migrants face the risk of theft during travel or storing money at home. Costs of risk were estimated using a set of factors, such as the probability of a risk event occurring given the number of remittances in a year and average amount lost in each case. The ratio of this to the total remittances sent gives an estimate of risk cost. Loss or theft during transfers through any means was surprisingly rare – less than 2% of our sample had ever had their money stolen or lost during transit, even through informal agents. Nine percent had experienced theft of their savings at home however. While the risk cost for our sample is low (less than one half of one percent for each transfer), we find that respondents recognize the risk and can cite cases of others who have been cheated or robbed.

**Bribes and Tips:** Bribes and tips paid often to the service providers form the informal component of remittance costs. These, in fact, form the second-largest component (29%) of the costs incurred by receivers, who tip the couriers, friends, or postal agents, often at the courier's request. For senders, this cost is negligible.

