

# MicroSave India Focus Note 27

## Migrant Remittances – An Untapped Market

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**Background:** There is huge business potential in domestic remittances from migrant labour in cities across India. For example Mumbai and Surat alone are believed to be temporary home to about 10 million migrant labourers remitting \$10-30 each month – usually through the Post Office. A recent article in “The Mint” reports that the domestic remittance market “is estimated at Rs. 26,000-40,000 crore”.

**The Migrant Remitters:** The migrants that send the money to their families in the villages can be broadly categorised into four sequential stages of migration as outlined below:

*Stage I- Seasonal or Temporary Migrants:* These are people belonging to other states (commonly UP, Bihar, Orissa, West Bengal) working and living in the city for around or less than 3-7 months in a year. For the remaining period of 5-9 months, they go back to their villages to support their families in agriculture and other livelihood activities. Research conducted by *MicroSave* in two of the biggest cities shows that migrants are mostly occupied in activities like daily wage labour in factories, small vending at local stations, driving rickshaws/auto/taxi etc.

*Stage II-Resident Migrants with Immediate Family in Village/Hometown:* These migrants belong to other states, but work and live in the city for most of the year. However, their families remain in their home village, and they visit once or twice every year for festivals and special occasions like marriage, death and sickness in their family. They work as un/semi-skilled or skilled

labourers, auto/taxi drivers, vendors at local stations, small businesses, petty shop owners etc.

*Stage III: Resident Migrants Living with Immediate Family:* These migrants have been living and are settled in the city for 5 years or more. They live with their immediate families in either self-owned or rented houses, but their extended family still lives in their village of origin. More migrants at this stage (as compared with the above two stages) are involved in relatively stable livelihood activities like small shops – *paan*, provisions, tailoring, beauty parlours etc. or may have stable employment status at in a factory or as a service provider.

*Stage IV: Resident Migrants Living with Immediate and Extended Family:* These migrants have been living and are settled in the city for 10 years or more. They live with extended family (parents, immediate family, brothers etc) in homes they own. Their livelihood patterns are similar to those in Stage 3.

*MicroSave's* research shows that the percentage of migrants falling into each of these categories varies significantly according to the city – thus well over half of Delhi migrants fall into Stage III and IV, whereas in Mumbai the proportion is much lower. This is very important for financial institutions designing remittance products as the pattern of sending money and indeed the preferred mechanism for doing so varies significantly between categories.

### What Migrants Look for in a Remittance Product

Attribute	Remarks / Respondents' Feedback
Time Taken	Time taken to deliver money came up as perhaps the most important attribute that people look for in a remittance product. One of the reasons that this attribute is important is because people had many bad experiences with delayed services in case of Money Orders and Demand Drafts
Commission / Fee	People feel that 5% as charged by Money Orders and couriers is quite high as middle income people are able to transfer money at no/negligible cost using options like ATMs, core banking, etc.
Security	Security of the money is an important attribute, but as there were very few incidents of fraud observed except in social networks, security was not the most pressing concern.
Doorstep Delivery	This is an important attribute for clients as most of the service providers like the post office and couriers offer this service.
Simplicity/ Paperwork	Many respondents still find it very difficult to visit a bank (and sometimes even a post office) directly and independently and fill up necessary details in the form. This is also one of the reasons why an informal courier is so popular among this category of people.

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## How Migrants Send Money Back to their Villages:

People use following systems to remit their money:

- Money Order - drawn on and encashed at India Post
- Courier - an informal service provider (same as *Hawala*).
- Demand draft from banks - encashed at a bank near the remitter's village.
- Cash deposit in bank account using core banking system - withdrawn at the nearest outlet to the remitter's village.
- ATM networks - with cash deposits using the core banking system above.
- Social network - through friends and relatives travelling to the village.

## The Recipients

Families of migrants living in rural areas are typically dependent on the migrant's income as they do not have a considerable land holding suitable for agriculture. There are three categories of recipients:

1. Families with no land holding.
2. Families with small land holding, which produces just enough for household consumption.
3. Families with considerable land holding or some other source of earnings.

*Category 1* recipients do not have any earnings in the village, so they are fully dependant on the earnings of migrants in urban areas. Some of this category of recipients also take loans from microfinance institutions and make repayments from the money they receive through remittances from the migrant. In some of the cases, the loan taken is actually used by the migrant for business in urban areas. These recipients generally receive remittances of Rs. 2,500-3,500 every month. The repayment amount of an MFI loan that they have taken is often around Rs. 700-Rs. 1,000 every month.

*Category 2* recipients are still dependent on the migrant's income except for basic food expenses and receive around Rs. 1,500-2,000 each month. Again, some of the recipients in this category take loans from MFIs and repay them from the remittances they receive.

*Category 3* recipients have some earnings in the village and are not very dependent on the migrant's earnings. They receive remittances on an irregular basis generally:

- During festivals – Eid, Diwali, Dusshera, Durga Puja etc. Average size: Rs. 2,500-Rs. 3,500
- For agriculture expenses- 1-2 times a year. Average size: Rs. 5,000- Rs. 10,000
- For marriage and other family celebrations. Average size: > Rs. 3,000
- For emergencies. Average size: Depends on need

## What Recipients Look for in a Remittance Product<sup>1</sup>

Attribute	Remarks / Respondents feedback
Time Taken	Most of the respondents valued timely delivery as one of the most important attributes in a remittance product. In fact that is the reason why most of them have shifted to couriers. They receive money transferred through couriers within same day.
Credit in Times of Need	Most of the respondents liked the fact that, in case of emergencies, couriers even provided cash on credit to the receiver as an advance against future remittances.
Doorstep Delivery	Respondents really value the convenience afforded by door-step delivery. If any new remittance service starts up, it must offer the convenience of doorstep delivery.
Commission/ Fees	People feel that 5% as charged by couriers is quite high as people who have bank accounts are able to transfer money at no/negligible cost using options like ATMs, core banking, etc.

It is clear that more and more people are shifting to public sector banks (where they are accessible and when they are welcoming to the segment) to remit through the core banking systems. In many locations, even though no one in the family of migrants have a bank account, they were using someone else's account (usually from friends or family) to make transfers through a core banking system. So, a significant proportion of the market is slowly moving to banks for remittances through core banking, which is offered for free by these banks. Yet, there are still some gaps that new entrants could seek to leverage:

- None of the banks market the remittance/money transfer service.

- Stage I and II migrants generally do not have bank accounts and do not use banks for transferring money.
- Though public sector banks have good reach, they are often still some distance (up to 30kms) from some villages. Rural banks and e-/m-banking agent networks have more extensive reach and could provide the convenience recipients seek.

These issues are explored further in *MicroSave India Focus Note 29 "Potential for E-/M-Banking Enabled Migrant Remittances"*.

<sup>1</sup> A more formal and extensive analysis of this is provided in *MicroSave India Focus Note 28 "Exploring Domestic Remittances as a New Line of Business for Indian MFIs"*