MicroSave India Focus Note 91

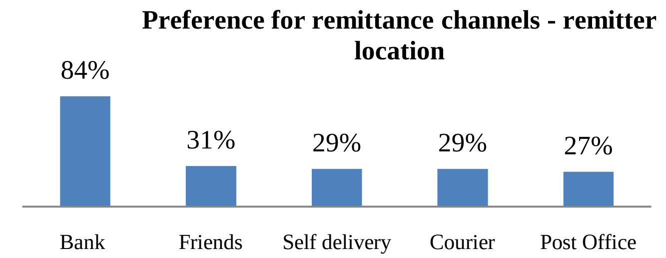
Banks: The Preferred Remittance Services

Akhand Tiwari and Nitish Narain

April 2012

Banks: The Preferred Choice

Sending and receiving remittances through bank accounts is largely the preferred choice for remittances in India. This is in spite of the challenges, such as getting access to a bank account, time spent in bank branches, the high indirect cost involved, distance from the bank branch etc.[1] The graphs below show the preference of remitters for the various channels available at the ends of the remitter and receiver.[2]



Multiple response srecorded. Percentages may add up to more than 100%.

This Note explores the reasons for preference of banks for remitting money and concludes with some challenges in using banking channel for remittance.

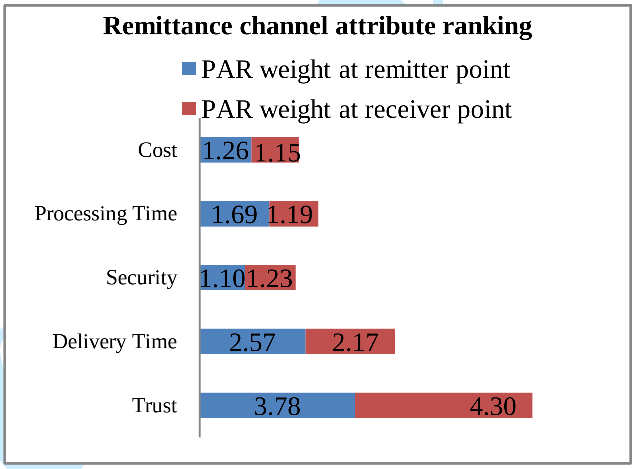
Money Transfer Process Through Bank Accounts

Presently, a remitter visits the bank branch near his/her location and deposits cash in the receiver's account. If the receiver does not have a bank account, then the remitter may deposit the money in the account of the receiver's friend or relative or acquaintance. On getting a phone call from the sender, the receiver then visits the bank to withdraw the money; or alternatively, the friend will withdraw money to deliver at the house. In some cases remitter keeps his ATM card, for his account, with the family members in the village, who withdraw from bank ATM according to their requirements

Why are Banks the Preferred Choice of Customers?

Banks are preferred on the basis of informal cost benefit analysis done on the customers.[3] Customers look for attributes such as trust, delivery time, cost and security in a remittance channel.[4] The graphs below represents the attributes customers look for in a remittance channel at the remitters' and receivers' end using *MicroSave*'s Product Attribute Ranking (PAR) tool.

This section analyses how banks are performing against each attribute preferred by customers.



Trust. The most important attribute for a customer is trust in the channel. This trust develops through positive experience from using the service on a regular basis, reaffirmation of the experience from others, timely delivery with no loss of money in transit, and a proven record of accomplishment of the channel.
Customers trust banks the most because banks are perceived to be government bodies. There is a belief that banks will not siphon off money as couriers or friends have done in the past. The instantaneous nature of the transfer confirms the trust in bank. Customers say they do not trust post office as much because of its poor track record of postmen often pocketing receivers' money.

Delivery Time. Receivers' dependence on remittances is very high. In case of delays, families are forced to borrow from moneylenders at high interest rates, thus making quick delivery of remittances very important. Delay in the transfer of money also results in mounting anxiety and

[1] Please see *MicroSave* India Focus Note #63 "The Case for Business Correspondents"

[2] The graphs are taken from "Understanding Remittance Networks in Punjab and Uttar Pradesh". The preference for banks is similar for Gujarat to Orissa and Bihar corridor as well. Please see "Understanding Remittance Networks in Gujarat, Orissa and Bihar"

[3] Customers see costs (cash, pains, worries etc) and benefits (cash, comfort, facilities), to choose amongst available options. Customers mean both receiver and remitter.

[4] PAR is weighted average ranking of these attributes from attribute ranking exercises. **Trust** refers to the amount of faith respondents have in a particular channel, and how safe they perceive their money is when sent via a particular service provider. **Delivery Time** is the amount of time the service provider takes to transport money from remitters to the receivers. **Cost** refers to the fees remitters pay to send the money home. **Security** is the risk that the remitter or channel is exposed to during the remittance process, including theft, fraud, loss of money. The graphs are taken from "Understanding Remittance Networks in Punjab and Uttar Pradesh".

time lost in enquiring, adding to difficulties. Banks offer instantaneous transfer of money using CBS systems. In contrast, a courier normally takes at least 2 days and post office normally takes more than 7 days.

Security. Security refers to the safe arrival of money sent from the remitter to the receiver. With banks, the assurance comes in the form of confirmation of the arrival of the remittance in the account, which the receiver can withdraw on an as needed basis. No other channel is seen to provide the same level of security as a bank. With couriers, while no incidence of loss of remitted money was reported by participants in the *MicroSave* study, customers' perception is that as they are private companies they could run off with the remittance money. The other channels—carrying self or a friend carrying money, are more unsafe due to issues of theft in transit.

Cost. Cost is an important attribute for poor people, but in relation to the quality of the remittance service, cost becomes less important when compared to trust, delivery time or processing time (please see PAR graph.) It is important to note that for customers, the cost includes various expenses incurred and wages lost in sending or receiving money.[5] Interestingly, the direct costs put banks in cheaper option category, but make it a costlier option when the indirect costs – lost wages, travel to the branch etc. are also incorporated.

The direct costs associated with remitting through banks are lower than any other channel. The direct cost of transfer varies as per bank's policy. The State Bank of India charges Rs.25 for transfers up to Rs.10,000, and charges for other banks are also in a similar range. The cost associated with courier is between 4-7%, and the post office charges 5% of the amount remitted.

However, the indirect cost associated with banks is high. Customers may have to forego a day's wage in order to visit the bank branch to transfer or withdraw money. This cost is almost absent in case of couriers, friends and post office. The situation at the recipient end is particularly interesting in this aspect. Banks have installed ATMs for quick withdrawals, however rural ATMs seem to remain mostly dysfunctional owing to cash unavailability or no network.

Some Challenges

Limited outreach of banks. The availability of banks in rural areas still remains low. At the end of 2010, there were 85,002 bank branches in India of which only 53,199 were in rural and semi-urban areas.[6] Seventy percent of the population of India lives in rural and semi-urban areas, where bank branches mostly remain crowded.[7] In addition, customers believe that rural bank staff is apathetic towards their concerns. This adversely affects relationship-building and trust in the system. However, they also agree that since the staff has to do a lot of work, their behaviour is bound to be affected.

Distant location of bank branches. Customers in rural areas still often have to travel long distances to reach bank branches resulting in loss of wage for that day. Therefore, the customers still prefer channels that provide doorstep delivery.

Ability to transact at bank: The family at the end of the recipient is not adept at handling bank transactions. This makes them dependent on bank staff or others for form filling, going to the right counter at the bank etc. This leads to customers opting for informal sources such as friends or relatives, courier services to transfer money as these are less intimidating.

Conclusion

Banks remain the preferred remittance service provider and are widely used for remitting and receiving money. The sheer volume of transactions at both the remitter and receiver ends make bank branches crowded and processes time consuming—thus adversely affecting bank's business. These queues, and the responsibility of the bank and its employees to provide efficient remittance services while simultaneously managing other banking operations, represent a huge challenge.

Does technology and new BC guidelines provide some relief for the banks? The answer to this question is "yes" and in India Focus Note 92 "Are Banks All Set to Dominate Domestic Remittance Market in India?" we explore how banks have adopted these models, where they have been successful and what more needs to be done.

[5] Please see *MicroSave*'s "Cost and Willingness to Pay" Studies for more on costs that bank clients incur in accessing bank accounts.
[6] RBI database Table 66: Population group-wise number of branches of scheduled commercial banks
[7] Added to this is the case of government benefit payments like NREGA or Pensions. Bank branches especially in the rural areas are burdened with a number of G2P payments such as payment of wages under MNREGS. This means that the normal business is affected when these payments are underway.