Mobilising resiliency in times of economic hardship: Emerging themes in migrant worker remittance payments

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Abstract

This paper analyses the nexus of the global financial crisis and the remittance markets of Mexico and India, along with introducing new and emerging payment technologies that will help facilitate the growth of remittances worldwide. Overall resiliency is found in most markets but some are impacted differently by economic hardship. With that we also explore the area of emerging payment methods and how they can help nations weather this economic strife. Mobile payments are highlighted as one of the priority areas for the future of transferring monetary funds, and we assess their ability to further facilitate global remittances.

Keywords: Remittances, Emerging Payments, Economic Crisis, Mexico, India.

Introduction

Nearly 200 million people in the world live in a country where they were not born (Ratha, 2008: ix) and with increased globalization and improvements in technology, migration between nations has become more fluid. The recent wave of outsourcing, off shoring, shifting labour trends, economic hardships in some nations, and the economic surge in others, has forced many individuals to locate jobs outside their home country. In leaving their country of residence, migrant workers make a sacrifice in order to support their family by remitting funds home for financial assistance. The IMF defines remittances as "goods and financial instruments transferred by migrants living and working in new economies to residents of economies in which the migrant formerly resided" (Hussain, 2005: x). The World Bank estimates that the "remittances" by migrant workers in 2007 totalled more than $318 billion in value (Ratha, 2008: x). This paper reviews two of the world's largest remittance receiving nations, Mexico and India, in order to assess the impact of global financial crisis on remittances as well as the emerging technologies that will help facilitate them.

The remittance payment market

Remittance payments have grown to become an extremely large and dynamic industry in many respects. In 2006, ten developing nations depended on incoming remittances for more than 20% (Ratha and Xu, 2008: 13) of their national gross domestic product. Whether one can fathom it or not, the World Bank's 2007 projections are most likely underestimated, because the significant amount of black market transfers or alternative remittance systems that currently operate in the world's developing nations are not counted in this figure. Noguchi (2004) states that alternative remittance systems "are usually shoestring operations that charge lower fees than bank wire transfers. They are often open 24 hours a day, seven

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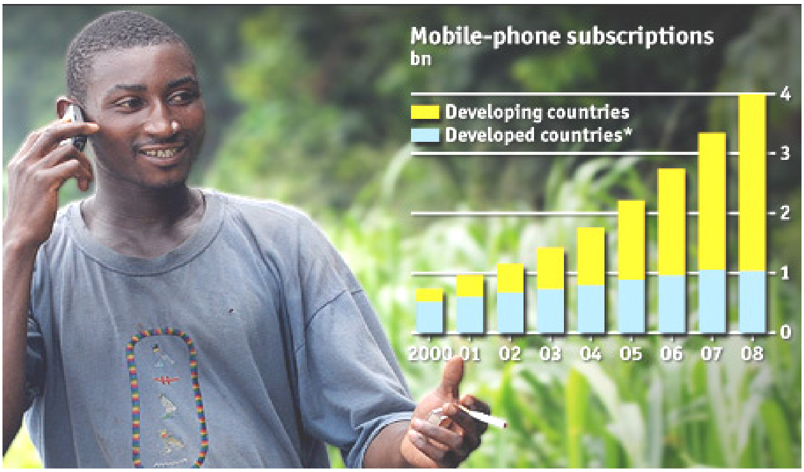
days a week. In comparison with bank money transfers, which can take three to five days, these informal systems can move money across the globe in hours" (Noguchi, 2004: 23). This service highlights the essential elements of a remittance payment: making it affordable, expedient, and dependable. Recent technological improvements have created a breadth of products that will help to facilitate, record, and secure remittance payments going into the future. These emerging payment methods, including the innovative world of mobile payments, are beginning to gain traction in specific markets and are projected to reach huge global consumer adoption rates in the very near future. These new transfer methods are essential to migrant worker payments as their development is being catered to the remittance sending populations of the world, especially those in developing countries who may not have a bank account, but are in possession of a mobile phone (Figure 1).

Figure 1. Access to Telecoms and the Internet in the Developing World



Source: http://media.economist.com/images/na/2009w39/Phones2.jpg

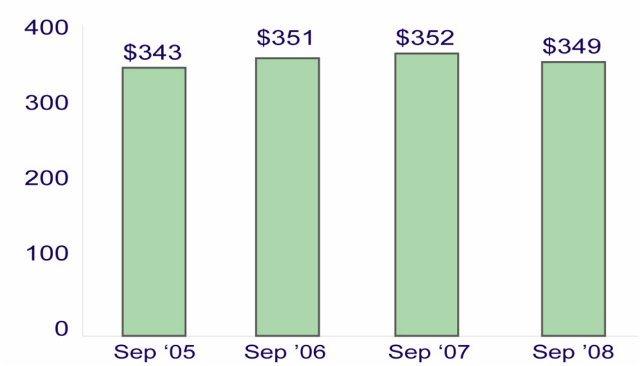
Chang (2009) comments that mobile payments will become significant by 2013 (Chang, 2009: 4), citing data from recent market research studies on near field communication technology and mobile payment uptake estimates. During recent months, economic strife has plagued the economies of the world, and worker remittance payments are bound to be affected by this dynamic and significant shift.

Mexico

In regards to remittances to Mexico, Massey and Sana (2005) found "the cohesive patriarchal family ensures the flow of remittances as part of a household strategy of risk diversification" (Massey and Sana, 2005: 509). This recurring ideology of patriarchal dedication is confirmed by Durand & Massey (2004), which found almost 90% of migrant Mexican workers in the United States had previously worked in America in order to support their families (Durand and Massey, 2004: 53). Mexico was listed as the world's third largest receiver of remittances in 2007 estimates, with an incoming value of $25 billion (Ratha and Xu, 2008: 12). However, with the United States as the main origination point for remittances to Mexico, these payments have seen a recent decline. In March of 2009 the Latin American Herald Tribune presented data from the Mexican Central Bank which stated that remittances to Mexico have declined by 13.4% during the first nine months of 2009 compared to the same period in 2008. In addition they have also decreased by 11.5% from December 2008 to January 2009. These two figures present both a long term (nine month comparison) and short term (month to month comparison) views into how remittances to Mexico are struggling to remain resilient. It is important to realize that Mexican remittance growth has not decreased for simply a month or two, but is facing an even longer term struggle to return to past performance levels. If we consider these declines, remittances to Mexico have seen a double digit percentage (13.4%) decrease over a two year span (LAHT, 2009). If we consider just the two months spanning from December 2008 – January 2009, we also see a significant double digit (11.5%) decrease in remittances being sent to Mexico (LAHT, 2009). Overall Mexico is still estimated to remain in the top three remittance receiving countries in 2008 with $26bn in remittances (Ratha et al. 2009: 3). However, despite the recent setback for Mexican remittances, there is still a resiliency factor if we consider that average value per transaction of remittances to Mexico from 2005-2008 has not changed, as shown by Figure 2.

Figure 2.

Average value of remittances per transaction in Mexico



Source: Mohapatra, S., Ratha, D., & Xu, Z. (2008). 5.

Mexican migrant workers still found the financial means to remit the necessary amount of money home to family and friends even during the American financial crisis in late 2008. Despite the decreased projections for remittances to Mexico in the future, the individual payments that are transacted remain on par with prior amounts.

India

India, which is the world’s largest receiver of remittance payments, received $27 billion worth of remittances in 2007 and is estimated to have stayed atop all other nations in 2008 estimates, with a flow value of $30 billion (Mohapatra et al. 2008: 3). Labourers from India have flocked to nearby Saudi Arabia, United Arab Emirates, and Bangladesh to partake in a recent boom of the construction industry. Others look to the United Kingdom, Canada, or the United States for promising locations of opportunity. Each year, 4.2% of students in India who are educated at a collegiate or university level emigrate along with approximately 20,000 physicians (Ratha and Xu, 2008: 125). Unlike their Mexican counterpart, remittances to India are actually on the rise despite the global economic downturn.

"In 2008, the remittances suddenly jumped in the month of October and November in search of safety," said Harpreet Singh, Head NRI and Wealth Advisory Services, HDFC Bank. "Also the dollar depreciation resulted into inflow of funds" (Singh, 2009). With many currencies in the Gulf Region pegged to the United States dollar, the recent depreciation of the currency has given migrant workers from India an incentive to send funds home. In fact, the rupee recently crossed the 50 unit mark against the dollar for the first time in five years. A lucrative exchange rate, which dramatically increases the purchasing power of migrant workers' families, an increase in savings account interest rates, and the fear of financial instability, are among the factors which have forced these migrant workers to actually increase their remittance amounts as a means of financial prowess. The Economic Times (2009) quoted a leading representative from the UAE Exchange Centre, which claims to account for over 50% of the remittances to India from the Middle East as saying that recent economic strife in the region has not affected remittance flows (Krishnakumar, 2009). "We still average over one million transactions a month to India…the layoff of a few thousand workers has not affected our share of inward remittances" (Krishnakumar, 2009). In fact, India has far surpassed their 2007 remittance mark in 2008 with an estimated $52bn in received support payments (Ratha et al. 2009: 3).

As countries have been limping through difficult economic times, innovative and cost effective channels of executing remittance payments have begun to emerge. Remittance payments in and of themselves have an established evolutionary progression. Remittances began as black market money transfers, and with increases in technology, shifted to money transfer operators and other publicly established firms. Due to the fears of insecurity after September 11, 2001, along with an increase of government regulation, remittance payments are now entering a new phase and are being embraced by financial institutions and other emerging payment firms.

Specifically, commercial and wholesale banks are looking to capitalize on this large industry, and by using remittance payments to penetrate this unscathed market, banks can capture a percentage of the un-banked population of the world and transform them into banked customers. In trying to do so they will need to offer payment capabilities that provide a cost benefit, and a usability advantage over the traditional agent to agent cash disbursement model, examples of which are Western Union and MoneyGram. The evolution of pre-paid debit cards, online payment platforms, and the enthralling world of mobile phone payments will undoubtedly sustain and boost the resiliency of global remittance payments through global economic hardship and into the up swinging economic future.

Alternative remittance systems and emerging payment methods

Remittance payments are an important medium of financial support for families in developing nations around the world. Highlighting this importance is the elusive world of black market remittances, in which individuals partake in high risk transactions to remit funds. It is important to note the existence of alternative remittance systems known as "hawala" because Van de Bunt (2008) states that "It is estimated that the informal remittance sector represents at least 50 per cent of the size of the formal sector" (Van de Bunt, 2008: 692). If we take this estimation and the 2007 global remittance value estimate of $318 billion (Ratha and Xhu, 2008: x), we can calculate that approximately $159 billion in remittance funds were channelled throughout the world via hawala systems in 2007. This figure is quite significant because it exposes the Achilles' heel of those who study and project remittance payments. If we consider these black market estimates ($159bn) in comparison to the combined estimates of regulated and unregulated remittances ($477bn), then we can assert that any remittance model based on official data, only accounts for 67% of the actual market. If researchers only use official data to formulate remittance theories, than their conclusions do not account for 33% of remittances being sent, which are occurring on the black market. Trends, determinants, factors, and the overall impact of remittances might very well be drastically different if *hawala* remittances were officially reported.

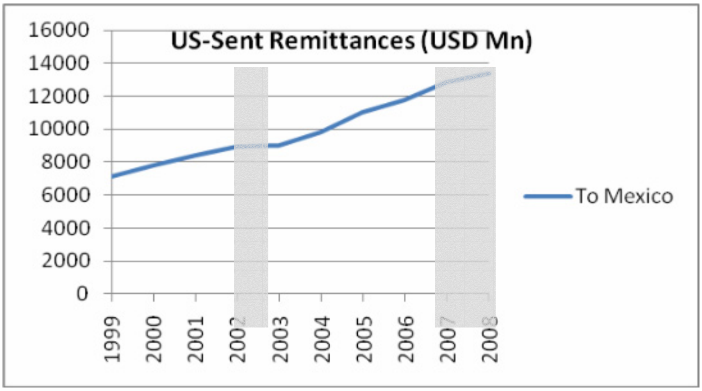
Maimbo and Ratha (2005) define remittances as "pro-poor and cyclically stable, compared to other capital flows" (Maimbo and Ratha, 2005: 2). Researchers have identified certain macroeconomic factors as affecting remittances, including: purchasing power parity fluctuations, unemployment increases, and home population spikes, along with home country GDP. When these conditions are in place, remittances tend to show resiliency even during economic downturn. The graphs below account for remittance payments sent from the United States to the respective destination country and spans the years 1999-2008. During this time period one can only observe two periods of recession in the United States (as stated by the Federal Reserve Bank of St. Louis[1]): March, 2001 – November, 2001 and December, 2007 – July 2009. These two periods have been highlighted (in grey) in Figures 3A and 3B to show how remittances to Mexico and India actually start their drastic increase during the 2001 recession period and have continued to persevere through recent financial crisis.

Given this resiliency and global fears about payment safety and identity security, emerging payment methods will only help to facilitate and increase the number of remittance payments made around the world. Today, online payments have emerged as the most acceptable form of payment method other than the traditional check or cash payment. Online banking and bill pay has grown in popularity and offers ease of access to consumers 24/7. Another payment method is being driven by the biometric market. The use of fingerprint and eye scans is being tested in some markets to access financial instruments like cash machines but this technology will take some time to reach critical mass. In this respect, the most logical, imminent, and innovative payment solution to make its way towards market adoption has been the mobile payment. A mobile payment is the use of a mobile phone device to conduct normal financial transactions. This includes everything from mobile banking and top up capabilities to point of sale purchases and person to person money transfers. The general evolution of alternative payment methods has transitioned from cash options to cheques, cheques to debit & credit cards, and cards to internet payment wallets such as PayPal. Industry heads have already acknowledged that the segue to mobile payments is forthcoming and will receive exponential mar ket uptake. Dan Salmons, director of payment innovations at Barclaycard, the UK-based payment business of Barclays Group states that "The mobile phone will even-

[1] http://research.stlouisfed.org/fred2/help-faq/#graph_recessions

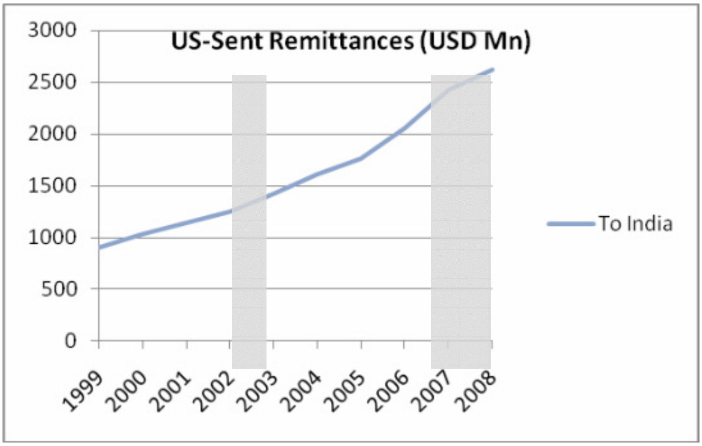
tually replace plastic. By 2012 it will be normal to pay with the phone, and in five to 10 years, it is completely reasonable to think plastic will be relegated to a secondary function" (Lunden, 2009). Once the switch to mobile phones is made, the impact will be quite substantial. Chang (2009: 4) states that "…research predicts that 123 million NFC-enabled handsets, equivalent to 46% of today's U.S. wireless subscribers, will come online in North America by 2013…global mobile payment transactions are expected to reach $110.1 billion in 2013, at a 105% compound annual growth rate, according to Dublin-based Research and Markets." Hypothetically (and quite conservatively) if remittances via mobile phone account for only 1% of all mobile payments in the world, that will still mean over $1.1 billion in support payments will be generated through the use of mobile devices.

Figure 3.A. US-Sent remittances to Mexico



Source: http://www.bea.gov/international/bp_web/list.cfm?anon=71&registered=0

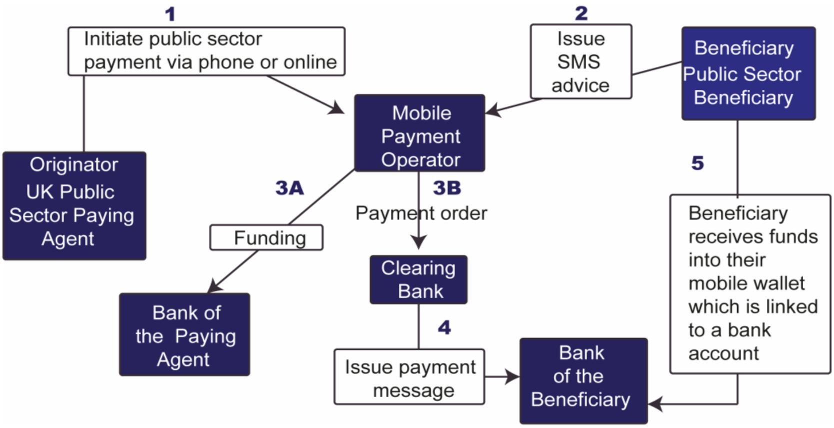
Figure 3.B. US-Sent remittances to India



Source:http://www.bea.gov/international/bp_web/list.cfm?anon=71&registered=0

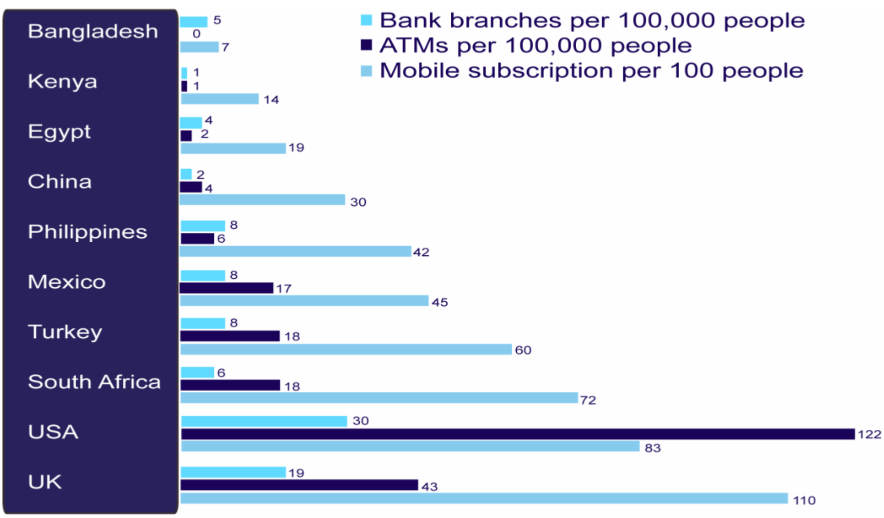
Mobile payments can not only be used for person-to-person remittances but they can also be utilized by governments and organizations to provide easier means of support to those who are fraught with need. To illustrate the flow and logic of mobile payments, Figure 4 demonstrates how a mobile payment system can employ a government-to-person model in order to provide timely and convenient delivery of public sector benefit payments (the United Kingdom is used as an example). Mobile payment models for remittances would work in similar ways for countries like India and Mexico with specialized product offerings tailored to specific market needs.

Figure 4. Mobile public sector payments in the UK flow chart



Source: Garlan, 2009: 12.

Figure 5. Pay as you roam



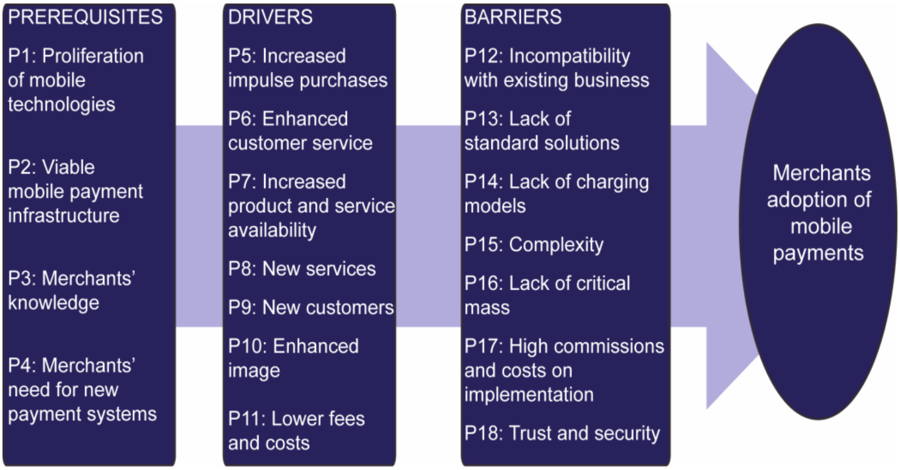
Source: Garlan, 2009: 5.

In this scenario, the UK government would provide public service payments (unemployment allowances, bereavement benefits, pension credits, disability reimbursements, possibly even remittances automatically deducted from pay checks, etc.) to entitled beneficiaries via the mobile phone. Currently, these payments are executed via cheque and in many cases, must be picked up by the beneficiary at a public sector office. Employing the model above, the UK government would be able to send a payment message to a clearing bank, with instructions to deposit funds into the mobile wallet of a beneficiary. The beneficiary would not have to leave his or her home to pick up a cheque and would have instant notification of deposited funds. Those funds could then be used to purchase items at points of sale or could be withdrawn in cash at a local ATM. Figure 5 goes on to illustrate the penetration of mobile phones and financial services in select nations, including the UK.

A major area of concern with mobile payments is merchant adoption rates. In order for mobile payments to reach the critical mass that credit and debit cards currently hold, mobile payments will have to be accepted at all the points of sale which are currently saturated by card payments. This means that beyond the person to person sending of money, mobile payments will have to be adopted in a person to business scenario as well, allowing consumers to pay for train tickets, groceries, clothing items, and the like. Mallat and Tuunainen (2008) illustrate a number of these drivers and barriers that will affect mobile payments ability to reach a merchant adoption level that will enable market proliferation in Figure 6.

With this emergence of convenient and highly adaptable technology, sending remittances will become easier than ever, and will allow individuals to safely and securely send much needed funds to family members in both developed, but more significantly, in underdeveloped nations.

Figure 6. Merchant adoption of mobile payments



Source: Mallat and Tuunainen, 2008: 48.

Conclusions

Further research and studies in the field of migrant worker remittances by academic and industry leaders alike will lead to a better understanding of how these payments function. More importantly, economists will be looking to limit the restraints of past remittance research and to introduce new methods to properly analyse remittance payments with focus and importance. Global organizations such as the World Bank, along with research universities, financial institutions, and global corporations have already started to increase their resources behind remittances and going forward, this investment in the field will only increase.

As we move from underneath the rock of global economic crisis, emerging technology, along with specific motivating economic factors, are sure to influence the resiliency of remittances payments. The drive for convenient and innovative payment mechanisms, such as mobile payments, will also help to convert the billions of dollars in black market remittance flows around the globe into formal channels of transfer. Regardless of the method, remittances have proven to be a resilient form of financial support for both the working migrant families and the developing nations of the world, where they are so desperately needed.

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