

# MicroSave Briefing Note #157

## Examining Remittances Through A Behavioural Lens

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Remittances, both domestic and international, contribute significantly to any developing country's gross domestic product (GDP).<sup>1</sup> Estimates suggest domestic remittances alone contribute 10 per cent of the GDP of India.<sup>2</sup> Income from money transfers influence any household's consumption and spending behaviour and thus have important micro-economic effects. The money transfer industry is replete with both formal and informal service providers and offers livelihoods to those involved.<sup>3</sup>

The use of formal channels to send money is increasing as banks and mobile money operators launch different money transfer products (see [India case study](#), [M-PESA](#)) as these options of money transfer are faster, cheaper, more convenient, secure, and accessible. However, informal mechanisms are still very commonly used, particularly by

### Why Do Remittance Corridors Exist?

Ever wonder why people from one source location visit same destination location as well? There are various biases at play here.

**Identity:** Migrant worker relates to (and often knows) people who have already migrated in search of work so any suggestion from those people is readily taken up.

**Social proof:** People believe that migrating to the destination where others from the same village have gone is more likely to yield employment ... and often hope that earlier migrants can guide them.

**Status Quo Bias:** Many seasonal migrants return to the same place year after year as they know the potential employers, people and the facilities there. They do not try to find new places to work.

the domestic migrants.<sup>4</sup>

Migrant workers typically belong to low income strata of the society, with limited skillsets, and are mostly employed as contractual workers. They face mostly temporary and non-contractual employment and often job scarcity. Further, they face financial scarcity both at source (location from where a person migrates and where family lives) and

at destination (location where s/he migrates to and works). They are often forced to make sudden shifts in their plans of action. For example, the time of year they have to migrate depends on amount of work available at source; or they may have planned to work in a manufacturing unit, but may end up working at a construction site. Furthermore, their choice of destination location is influenced by their peers who have been or are migrants themselves. Similarly their choice of place to work, place to live, in fact their entire lifestyle; including, decision to choose a service to send money home if influenced by fellow workers and cohabitants at the destination.

In an endeavour to [shift migrants to formal avenues of money transfer](#), it is important to understand various cognitive functions of migrant worker that influence their decisions on choice of remittance service. Broadly this decision can be further dissected into the four drivers highlighted in Figure 1.

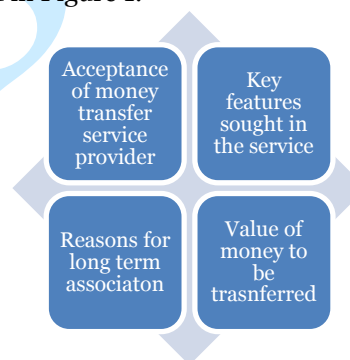


Figure 1: Drivers of choice of money transfer service provider

### Acceptance of money transfer service provider

**Social proof and status quo bias:** The acceptance of a service provider by other migrant workers builds trust in the service provider. For the first remittance, the user generally uses a service that has endorsement from peer migrants. There is a high degree of resistance to change once they have used a service four to five times.

**Reference/anchor point:** The fee charged by informal options works as a reference point or anchor for migrants

<sup>1</sup> "Economic Implications of Remittances and Migration Economic Implications of Remittances and Migration"n- 2006, World Bank

<sup>2</sup> Thorat, YSP and Howard Jones, (2011), "Remittance Needs and Opportunities in India, Synthesis Report", GIZ

<sup>3</sup> See "Remittance Network Assessments- UP, Orissa", MicroSave, 2011, for detailed description of different money transfer services

<sup>4</sup> Though money transfer services are used by non-migrants as well (a son permanently living in a city sending money to parents living in other cities or village), this Note focusses specifically on migrants.

deciding to pay a fee for using a formal money transfer service. Since informal avenues usually charge as high as 5% of transaction value as fee, migrants do not mind paying high fees to formal avenues. As a result, most of formal remittance providers' efforts to reduce the price fail to attract clients.

**Choice overload:** Migrants are often plagued with choice overload. At the destination, a plethora of money transfer agents make it difficult for the user to distinguish between formal and informal options. Amidst such overload, they often choose the option that they have already used or are primed to, overlooking even efficient ones.

### **Key features sought in the service**

**Instant gratification:** Instant gratification is definitely Kahneman's system one<sup>5</sup> driver for migrants. The knowledge that "my family members have received the money that I sent" is perhaps the most important factor for migrants. They choose those services that take minimal time for the money to reach their families. This is because families of migrants often depend solely on remittances to meet their expenses. Furthermore, this instant gratification contributes to building trust in the money transfer service.

**Hassle factors:** For a migrant, spending too much time in bank queues or traveling long distances to remit money results in a loss of income. Considering the opportunity cost, a service that takes few minutes, is easily accessible, and charges reasonable fees is the one immediately taken up. The customer journey for a migrant does not end at destination location where money is deposited but rather continues to the source location until the sum is received by the family. A migrant also considers how his/her family member would receive the money. Where social mores dictate that women should not venture out, migrants prefer doorstep delivery. So a service which requires their family members to visit a bank branch in town is not preferred even if it charges half the price of a courier facility that delivers money at doorstep.

### **Value of money to be transferred**

**Identity:** Identify as an unmarried migrant or migrant person with a family back at home influences migrants' decision on both remittance amount and frequency. Usually unmarried migrants will be occasional remitters, sending a lump-sum amount once every two to three months and/or during festivals. A migrant person with family typically remits a fixed amount of money regularly (often monthly – in line with when he is paid) to his family.

**Anchoring:** Remittance behaviour of migrants, including value of money and frequency of remittance, are often influenced by the discussions with peers they live with. This

anchoring often leads to modification in either value of remittance or frequency or both.

### **Reasons for long term association**

Migrants build relationships with money transfer service providers as they see a lot of value in the service. In Orissa, a state in India, many migrants prefer to use a *Tappawala* to remit money home. While the *Tappawala* takes time and charges around 5% of transaction value, it is still preferred because it also provides added benefits. These include lending money to the migrant and/or to his family when the migrant does not have any money, and transporting goods from source to location. Every time migrants choose to use the costly *Tappawala*, they show case a [hyperbolic discounting](#) bias. They overlook the benefits of lower commission payments of a formal money transfer service that could help them save over time, and instead choose the additional benefits that *Tappawala* provides.

New generation money transfer service providers have, so far, over-looked this aspect of service provision. With add-on products like mobile wallets, they have not been able to gain traction with migrants who still prefer to use agent services for money transfer purposes.

### **Why Over The Counter (OTC) Transactions Are So Popular?**

While the [industry in general tries to shift customers to mobile wallets, \(and particularly in Pakistan\)](#) OTC is still preferred by many. Instant gratification and no hassle factors make OTCs popular.

OTCs are [hassle free](#) transactions. All a customer is required to do is to visit an agent and provide details of the recipient's account. Customers do not have to register or to enrol to make the transaction. The money transfer is also instant, the most important attribute for migrants, which [provides instant gratification](#) from the service.

### **Conclusion**

This Note identifies drivers that influence choice of money transfer service for a migrant. Various behaviours and cognitions discussed could be used by service providers to design product features, processes, and marketing messages. There is a clear need for innovation in money transfer product design. There are also options for value addition such as emergency credit on the basis of remittance behaviour, or optional voluntary savings, insurance against accidents/health on the basis of remittance behaviour, all of which have the potential to spur migrants' transition to using services beyond OTC.

<sup>5</sup> Kahneman, D., (2011) "[Thinking Fast and Slow](#)", *Farrar, Straus and Giroux*.