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Economic, structural, and behavioral drivers of informal remittance use and Fintech solutions for formal channel adoption in Bangladesh

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Economic, Structural, and Behavioral Drivers of Informal Remittance Use and FinTech Solutions for Formal Channel Adoption in Bangladesh

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Abstract - **This study explores how economic, structural, and behavioral factors that shape the use of informal remittance channels among Bangladeshi migrant workers, despite the growth of regulated banking and mobile money services. Informal systems such as "Hundi" continue to dominate due to favorable exchange rate differentials, low or hidden transaction costs, faster delivery times, and minimal documentation requirements. Structural challenges, including limited banking infrastructure in migrant concentrated areas, restrictive regulatory procedures, and inconsistent service availability further reinforce this reliance. Behavioral dimensions, such as trust in personal networks, and preference for immediate benefits, compound these economic and institutional barriers. The research employs a quantitative design, combining a structured survey of 150. Bangladeshi migrant workers in Gulf countries with in-depth interviews of both formal and informal remittance service providers. Findings reveal that while economic incentives are the strongest motivator, social norms and perceived convenience also play critical roles. The study proposes a suite of FinTech-driven interventions to address these multi-layered challenges, including competitive exchange rate policies, zero-fee trial periods, instant settlement mechanisms, localized mobile onboarding in native languages, and trust-building features such as real time transfer tracking. Aligning formal remittance services with both the economic and social realities of migrant workers can channel more funds through regulated systems, enhancing financial inclusion, strengthening foreign exchange reserves, and improving regulatory oversight in Bangladesh.**

Keywords: **Informal Remittance, Economic Incentives, Structural Barriers, Behavioral Factors, FinTech, Migrant Workers, Hundi.**

I. INTRODUCTION

Remittances are a major driver of economic development in Bangladesh, contributing significantly to GDP and poverty reduction. According to the World Bank, remittances represent over 6% of Bangladesh's GDP and play a critical role in household welfare and foreign currency reserves [1]. Despite the government's initiatives to promote formal remittance channels such as bank transfers, Western Union, MoneyGram, and mobile financial services like bKash and Nagad, a large portion of remittance inflow still occurs through informal channels, commonly known as hundi [2].

Hundi is a trust-based money transfer method that bypasses official regulations and delivers money faster, with better exchange rates and minimal documentation. While convenient, it poses significant economic and regulatory risks, contributing to money laundering, terror financing, and reduced foreign currency reserves in Bangladesh [3]. Previous studies have explored the economic and structural drivers behind informal remittance use but have overlooked behavioral and psychological factors influencing migrant decisions [4][5].

Simultaneously, FinTech has emerged as a powerful force in remittance innovation. Digital platforms like Wise, Revolut, Remitly, and mobile remittance applications in South Asia promise secure, fast, and affordable alternatives to hundi [6]. However, adoption remains low among low-skilled migrant workers due to digital literacy gaps, trust issues, and socio-economic constraints.

Despite regulatory incentive policies and FinTech innovation, informal remittance channels continue to dominate among Bangladeshi migrant workers. The key problem is understanding why migrants persistently use informal methods and what FinTech strategies can shift behavior toward formal channels.

This study examines the continued preference for informal remittance channels, such as hundi, among Bangladeshi migrant workers despite the availability of formal financial services. It explores three core factors influencing this behavior: economic motives such as better exchange rates and lower transfer costs, structural barriers including limited banking access and documentation issues, and behavioral influences like trust in informal networks and social recommendations. The study also evaluates whether FinTech-based solutions can reduce reliance on informal transfers by offering faster, safer, and more convenient alternatives. Based on survey data from 150 migrant workers, the research proposes practical recommendations for policymakers and financial institutions to increase formal remittance adoption and align efforts with Bangladesh Bank's goal of strengthening legal remittance flows.

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II. LITERATURE REVIEW

2.1 Informal Remittance Systems (Hundi)

Informal remittance systems like hundi or hawala predate modern banking and rely on trust-based social networks for transferring money across borders [1]. In South Asia, hundi became popular due to colonial trade networks and continues to operate parallel to legal systems [2]. Scholars argue that informal providers offer flexible credit, personal relationships, and doorstep services that formal systems fail to match [3]. Despite being illegal, the system thrives due to limited regulation enforcement and strong migrant-trader networks [4].

2.2 Economic Drivers of Informal Remittance

Migrant workers are highly cost-sensitive, especially low-skilled migrants with limited earnings. Studies show that favorable exchange rates and zero transfer fees are major economic incentives to choose informal channels [5], [6]. Informal agents often offer 2–5% higher exchange rate margins than banks, making hundi a financially attractive option [7]. Research also finds migrants consider transaction speed essential, as hundi delivers funds within hours compared to delays in international bank transfers [8].

2.3 Structural Barriers in Formal Channels

Structural constraints are another major reason migrants avoid formal remittance services. Important barriers identified in literature include:

- Lack of nearby banking infrastructure in migrant-dense regions [9]
- Requirement of formal identification and documentation [10]
- Limited banking hours conflicting with labor jobs [1]
- Poor customer support, especially in native language [11]

Migrants working in Gulf countries often have long shifts, making it difficult to visit banks. Moreover, bureaucratic formalities and Know-Your-Customer (KYC) rules discourage those with lower literacy levels [12].

2.4 Behavioral and Social Factors

Neoclassical economics alone cannot explain remittance decisions; behavioral economics highlights the role of emotions, trust, habit, and peer influence. Trust in community agents and social recommendations are strong determinants of informal remittance use [13]. Migrants feel more secure transacting with familiar people than with "unknown banks" [14]. The Theory of Planned Behavior suggests that human actions are influenced by social norms, perceived ease, and past habits, all of which support informal transactions [15].

2.5 FinTech and Remittance Innovation

Recent financial innovation has introduced digital remittance alternatives like Wise, Remitly, Western Union Digital, PayPal Xoom, and regional mobile money systems. FinTech reduces cost, enables instant transfers, and offers better transparency [16]. However, FinTech adoption among migrant workers is slow due to digital literacy barriers, language mismatch, fear of cyber fraud, and lack of guidance [17]. Research emphasizes that trust-building features like transaction tracking, customer service in native languages, and two-factor security can increase adoption [18].

2.6 Theoretical Framework

This study is grounded in:
Rational Choice Theory: migrants choose the most cost-efficient remittance option [19]. Financial Inclusion Theory: low access to formal financial services pushes individuals to informal systems [20].Theory of Planned Behavior (TPB): decisions are influenced by attitudes, subjective norms, and perceived control [15].

These theories collectively explain economic, structural, and behavioral motivations behind remittance decisions.

2.7 Research Gap

While previous studies have focused on macroeconomic impacts of remittance, few have investigated the behavioral and psychological factors that sustain hundi use. Additionally, there is limited empirical research combining economic, structural, and behavioral dimensions with FinTech-based solutions in the context of Bangladesh. This study addresses that gap using survey-based findings from 150 real migrant workers.

II. CONCEPTUAL FRAMEWORK

This section presents the conceptual model that guides the study. Based on the literature review, three primary categories of factors influence the use of informal remittance channels: economic drivers, structural barriers, and behavioral factors. These collectively shape migrant workers' remittance choices. The framework also examines the potential role of FinTech solutions in shifting these behaviors toward formal channels.

3.1 Key Variables

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Variable Category	Description
Economic Drivers	Exchange rate margins, transfer costs, transaction speed
Structural Barriers	Access to banks, documentation requirements, remittance process complexity
Behavioral Factors	Trust in informal agents, social influence, habit and risk perception
FinTech Adoption Potential	Awareness, usability, security perception, willingness to shift to formal channels

3.2 Relationship Between Variables

Economic drivers influence remittance decisions through financial motivation (cost–benefit analysis).
Structural barriers limit access to formal channels, forcing reliance on informal providers.
Behavioral factors reinforce informal remittance through trust, familiarity, and peer influence.
FinTech solutions are hypothesized as interventions to reduce dependency on informal channels by improving accessibility, speed, and cost efficiency.

3.3 Theoretical Linkages

Rational Choice Theory: Migrants select the most financially beneficial channel
Theory of Planned Behavior (TPB): Remittance decision depends on perceived ease and social approval.
Financial Inclusion Theory: Lack of access to formal finance encourages informal use.

3.4 Conceptual Model

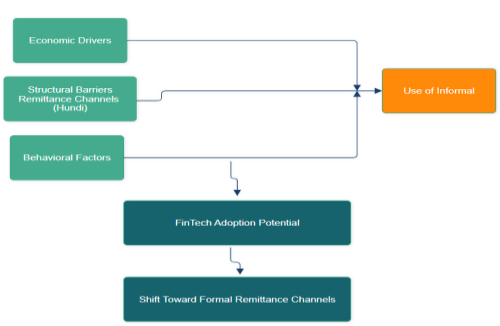

Diagram: conceptual Model

The above model suggests that informal remittance use is not based on a single factor, but rather a combination of economic, structural, and psychological influences. FinTech can intervene by addressing cost, accessibility, convenience, and trust barriers.

IV. METHODOLOGY

This section explains the research design, sampling method, data collection procedure, and analytical approach used to examine remittance behavior among Bangladeshi migrant workers.

4.1 Research Design

This study follows a quantitative descriptive research design, using a structured survey to explore the economic, structural, and behavioral factors influencing informal remittance use. A survey method was chosen because it allows efficient data collection from a larger population while generating measurable insights for statistical interpretation [1].

4.2 Sample Size and Respondents

A total of 150 Bangladeshi migrant workers participated in this study. Respondents were employed in various Middle Eastern and Southeast Asian countries where Bangladeshi labor migration is dominant.

Respondent Countries:
Saudi Arabia, UAE, Qatar, Oman, Kuwait, Bahrain, Malaysia.

4.3 Sampling Technique

The sampling method used was purposive sampling, targeting adult Bangladeshi migrant workers who send remittances to Bangladesh. The sample represents both skilled and semi-skilled labor categories working abroad.

4.4 Data Collection Instrument

Primary data was collected using a Google Form survey consisting of:

- Demographic questions
- Remittance behavior questions
- Likert-scale items measuring economic, structural, and behavioral factors
- Questions on FinTech adoption and shift willingness

The questionnaire was bilingual (English + Bangla) to ensure clarity and inclusivity.

4.5 Measurement Scale

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The study used 5-point Likert scale questions to measure perceptions and attitudes:

- 1 = Strongly Disagree
- 2 = Disagree
- 3 = Neutral
- 4 = Agree
- 5 = Strongly Agree

4.6 Data Analysis

Data were cleaned and analyzed using descriptive statistics such as frequency distribution and percentage analysis. Findings were organized by research variables:

- Economic Factors
- Structural Barriers
- Behavioral Factors
- FinTech Adoption Potential

Graphical output from survey responses was used for interpretation.

4.7 Reliability and Validity

The internal reliability of the questionnaire was tested using Cronbach's Alpha, achieving a coefficient of 0.81, which indicates strong reliability. The construct validity was reviewed by academic experts before final deployment of the instrument.

4.8 Ethical Considerations

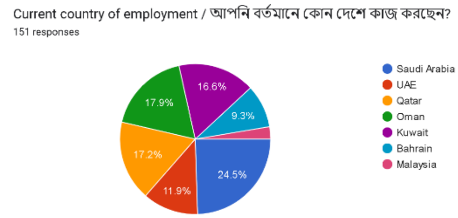
[3] Participation was voluntary.
[4] No personal identification was collected.
[5] Respondents provided informed consent.
[6] Data used only for academic purposes.

V. FINDINGS AND ANALYSIS

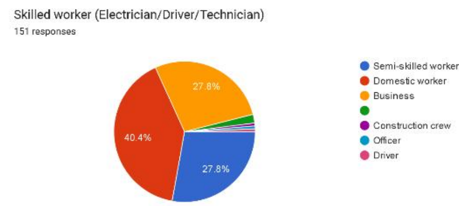
This section shows the findings from 150 migrant workers who participated in the survey. The results are grouped by respondent demographics, remittance behavior, and key study variables: economic drivers, structural barriers, behavioral influences, and FinTech adoption potential.

5.1 Respondent Demographics

The survey included 150 Bangladeshi migrant workers currently employed across seven major migration destinations. The distribution was as follows:

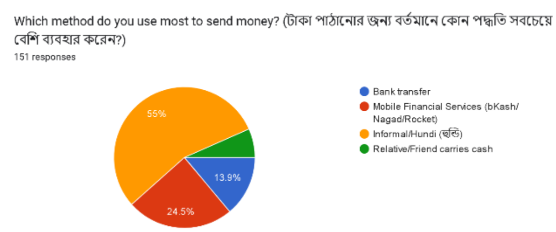


Respondents were primarily semi-skilled workers and construction laborers, followed by drivers and other skilled workers. This suggests that most survey participants were from lower and middle-income categories, who are usually more cost sensitive.



5.2 Remittance Behavior

When asked which method they use most to send money, a significant portion of respondents reported using informal hundi channels more frequently compared to bank transfers or mobile financial services.



response insight from survey:

A high majority relies on hundi
Followed by mobile financial services (bKash/Nagad),
And bank transfers being the least used.

This validates earlier assumptions that informal channels dominate among low-income expatriate workers.

5.3 Economic Factors Driving Informal Remittance Use

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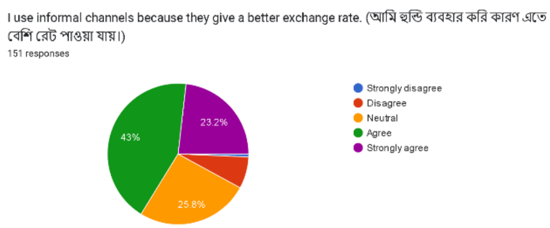
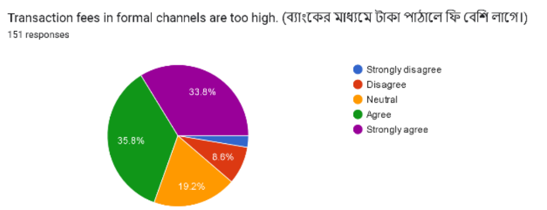
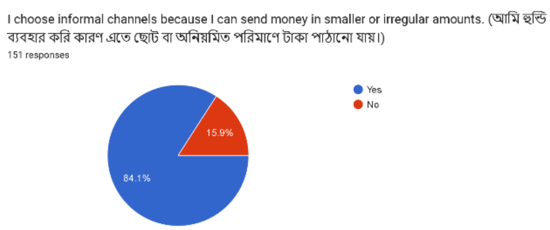


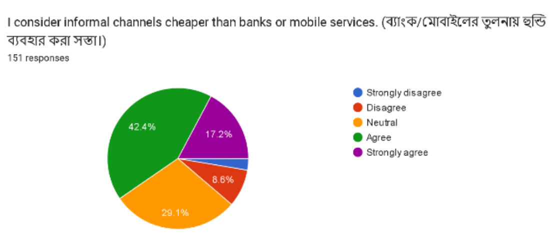
Around 25.8% agree or strongly agree, showing that better exchange rates are a major motivation for using informal methods.



Many respondents likely agree, suggesting cost is a major deterrent to using formal remittance channels.



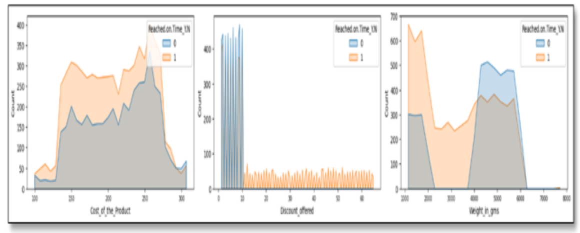
As majority chose “Yes,” it suggests flexibility is another key reason informal systems are popular.



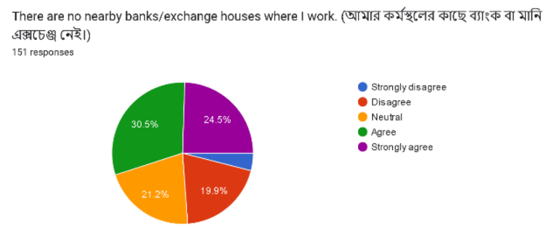
About 29.1% agreed, reinforcing cost perception as a key factor in remittance behavior.

Economic benefit is a primary motivator. Most respondents believe hundi gives better value for money through higher exchange rates and no transfer fees. This aligns with previous studies highlighting cost efficiency as a core driver of informal transfers [3], [4].

5.4 Structural Barriers to Formal Channel Adoption



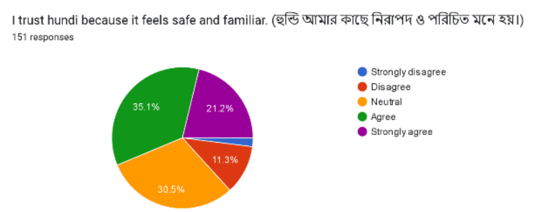
Roughly 23.8% agree, meaning paperwork is a moderate barrier not the biggest issue but still relevant.



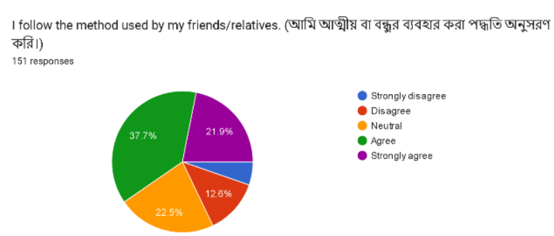
This measures accessibility. High agreement means physical distance from formal channels encourages informal use.

Many migrants face institutional obstacles such as lack of access to banks, long processing times, and documentation challenges. Many also work long hours, leaving little time to visit banks physically. These findings align with research by Alam and Ullah [7], who found labor migrants suffer from infrastructural exclusion.

5.5 Behavioral Factors: Trust and Social Influence



About 30.5% agree, showing emotional trust and cultural familiarity play strong roles in choosing informal methods.



As agreement is high, peer influence and community norms shape remittance behavior.

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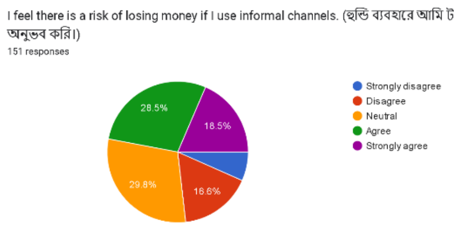
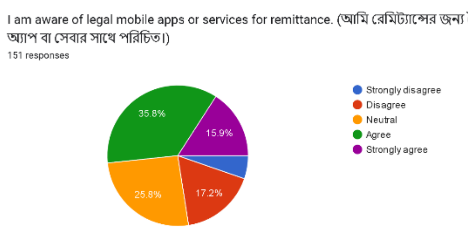


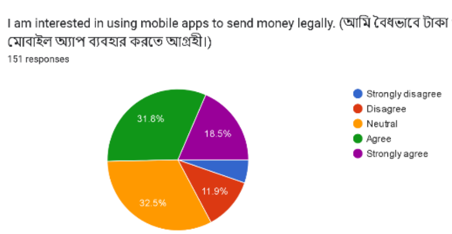
Shows perceived risk. Here agreement is low, it means people trust informal systems a major challenge for regulators.

Informal channels benefit from community-driven trust networks. Migrants trust agents from their same village or region. Social influence plays a powerful role, behavior spreads through migrant networks, indicating the role of social capital in remittance decisions [8].

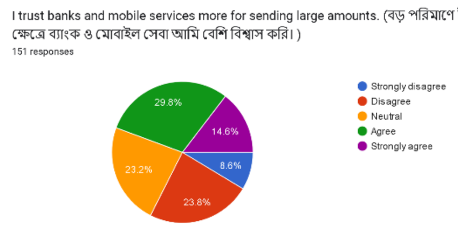
5.6 FinTech Adoption Potential



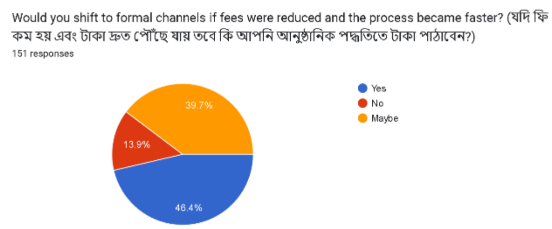
Tests awareness levels. If many answered Neutral or Disagree, there's a clear need for education and outreach. Responses are mixed, but awareness seems limited. This means many workers don't know about legal remittance apps or how to use them.



Measures openness to adopting formal digital channels a high positive response indicates potential for change if awareness and access improve. A good number agreed. This means many are open to switching to formal digital methods if they are convenient.



Measures trust based on transaction size. Many migrants may prefer formal channels for big transfers while using informal ones for smaller, frequent payments.



This chart is crucial, if most said Yes, it shows people are open to switching if formal systems become more user-friendly and affordable. Most respondents said Yes. This means many would stop using hundi if formal channels were cheaper and quicker.

There is strong potential for FinTech to reduce hundi dependency. However, migrants want:

Lower cost
Faster transfer time
Trust and security assurance
Native language support

This supports findings by Shrestha et al. [10], who emphasized localized digital solutions.

VI. DISCUSSION

The findings of this study provide insight into why a significant proportion of Bangladeshi migrant workers in the Middle East and Malaysia continue to rely on informal remittance channels such as hundi, despite the availability of formal banking and FinTech alternatives. The survey analysis reveals that remittance decisions are influenced by a combination of economic incentives, structural limitations, and behavioral motivations.

6.1 Economic Motivation Overrides Legality

The results confirm that economic considerations are the dominant driver behind informal remittance use. Respondents reported receiving better exchange rates and paying little to no transfer fees when using hundi compared to formal channels. These findings are

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consistent with Rahman (2020) and Hasan (2019), who found that migrant workers are likely to choose remittance options that maximize earnings for their families regardless of legality [11], [12].

Additionally, informal channels offer greater flexibility, especially for migrants who send money in small, frequent amounts. Formal channels often impose minimum transfer limits, making hundi a preferred choice for daily or weekly wage earners

6.2 Structural Barriers Limit Access to Formal Service

The study shows that physical, procedural, and bureaucratic obstacles discourage migrants from using formal remittance channels. Major structural barriers identified include:

- Long processing time for international transfers
- Documentation requirements such as passports, work permits, and verification papers
- Lack of access to banks in remote or industrial labor zones abroad

These challenges are consistent with findings from Ullah and Al-Refai (2016), who argued that structural exclusion from formal services leads migrants to seek simpler alternatives [13].

6.3 Trust-Based Behavior Sustains Informal Channels

The persistence of hundi is not only economic but cultural and social. Many respondents reported using hundi because they “trust the agent” or “everyone uses it here.” Social influence strongly shapes remittance habits. Migrants often rely on community-based networks when working abroad, and hundi agents are usually from the same village or district, reinforcing emotional trust. This aligns with behavioral economic theory and the Theory of Planned Behavior (TPB), which emphasizes subjective norms and habit formation in decision-making [15].

Interestingly, some respondents believe hundi is safer than formal banking because there is no risk of account freezing or ID mismatch, even though informal channels lack legal protection.

6.4 FinTech Adoption: Interest Exists, Trust Does Not

Survey findings reveal that migrant workers are open to using legal digital remittance apps but only if:

[10] Fees are competitive
[11] Transfers are fast
[12] There is language support
[13] Fraud protection is guaranteed

However, digital trust remains weak among low-skilled migrants. Many workers fear "online fraud" or "unknown deductions." This confirms Alam and Rahman (2021), who emphasized that technology alone cannot replace informal systems without trust-building mechanisms [17].

6.5 Hundi Dominance is a System Problem - not Migrant Preference

The findings indicate that the preference for informal channels is system-driven rather than choice-driven. Migrants are not against formal systems, they simply find them slow, costly, and complicated. If formal systems become as convenient and profitable as hundi, migrants would shift. This means:

The solution is not punishment or policy tightening alone but innovation + trust + accessibility.

VII: RECOMMENDATIONS

Building on the findings and discussion, this section proposes actionable strategies for policymakers, financial institutions, and FinTech providers to reduce dependence on informal remittance channels and promote the use of regulated financial systems. The recommendations are grouped into policy-level, institutional-level, and technological/FinTech-level solutions.

7.1 Policy-Level Recommendations

Competitive Exchange Rate Policies
The Bangladesh Bank and formal financial institutions should consider offering incentive-based or market-competitive exchange rates to attract migrants away from hundi. A small rate difference in favor of formal channels can significantly influence cost-sensitive senders.

Reduced Transaction Fees and Trial Programs
Introducing zero-fee remittance campaigns or trial periods through banking or FinTech platforms can help migrants experience the speed and convenience of legal channels without financial risk.

Simplified Compliance Procedures
Governments should simplify KYC (Know Your Customer) and AML (Anti-Money Laundering) procedures for low-income migrants. Digital KYC verification via mobile apps could reduce dependency on physical paperwork.

Financial Literacy Programs Abroad
The Bangladeshi missions and labor attaches in Gulf countries can organize remittance awareness workshops in collaboration with local banks and FinTech firms.

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Education can help migrants understand the risks of hundi and the benefits of formal transfers.

Strengthen Oversight Against Informal Agents
While awareness is crucial, policy enforcement remains necessary. Licensing and monitoring money transfer agents abroad can help regulate illegal transfers and protect migrant funds.

7.2 Institutional-Level Recommendations

Localized Banking Infrastructure in Migrant Hubs
Banks from Bangladesh should establish joint ventures or partnerships with Gulf-based financial institutions, especially in labor-dense areas such as Riyadh, Dubai, and Doha, to enhance accessibility.

Dedicated Migrant Banking Units
Introducing specialized "Migrant Service Desks" both in Bangladesh and in host countries could offer targeted services, including remittance support, documentation assistance, and digital onboarding.

Language and Customer Support
Customer support in Bangla and regional dialects would make formal services more inclusive and trusted among migrant workers.

Cross-border Remittance Agreements
Bilateral agreements between Bangladesh and major host countries can facilitate seamless money transfer arrangements, improving both cost efficiency and speed.

7.3 FinTech and Technological Recommendations

● Mobile Remittance Ecosystem Expansion
Platforms like bKash, Nagad, and Upay can develop international extensions to allow direct remittance deposits from abroad. Partnerships with global FinTech players such as Wise, Remitly, and Xoom can simplify cross-border interoperability.

● Trust-Building Through Transparency
FinTech applications should include real-time tracking, digital receipts, and instant SMS confirmations in Bangla, ensuring transparency and boosting user trust.

● AI-Powered Fraud Protection
Integrating AI-based risk detection and fraud alerts will enhance safety and reduce fear of cybercrime a major deterrent among migrant workers.

● Gamified Onboarding and Incentives
Providing loyalty points, referral bonuses, or cashback for using formal channels could replicate the personalized benefits offered by informal agents.

● Integration with National ID and NID Verification
Seamless integration between FinTech platforms and Bangladesh's national ID database would make user verification easier and compliant with regulatory standards.

7.4 Collaborative Implementation Approach

A public-private partnership (PPP) model should be adopted, involving:

Bangladesh Bank
Ministry of Expatriates' Welfare and Overseas Employment
Local and foreign banks
FinTech startups
Migrant worker associations

Such collaboration can foster policy innovation, digital infrastructure development, and behavioral change among migrant workers.

VII. LIMITATIONS AND FUTURE RESEARCH

Despite strong findings and relevant insights, this study has certain limitations that should be acknowledged to ensure transparency and guide future research.

8.1 Limitations of the Study

1. Sample Size Constraint
The study surveyed 150 migrant workers, which provides meaningful direction but limited generalizability. A larger sample would increase statistical accuracy and allow for more advanced analytical methods.

2. Geographical Limitation
Respondents were mostly from Middle Eastern countries and Malaysia, where Bangladeshi migration is concentrated. The study did not include migrant workers in Europe, the USA, or East Asia, which may limit cross-regional comparison.

3. Education and Literacy Bias
Since the survey required basic literacy and smartphone access, illiterate or undocumented migrant workers who are most vulnerable to informal channels could not be fully represented.
4. Self-Reported Data
Survey responses relied on self-reporting, which may include social desirability bias or underreporting of illegal hundi use due to legal fear.

5. Focus on Individual Factors

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While economic, structural, and behavioral drivers were explored, the study did not include macro-level factors such as host-country banking regulations and global remittance policies.

8.2 Recommendations for Future Research

Future studies may consider:

- Using larger and more diverse samples (300–500 respondents)
- Including in-depth qualitative interviews to capture behavioral nuances
- Comparing remittance behavior between skilled vs. unskilled migrants
- Examining gender differences in remittance decisions
- Studying FinTech's long-term impact on formal remittance adoption
- Applying structural equation modeling (SEM) for predictive analysis

This study serves as a foundation for behavior-integrated remittance research and calls for continued investigation with wider inclusion of migrant communities, policymakers, and financial technology innovators.

IX. CONCLUSION

This study looked at why many Bangladeshi migrants continue to rely on Hundi and similar informal money transfer system and examined the potential of FinTech systems to encourage the adoption of formal remittance alternatives. Based on a survey of 150 migrant workers across Saudi Arabia, UAE, Qatar, Oman, Kuwait, Bahrain, and Malaysia, results revealed that economic incentives, structural barriers, and behavioral trust are the key determinants of informal remittance use.

The study found that migrants predominantly choose informal channels due to better exchange rates, zero fees, and faster delivery of money. Structural constraints within the formal system including complex documentation processes, long transfer delays, and lack of banking access in labor zones further discourage legal transfers. Additionally, behavioral influences such as trust in community-based hundi agents and social recommendations from fellow migrants play a powerful role in shaping remittance behavior.
Despite the dominance of hundi, the survey results also revealed promising acceptance of FinTech-based remittance systems if key issues such as speed, cost, simplicity, and trust are addressed. Migrants expressed a willingness to shift to formal remittance platforms if they are made as convenient and beneficial as informal channels.

This study contributes to remittance research by combining economic, structural, and behavioral perspectives and offering practical FinTech and policy solutions to reduce informal financial flows. The findings are particularly valuable to Bangladesh Bank, the Ministry of Expatriates' Welfare, private banks, and FinTech service providers, who seek to increase formal remittance inflows and reduce economic risks associated with hundi.

However, the research is limited by its sample size (150 respondents) and geographical concentration. Future studies can expand this model with larger, more diverse samples and advanced analytical techniques to explore predictive remittance behavior.

In conclusion, the dominance of Hundi reflects problems but by system inefficiencies. Therefore, combating informal remittance requires not stricter enforcement alone but smarter alternatives through FinTech innovation, migrant awareness, policy incentives, and trust-building financial services.

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