

# What has driven remittance activity of the Indonesian migrant worker in Hong Kong; a study to formulate a proper business strategy To capture the business opportunity

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## ABSTRACT

*This research was conducted to study the things that encourage remittances by Indonesian workers in Hong Kong. The results can be used as a basis for preparing a felicitous strategy to increase remittance activity of Indonesian workers in Hong Kong to Indonesia. The results showed that 61% of motivation to perform a money transfer is influenced by agent variables (X<sub>2</sub>), the fees and the exchange rate of the Hong Kong dollar to rupiah, which is still perceived to be a burden, meanwhile the remittance processing speed is not very influential. Furthermore, remittances from workers seems to be reinforced by activities to offshore savings and to conduct money transfers to family needs.*

**Field of Research:** Remittance activity; Indonesian worker remittances

## 1. INTRODUCTION

The remittance flows from Worldwide to Indonesia has been noted, were processed via formal, regulated and informal non-regulated channels. The formal channel is mainly going through the banking sectors. Whereas, the informal channels are sending money via relatives or persons or even carry cash when they return home. Coss, et. al. (2008) has cited that the number of Indonesian workers' worldwide was 4.7 million with the remittance volumes from all over the world as reported in the IMF balance of payment records was US\$ 5.7 billion (*This estimation was predicated on* **The number of Indonesian worker's overseas**:- As the number of Indonesian migrant workers sent worldwide is inclined to increment, the remittance volume, especially via formal channels, was in fact decrementing. A recent finding (Coss, et. al. 2008) has noted that the remittance volumes from Malaysia to Indonesia via formal channels were decremented by over 30 pct (from US\$ 0.4 billion in 2002 to US\$ 0.26 Billion in 2006), despite the consequential increase of Indonesian workers going to Malaysia. Such declining fact of remittances via formal channel may denote that some migrant workers have culled and preferred to utilize a remittance alternative in lieu of formal channels. A similar trend of remittance modes via informal channels could additionally occur worldwide. The remittance predilection towards informal channels over the formal channels was in fact worsened by a number of unpropitious conditions to get access to banks. Some factors cognate to the bank access, for example: a bank account opening. Most of the workers, which emanate from rural areas where penuriousness is greatest, considered to open account with banks in Indonesia is onerous, a high maintenance charge and a relatively high initial balance coupled with numerous reasons for workers such as non-holding a true personal identity (the designation and address were erroneous) which makes them arduous to withdraw the fund in the future, will drive them to stay away from the bank access. This in fact will eventually enhearten the workers to make utilization of the informal channels rather than the formal channels for their remittance activities. The description of the remittance business processes in detail as described by IFAD (2006), while the predilection of the utilization of informal and formal channels has withal observed by Kosse, A and Vermeulen, R., (2013). Some scholars verbally expressed that the utilization of informal channels is more driven due to the lack of official facilities, for example: a limited number of commercial banks (Quibria & Thant, 1988), while in the case of Indonesia, where the number of banks and other formal institutions with sufficient remittances capability are scattered near the rural areas, the reason might be different. From the workers' perspective, the utilization of informal channels may be more convenient, more accessible and more frugal than that of formal channels. This, in fact, will engender more negative impact not only to the workers, but withal to the host Government as well as to the home Government in many aspects. The result of preliminary study (Arief, 2014) has shown that labor remittance activity is influenced by three (3) main factors, i.e:

1. The sender profile variable that includes age of the sender; the length of stay in the host country and the income and spending profile of workers;
2. The sender agent variable that includes the cost of remittances, the rate of exchange rate and the speed of processing remittances;
3. The driven motive variable that encourages remittances such as the motive to save their income in their saving account backed home; the family and other needs coming from families and relatives

Therefore the aim of this study is to explore the main variable that drives the worker remittance activity and hence to formulate a comprehensive policy strategy to handle the growing trends of the utilization of informal channel in lieu of formal channels, while at the same time provides a good feedback to the remittance business players.

## **2. THEORETICAL FRAMEWORK**

**a. Remitter Profile:-** The profile of remitters can be distinguished to be predicated on the age of the sender, the length of work and stay in the host country, as follows (Arief, 2014): In the age ranges below than 20 years (4%); 20-30 years (59%) and more than 30 years (37%), while the length of work and stay is varied. 43% have resided in Hong Kong for two to five years (two or three contracts); 39% of them were living for more than five years and on occasion infrequently staying for eleven years; while the rest (18%) had worked for less than two years, further examining the income and spending patterns of the workforce, the profiles can be distinguished as follows; the workers who spend their income by 25% to 100% on the substructure of monthly income of HK \$ 4,010. The three variables as above are considered to influence the activity patterns of migrant remittances.

**b. The Sender Agent:-** As previously described that the variable of sender agent can affect the activity of remittances. Currently, the number of remittance agency in Hong Kong with the license is amounted to 1745. These agents are distributed all over Hong Kong, in addition to the Indonesian bank branches and bank subsidiaries presence in Hong Kong. The remittance activities of Indonesian workers from Hong Kong are generally conducted on Saturday, Sunday and Public holidays. In those days, the general banking activities are all closed, hence the Indonesian workers are generally conducting transactions through the money sender agents scattered throughout Hong Kong. Sending money via money transfer operator (MTO) is much more convenient in comparison to do the same via banks. The cost of money transfers via agents are generally less expensive than the cost quoted by most banks in Hong Kong, besides the prevailing exchange rate. The effect of exchange rates on remittance activity in various parts of the world had been discussed in detail by Singer (2010). Other factors is the speed of remittance processor. The sender are often preferred the money transmission could be done in nearly real-time. Therefore, such variables as: cost; exchange rate and speed, are the variables featuring the MTO.

**c. Motivation:-** These include the motivation to preserve their income in a saving account backed home; the motivation due to the family needs and the motivation driven by other needs. The motivation to preserve a portion of their income in the saving account backed home or in an offshore saving is intended to secure their living expenses by the time of no longer working in Hong Kong. In many cases the funds that kept in their savings are idle for a long time period in the range of 2-3 years or even more. Nevertheless, it is hapless the interest rate given on savings is less remunerative for the owners, consider many charges such as account maintenance fees, tax fees, etc., which might be more preponderant than the interest granted by the banks (0.9-1%), which is very detrimental to preservers, unless the funds in the savings are immense for a considerable length of time.

In addition to the saving motivation, the remittance activity is also driven by the motivation for the family. The results of the preliminary study (Arief, Y.Y.A., 2014), showed that 44% of remittance receivers are the parents followed by a spouse (36%); and family members (21%). The utilization of funds by most of the remittance recipients have also been discussed by Accion (2004).

**d. The Remittance Activity:-** The remittance activity is to be measured by the remittance frequency and the amount of money remitted. For every remittance is made the cost to be borne by the sender and the receiver, are followed:

1. The remittance fees;
2. The exchange differences;
3. The processing fees

In case of money send from Hong Kong, for as much as HK\$ 3,000, then the following charges are incurred (with the assumption on the exchange rate applied is 1 HK\$/IDR = IDR. 1.500)

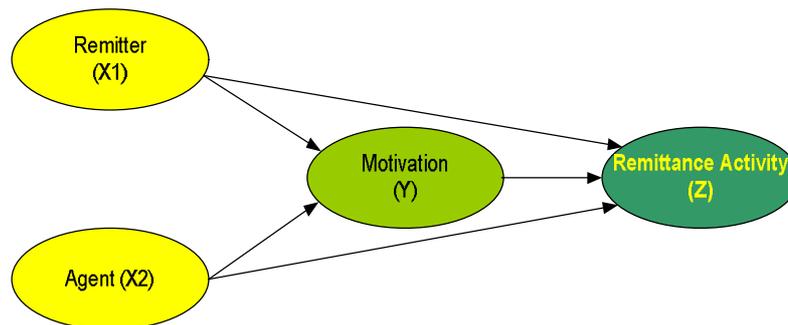
- |  |                   |          |                |
|--|-------------------|----------|----------------|
| 1. The remittance fees (as charges by most agents) : | HK\$ 30           | equal to | IDR. 45,000    |
| 2. The exchange differences :                        | IDR.10/HK\$, then | :        | IDR 30,000     |
| 3. The Processing fees                               |                   |          | IDR 5,000      |
| Total  |                   |          | IDR. 80,000 or |

(HK\$ 53 equal to 1.8%)

The above simulation is considered the least charges to be paid on every remittance, in an infrequent case, the charges, especially the exchange differences might be higher than the above, especially when the remittance is made via banks.

As the charge is a relatively higher, consequently the frequency of remittance as well as the amount of money remitted are affected, which may to some extent drive the workers to ascertain ways on a such more frugal alternative method as informal channels, which is suspected more frugal than the above simulation. Meanwhile, a strategy to ameliorate the profit level of the sender agent money (MTO) in their activities, for example by designates of batching fund and fund netting, is described in detail by DMA (2010).

**e. Previous Research.:-** Previous research on migrant remittance activity has been carried out by several researcher from different components of the world. The study was additionally conducted with accentuation on divergent perspectives, for example: the effect of workers remittance on equilibrium authentic exchange rates on recipient economies (Barajas, A., et. al., 2010); the determinants of remittances such as: altruistic, versus investment motives (Schiopu & Siegfried, 2006); altruism; indemnification; loan repayment; the exchange motive, etc., (Zanker & Ziegel 2007); remittance per-capita inclines to increment during war time (Schrooten, M., 2005); the predilection of most workers to send money back home via informal channel over a formal channel, that was driven by a low cost rather than speed or security (Siegel, et. al., 2009); the main intention for remittance was dominated by the quotidian expenses of recipients, followed by health care, household amenities and edification, with the most (52%) channel utilized for remittance was an informal agent (Jampaklay, A., & Kittisuksathit, S., 2009). Meanwhile, the cull of remittance channel when transferred money from the Netherlands was investigated by Kosse, A. and Vermeulen (2013) From the above,then theoretically the remittance activity might beformulated according to the followingpicture:



**Fig. 1.** Research Paradigm

**3. Research Hypotheses**

1. RemitterProfile (X1) affects theremittanceactivity(Y) throughmotivation(M);
2. Agents (X2) affect theremittanceactivity(Y) throughmotivation(M);

**4.RESEARCH METHODOLOGY**

In this study, the primary datawere collectedby usinga questionnaireandan in-depth interviews toexplore thepoint to point questionthat requiremore an in-depthanswers. The questionnairewith a five(5) Likertscale wasused.From the 504 questionnaires returned that are collected from areas covering : Causeway Bay; Yuen-Long; Tsuen Wan, and Taipo were further recorded and processed.

The datacollectedare groupedintovariables:

- RemitterProfile (X1); whichincludeage(X1.1); The length of stay(X1.2) and Thespending Profile(X1.3);
- VariableAgent(X2);whichincludes the fees(X2.1); the exchange differences(X2.2) andthe Speed (X2.3);
- The motivationvariable(M); whichincludesSaving(Y.1);Family needs(Y.2); Others(Y.3);
- RemittancesActivity(RA)whichincludes: Remittancefrequency(Z.1); and Remittance Amount(Z.2)

**5. INSTRUMENTATION**

Reliability and validity of the measurement is also defined. Questionnaire reliability determined by calculating Cronbach's Alpha with XLSTAT, the results can be seen from the following table:

**Table 1.** The Reliability and Validity of Measurement

Variables	D.G rho (PCA)	Cronbachs Composite reliability	Alpha
Remitter Profile (X1)	0.843		0.692
Agent (X2)	0.813		0.550
Motivation (Y)	0.944		0.903
Remittance Activity (Z)	0.910		0.791

Source: Data analysis by XLSTAT-2014

Convergent validity of all indicators towards each variable as shown in the table 5 (appendix), has shown that all indicators are valid to measure all latent variables.

**6. FINDING & DISCUSSION**

The results of Outer model and Inner model evaluation is shown in the following table 2 and table 3.

**Table 2.** Inner model (Dimension 1)

Weights (Dimension 1):

Latent variable	Manifest variables	Outer weight	Standard error	Critical ratio (CR)
Remitter Profile (X1)	Age (X1.1)	0.948	0.113	8.418
	Length of stay (X1.2)	0.812	0.06	13.501
	Spending (X1.3)	0.397	0.09	4.416
Agent (X2)	Fees (X2.1)	0.631	0.025	24.861
	Exchange_Rate (X2.2)	0.257	0.024	10.572
	Speed (X2.3)	0.75	0.044	16.912
Motivation (Y)	Saving (Y.1)	0.361	0.01	35.68
	Family Needs (Y.2)	0.385	0.012	31.55
	Other needs (Y.3)	0.261	0.011	24.58
Remittance Activity (Z)	Frequency (Z1)	0.701	0.033	21.255
	Amount (Z2)	0.901	0.03	29.651

**Table 3.** Inner model (Dimension 1):

Correlations (Dimension 1):

Latent variable	Manifest variables	Standardized loadings	Communalities	Redun-	Standard error	Critical ratio (CR)
				dancies		
Remitter Profile (X1)	Age (X1.1)	0.761	0.579		0.025	30.417
	Length of stay (X1.2)	0.88	0.774		0.026	33.599
	Spending (X1.3)	0.684	0.468		0.068	10.124
Agent (X2)	Fees (X2.1)	0.869	0.755		0.025	34.42
	Exchange_Rate (X2.2)	0.458	0.209		0.033	13.873
	Speed (X2.3)	0.749	0.562		0.024	31.277
Motivation (Y)	Saving (Y.1)	0.973	0.947	0.656	0.003	373.096
	Family Needs (Y.2)	0.97	0.942	0.652	0.003	338.812

**Tabel 4.** Inner model

R<sup>2</sup> (Motivation (Y))

R <sup>2</sup>	F	Pr > F	R <sup>2</sup> (Bootstrap)	Standard error	Critical ratio (CR)
0.692	563.719	0.000	0.694	0.017	39.858

**Table 5.** Path coefficients (Motivation (Y))

Latent variable	Standard			Pr >  t	f <sup>2</sup>	Critical ratio (CR)
	Value	error	t			
Remitter Profile (X1)	0.521	0.025	21.018	0.000	0.882	28.497
Agent (X2)	0.651	0.025	26.290	0.000	1.380	35.262

From table 4., Indicated that 69.2% of motivation are influenced by the remitter profile (X1) and the agent (X2), while 30.8% influenced by other factors outside the model. Furthermore, the mathematical equations for motivation is Motivation (Y) = 0.521\*Remitter Profile (X1)+0.651\*Agent (X2)

**Table 6.** Impact and contribution of the variables to Motivation (Y) (Dimension 1):

	Agent (X2)	Remitter Profile (X1)
Correlation	0.649	0.518
Path coefficient	0.651	0.521
Correlation * path coefficient	0.423	0.270
Contribution to R <sup>2</sup> (%)	61.061	38.939
Cumulative %	61.061	100.000

From Table 6, indicated that the agent (X2) has a contribution of 61% greater than the remitter profile (38.9%). In other words, the biggest factors that encourage the motivation to make a remittance is the agent (X2) variables compared to the remitter profiles (X1). This is in line with the empirical condition, in which the remittance was done at the time when the remittance fees and the exchange rate between the Hong Kong dollar to rupiah, is considered favorable. It is also the reason why workers prefer to send the money through an MTO instead of via banks. In a worst case, because of a low cost and a favorable exchange rate as often promised by an individual (non-formal and illegal channel) who has the ability to send money through the internet facilities obtained from banks in Indonesia, they send the money through this scheme. The remittance procedures are also varied, among others:

1. The money is sent via the internet banking facility, which has no limitation on the frequency of transfers per day besides the transfer fee is relatively low or at no-cost at all, especially when the beneficiary's account is with the same bank.
2. Via SMS or e-mail message that contains a list of remittance recipients residing in Indonesia for further processing in Indonesia. Through the above schemes, executing remittances gained a sizeable fee, but less secure for the sender.

**6.1 The effect of Remitter Profile (X1) and Agent (X2) to the remittance activity (Z) through Motivation (Y)**

Effect of remitter profile (X1) to the remittance activity (Z) is shown as seen from Table 7

**Table 7.** Remittance Activity

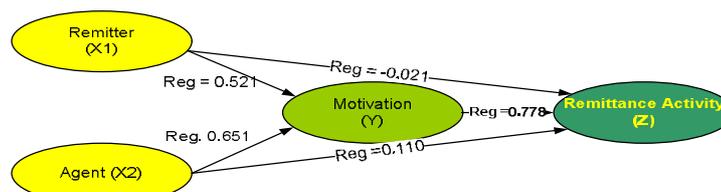
R <sup>2</sup>	F	Pr > F	Standard error	Critical ratio (CR)
0.712	411.389	0.000	0.023	30.589

From table 7 and table 8 is shown that the remittance activity is influenced by both agent and motivation variables, nevertheless, as the CR value of the remitter profile is low, than the remitter profile is considered do not directly affect the remittance activity. On the other hand, it has an indirect effect through motivation variable. Amounted to 71.2% of remittance activity (Z) can be explained by the variable agent (X2) and the motivation variable (Y).

**Table 8.** Path Coefficient from Remittance

Latent variable	Value	Standard error	t	Pr >  t	f <sup>2</sup>	Critical ratio (CR)
Remitter Profile (X1)	0.021	0.033	-0.626	0.532	0.001	-0.677
Agent (X2)	0.110	0.037	2.973	0.003	0.018	3.256
Motivation (Y)	0.778	0.043	17.960	0.000	0.645	23.325

From Table 8, it clearly appears that the remittance activity (Z) is influenced by two variables; the agent (X2) variable which is reinforced by the motivation (Y) variables. Overall the effect of exogenous and endogenous variables can be shown from Figure 2, as follows:



**Fig. 2.** The effect of exogenous and endogenous variables to remittance activity

## 7. CONCLUSION AND FUTURE RECOMMENDATION

From this study it was interesting to note that the encouraging factors of remittances are an agent (X2) variables. This is suspected to be related to the cost of remittances as well as to the exchange rate. This variable is further reinforced by the motivation to put the money in their saving account backed home and a motivation driven by their family life expenses in Indonesia. The motivation to send money to their owned account backed home (offshore saving) is one phenomenon that is prevalent for Indonesian workers in Hong Kong. Therefore, to increment their remittance activity, the provision of a bank saving account, together with an effort to lower the cost of remittances and the exchange rate differences, is consequential. Further research on this subject is needed to more preponderant understand the activities of Indonesian worker remittances in Hong Kong

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