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Factors Affecting To Enhance Foreign Inward Remittances to Sri Lankan Commercial Banks

Kumarasinghe P J
Senior Lecturer Department of Business Economics Faculty of Management Studies and Commerce
University of Sri Jayewardenepura

Abstract: *Remittances, which were more than twice as the size of international aid flows to Sri Lanka are the main foreign exchange earnings. These funds have a major contribution to reduce severity of poverty. It is largely the local banks that are taking the lead in the remittance service market. Investing heavily in various remittance application technologies, credit cards, debit cards, Internet banking, and telebanking the local banks are surely changing the nature of the remittance market. Some banks offer a range of products to migrants including insurance and pre-departure loans at concessional rates to be repaid from remittance proceeds. However, informal remittance services are also attractive to the immigrants to transfer their earnings to Sri Lanka and this was identifying as a main challenge to the Commercial Banks. As such the inward remittance market is too lucrative a segment for any commercial bank the bank need the awareness to capture a substantial share of the remittance market and enhance the deposit base. The research is to study how to enhance the market share of Commercial Bank with regards to the Foreign Inward Remittances to Sri Lanka The analysis of the 27 items comprising various aspects of remitting system, service quality, cost, time, brand name and technology features suggests that in retail banking, three dimensions namely service, time and technology are important to gain the competitive advantage over competitors.*

Key Words: *Inward Remittances, Technology of Commercial Banks,*

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I. Introduction

Remittances are funds transferred cross border from migrants to their home country. They are the private savings of workers and families that are spent in the home country for food, clothing and other expenditures, and which drive the home economy. For many developing nations, remittances from individuals working abroad provide an important source of much needed funds. Migrant worker remittances to Sri Lanka at the end of 2014 were expected to reach an unprecedented US $5.985 billion as highlighted in the annual report of Central Bank of Sri Lanka for 2014. This is a distinct possibility with Sri Lanka now sending more skilled labor abroad earning enhanced wages in place of unskilled and female domestic workers. In the first eight months of 2012, Sri Lanka's migrant workers remitted US $ 3.9 billion which is an increase of 15.2% compared to the same period in 2011. With nearly 1.7 million Sri Lankans working abroad, their total remittances amounted to US $5.14 billion in 2011. Migrant worker remittances have grown exponentially in the past few years. In 2009, remittances grew to US $3.3 billion and in 2010 it was US $4.18 billion. The volume targeted by the year 2017 is estimated at USD 10 Bn. Remittances, which were more than twice as the size of international aid flows in 2006, have a major contribution to reduce severity of poverty. They are of crucial importance to local populations being constant and reliable direct investments and bringing profound life improvements.

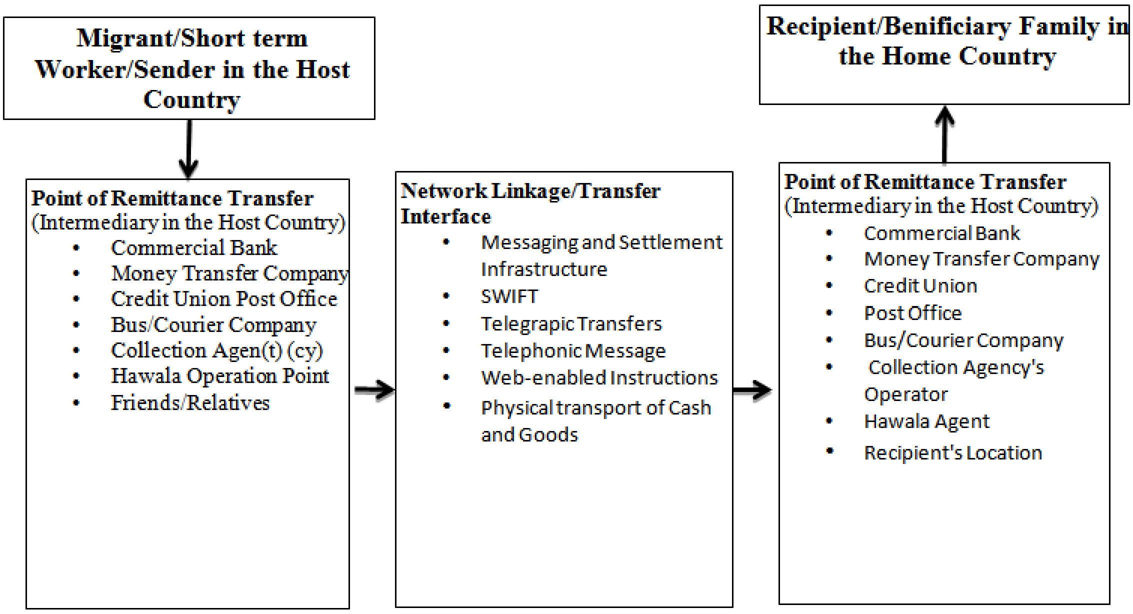
1.2 Significance of the Study and the Problem

The costs of a remittance transaction include a fee charged by the sending agent generally paid by the sender and at times a fee for delivery of local currency to the beneficiary in another country. This fee is shared between the remitter and the paying agent. Some money transfer operators require the beneficiary to pay a fee to collect remittances. In addition, remittance agents may earn an indirect fee in the form of interest by investing funds before delivering them to the beneficiary. This float can be significant in countries where overnight interest rates are high. The commission earned by the paying banks forms a part of their fee based income. Income generated by way of exchange spread on cover funds in settlement of remittances received strengthens the bottom line. The capital amount on remittances received for credit of accounts enhances the deposit base of the bank. As such the inward remittance market is too lucrative a segment for any bank not to be in business. The bank need not launch a spectrum of products and services to capture the market share. However, still majority of the unskilled workers prefer to send their earning through various other sources of formal and informal channels to their relatives back in mother country in Sri Lanka. Thus, this study focuses how to enhance the market share of Commercial Bank with regards to the Foreign Inward Remittances to Sri Lanka.

II. Literature Review, Synthesis And Conceptualization

There are various formal Infrastructures for Remittances such as commercial banks, Money transfer business, Post Office Network, Informal Remittance Systems, In-Kind Remittances. The Figure 2.1 gives various formal channels available for the purpose.

The Figure 2.1: Formal Channels Available for Remittances.



Note: Not all funds transferred through these channels are remittances
(Source: International Monitory Fund)

2.1 Growing market for remittances in both formal and informal remittances in Sri Lanka

As is the case in most South Asian countries, informal remittances are commonplace, having long been used to facilitate trade between distant regions where conventional banking instruments are either absent or weak. World Bank (2005a) estimates that unrecorded remittances are highly volatile and could have reached as much as 45 percent of total private remittances in Sri Lanka in the mid-1990s. Informal money transfer systems can be identified as money transferring mechanisms which are outside the conventional, regulated financial system. In different parts of the world, different types of informal transfer systems are operated. In Sri Lanka the main attraction of informal operators is increased due to the fact of financial policies that include foreign-exchange controls. Over time, the operational features of speed, low cost, ethnic and cultural convenience, flexibility, and anonymity led to their use for various legal and illegitimate purposes. When sending money through informal channels, exchange rate fluctuations are not taken into consideration. Furthermore, there is only one rate applied, and the buying and selling rate differences does not affect the amount received by the beneficiary. Thus, the unified rate extended by the informal channels has been another attraction of the informal sector to migrants. This was identifying as a main challenge by the banks as their most challenging competitor. In addition to cost and speed, informal remittance systems also fare more favorably for migrants, with respect to the formalities required to transfer money, reliability, and convenience. However, due to the constraints of work conditions, still unskilled workers prefer to use informal channels to remit their earnings. With the fluctuation of the dollar, many of these workers are unaware that their informal contacts do not give them a fair exchange rate and that they are losing on the transaction. (Lasagabaster al. 2005.) Further, undocumented migrants are also more likely to use informal channels. Undocumented migrants will not be able to access the services offered by formal financial institutions as they are unable to present the required documents. In addition to the undocumented workers, the Foundation for Development Cooperation (2007) identified two other groups of migrants who use informal money transfer systems. They are, workers with expired visas, and first time migrants. There are some Sri Lankan migrants in destination countries whose visas have expired and are waiting to renew it. This temporary condition may lead them to exploit the informal transfer systems as they are unable to present the required official documents. The group of first time migrants on the other hand, has all the required documents with them that are needed to open an account in the host country. However, the banks in host countries ask for a minimum amount of money to be saved when opening an account, which is not affordable to unskilled workers who work at lower wages, and it takes several months for them to collect the required money. Simultaneously, they have to remit money to Sri Lanka to repay the loans borrowed to cover the cost of migration and to look after the basic needs of those family members left behind. Therefore, migrant workers tend to use informal channels to remit money until they are able to open bank accounts.

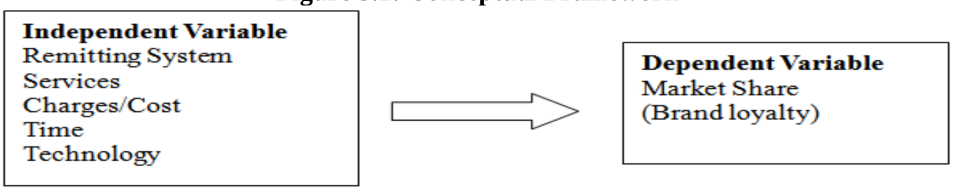
2.3 Remittances and its relationships with brand loyalty and Service Quality of the Commercial Banks.

Brand loyalty is defined as: “The extent of the faithfulness of consumers to a particular brand, expressed through their repeat purchases, irrespective of the marketing pressure generated by the competing brands” (Anon., 2010). Through the repetitive consumption of the brand offering, consumers interact more with the brand and thus experience the relevance of the brand promise. It should be logical that brand loyalty positively related to market share. Increases in loyalty should lead to positive word-of-mouth, increasing purchase volume, and also to lower marketing retention costs (Zeithaml 2000). Those firms which continually and properly reinvest these potential higher profits should develop an advantage leading to higher market shares (Day & Wensley 1988). The advantages garnered from loyalty are especially relevant in mature markets as increases in share become more expensive. Improvements in the loyalty base are one viable means of increasing and maintaining share (Ghounaris & Stathakopoulos 2004).Previous empirical research and conceptualizations link loyalty to either market share or the profitability of the firm .These studies generally have found a positive relationship whereby brands with large market shares usually have the most brand loyal buyers. One explanation is that, over time as buyers switch between brands, a percentage of those who switch remain buyers of the new brand. And since the larger firms gain more of the switchers then these larger firms gain share over time. Another explanation is that buyers might use brand popularity (high market share) as a surrogate for quality, resulting in higher purchases from new buyers . Banking relies heavily on their customers being happy and satisfied in order to provide repeat banking and continued patronage. Firms which do not continually satisfy their customers run the risk of customer-base reductions, resulting in smaller sales and market shares over time (Zeithaml 2000). The issue of service quality is a critical one throughout service industries as businesses attempt to sustain their competitive advantage in the marketplace. Owing to the financial services like banks’ competition in the marketplace through undifferentiated products, this highlights service quality as the basic competitive tool (Stafford, 1996). In other words, a banking organization may attract customers through the provision of high quality services. As such, structural modifications have led to banks being enabled to carry out various activities which in turn, allow them to be more competitive even against non-banking financial institutions (Angur et al., 1999). In addition, technological advancements are helping banks develop their service strategies being offered to individual as well as commercial customers. Moreover, banks offering quality services own a distinctive marketing edge because enhanced quality service is associated with higher revenue, customer retention and higher cross-sell ratios (Bennett & Higgins, 1988). Banks are also well aware of the fact that customer’s loyalty lies in the banks’ production of greater value compared to their competitors (Dawes & Swailes, 1999).

3.3 Conceptual Framework

The conceptual frame-work with regard to the study was designed using the findings of the previous research conducted elsewhere. The Figure 3.1 shows the framework used for the study.
The relationship between variables of the research can be arranged as follows:

Figure 3.1: Conceptual Framework



In this study the researcher will examine how the independent variables affect the dependent variable. Hence the dependent variable is market share, and the independent variables are remitting system, services, charges/cost, time, brand name and technology.

III. Research Methodology

This section provides a brief summary relating to the research methodology carried in conducting this research project. Further, it includes chosen research approach, strategy, study setting, population, sample, data collection and finally data analysis. The research approach is a relationship between methods used, data collection, and the relationship between theory and research (Bryman and Bell, 2011). Research method is defined as techniques that are used for conducting research such as in data collection, data analysis, and evaluation of the accuracy of the research results.

3.1 Population and Sample

A population is described as the sum of all elements that the researcher hopes to investigate. In this research project population is all workers in this company. A sample represents the sub set of the population and the required sample size depends on the requirements of the study and size of the population. It is advisable to select a bigger sample as the final result could be negatively affected by selecting a very small sample size.

Focusing on Inward Remittances receivers in Sri Lanka the researchers has selected sample of 65 Inward Remittances receivers using the convenience sampling method. A self-administered questionnaire was distributed among 65 Inward Remittances receivers selecting from commercial Banks. In this study, 62% of respondents are males and the Table 3.1 age and the level of education of the respondent.

Table 3.1: Age and Level of Education of the Respondents

Age	Number of Respondents	Level of Education	Number of Respondents
21-30	07	None	00
31-40	23	Some schooling but didn’t complete primary	02
41-50	18	Completed Primary	11
51-60	08	Secondary	35
61-70	08	Post-secondary Diploma	08
Above 70	01	Degree and above	09

IV. Data Analysis

Statistical tools and methods are used where appropriate for analyzing the relationship among the variables in the model and usage of statistical techniques is accordance to commonly accepted research assumptions and practices.

Table: 4.1 gives the relationship between Remitting System and Brand Loyalty. Pearson correlation coefficient is 0.151 (weak, positive relationship). As significance value (0.353) is higher than 0.05, there is no correlation between remitting system and brand loyalty.

Table: 4.1 Remitting System and Brand Loyalty

		Remitting System	Brand Loyalty
Remitting System	Pearson Correlation	1	.151
	Sig. (2-tailed)		.353
	N	40	40
Brand Loyalty	Pearson Correlation	.151	1
	Sig. (2-tailed)	.353	
	N	65	65

Table 4.2 shows the relationship between Services and Brand Loyalty. Pearson correlation coefficient is 0.029 (weak, positive relationship). As significance value (0.890) is higher than 0.05, there is no correlation between services and brand loyalty.

Table 4.2: Services and Brand Loyalty

		Services	Brand Loyalty
Services	Pearson Correlation	1	.679**
	Sig. (2-tailed)		.000
	N	40	40
Brand Loyalty	Pearson Correlation	.679**	1
	Sig. (2-tailed)	.000	
	N	65	65

**. Correlation is significant at the 0.01 level (2-tailed).

Table 4.3 gives the association between Cost and Brand Loyalty. Pearson correlation coefficient is -0.192 (weak, negative relationship). As significance value (0.236) is higher than 0.05, there is no correlation between cost and brand loyalty.

Table:4.3 Cost and Brand Loyalty

		Cost	Brand Loyalty
Cost	Pearson Correlation	1	-.192
	Sig. (2-tailed)		.236
	N	40	40
Brand Loyalty	Pearson Correlation	-.192	1
	Sig. (2-tailed)	.236	
	N	40	40

The relationship between Time and Brand Loyalty is given in Table: 4.4. Pearson correlation coefficient is 0.475 (weak, positive relationship). As significance value (0.002) is lesser than 0.05, there is a correlation between time and brand loyalty.

Table: 4.4 Time and Brand Loyalty

		Time	Brand Loyalty
Time	Pearson Correlation	1	.475**
	Sig. (2-tailed)		.002
	N	40	40
Brand Loyalty	Pearson Correlation	.475**	1
	Sig. (2-tailed)	.002	
	N	40	40

**. Correlation is significant at the 0.01 level (2-tailed).

The relationship between technology and brand loyalty is given in Table 4.5. Pearson correlation coefficient is 0.544 (moderate, positive relationship). As significance value (0.000) is lesser than 0.05, there is a correlation between technology and brand loyalty.

Table 4.5: Technology and Brand Loyalty

		Technology	Brand Loyalty
Technology	Pearson Correlation	1	.544**
	Sig. (2-tailed)		.000
	N	40	40
Brand Loyalty	Pearson Correlation	.544**	1
	Sig. (2-tailed)	.000	
	N	40	40

***. Correlation is significant at the 0.01 level (2-tailed).*

V. Findings and Conclusions

As per the findings of this study, remitting system and cost were not significantly affected to the brand loyalty, whereas technology, time and service were positively correlated brand loyalty. This is a very uncommon situation that can be seen in the Commercial Bank which is different from findings of the previous studies. A faithful customer will generate more income than a customer that abandons the relationship. At a general level, two major approaches to the conceptualization and dimensionality of perceived value can be identified. The first defines the perceived value as a construct configured by two parts, one of benefits received (economic, social and relational) and another of sacrifices made (price, time, effort, risk, and convenience) by the customer (Zeithaml, 1988).The service industry is faced by a competitive edge in the new technology industry and the market changes constantly forcing marketers to implement measures to assist them in measuring customer service and satisfaction. The definition of customer satisfaction, however, is when the customer is satisfied with a product/service that meets the customer's needs, wants, and expectations . The results of this study allow us to conclude that service, time and technology plays a vital role in the remittance industry for the Commercial Bank to enhance the market share of the Foreign Inward Remittances to Sri Lanka. These factors are pertinent to technology and reputation of bank. This indicates that, in their selection process, young, educated and high income group prefer to use technology based services for getting quick and efficient services as well as they carefully consider reputation/image of bank.

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