

Unveiling the Dynamics of Informal Remittances: An In-Depth Study of Hundi Practices in Bangladesh

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Abstract

This study explores the reasons behind the persistent use of informal remittance systems, particularly hundi, in Bangladesh. It aims to identify the key factors driving individuals to choose informal channels over legal, formal remittance services. The research employs a quantitative approach, surveying 310 respondents across Bangladesh to understand their experiences with informal and formal remittance systems. Data were analyzed using statistical methods, including correlation and factor analysis, to uncover the motivations for preferring informal systems like hundi. The study reveals that users prefer hundi due to its lower transaction fees, faster service, accessibility in rural areas, and minimal bureaucratic requirements. Cultural acceptance and trust in the reliability of informal systems also play a significant role, despite users' awareness of legal implications. This research expands the understanding of remittance behaviors in developing economies by integrating cultural, economic, and legal dimensions of informal systems. Methodologically, it provides a robust framework for analyzing remittance practices through a combination of survey data and statistical analysis. Policymakers should focus on reducing fees and improving the accessibility of formal remittance channels while raising awareness of the legal risks associated with informal systems. Expanding rural banking infrastructure and simplifying formal remittance processes are key strategies to transition users towards legal channels.

Keywords

Informal Remittance Systems, Hundi Practices, Formal Remittance Alternatives, Transaction Costs and Fees, Financial Accessibility and Inclusion.



Introduction

In Bangladesh, the informal remittance system known as hundi remains a significant method for transferring money despite its illegal status. Hundi is a traditional system that has been in use for centuries, operating through informal networks of trust and personal relationships. This system facilitates the transfer of funds from migrants working abroad to their families back home, often circumventing formal financial channels. The enduring popularity of hundi can be attributed to several factors that make it appealing compared to regulated financial institutions. One of the primary reasons for the continued use of hundi is its favorable exchange rates. Research shows that hundi operators frequently offer more competitive rates than banks or official money transfer services, resulting in more favorable financial outcomes for recipients (Rahman et al., 2014). This is particularly crucial in a country like Bangladesh, where remittance inflows play a significant role in the national economy. According to Siddiqui (2020), the ability to secure better exchange rates through hundi translates into increased remittance value for the recipients, thereby supporting their financial stability and economic

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well-being. Additionally, hundi is known for its speed and convenience. Transactions through hundi are often completed almost instantly, which contrasts sharply with the delays associated with formal remittance systems that can take several days (Khan, 2021; Rahman et al., 2008). This immediacy is especially important for families who need quick access to funds for emergencies or routine expenses. The ease of use and rapidity of transactions provided by hundi make it an attractive option for those who prioritize these features over regulatory compliance.

However, the informal nature of hundi also poses significant challenges. Operating outside the legal framework means that hundi is not subject to the same regulatory oversight and financial safeguards as formal institutions (Chowdhury, 2021; Mizanur Rahman, 2013). This lack of regulation raises concerns about transparency, potential fraud, and financial security. The informal network of hundi transactions is susceptible to risks that are not present in regulated financial systems, which can undermine trust and lead to financial losses for users. Moreover, hundi allows individuals to bypass bureaucratic barriers and high transaction costs associated with formal remittance services. Formal channels often involve complex procedures and higher fees, which can be prohibitive for many users (Islam et al., 2022; Rahman et al., 2008). The streamlined and cost-effective nature of hundi provides a practical alternative for those who face obstacles in accessing formal financial services. In rural and remote areas of Bangladesh, where formal banking infrastructure is sparse, hundi plays a crucial role in facilitating financial transactions. The system's ability to reach underserved populations highlights a significant gap in financial inclusion and access to services (Siddiqui, 2020; Mahmud, 2017). For many individuals in these areas, hundi is not just a preferred choice but a necessity due to the lack of nearby banking facilities. Despite its advantages, the legal risks associated with hundi are substantial. Participants in the hundi system may face legal penalties and contribute to challenges related to money laundering and other financial crimes (Mamun et al., 2021; Chowdhury, 2021). These risks underscore the need for a nuanced understanding of why people continue to use hundi and how its integration into the formal financial sector could be managed to mitigate these issues.

This research aims to explore the factors driving the use of hundi in Bangladesh and its implications for individuals and the broader economy. By examining the motivations behind the preference for hundi, its socioeconomic impacts, and potential policy interventions, this study seeks to provide valuable insights into how informal remittance systems can be better integrated into the formal financial framework. The findings will contribute to a deeper understanding of informal financial practices and support the development of strategies to enhance financial inclusion and regulatory oversight (Khan, 2021; Islam et al., 2022; Siddiqui, 2020; Chowdhury, 2021).

Literature Review

The informal remittance system known as hundi is a critical component of the financial landscape in Bangladesh. Despite its illegal status, hundi continues to play a significant role in the transfer of money, particularly for migrants sending funds back to their families. This literature review explores the historical context, operational mechanisms, socioeconomic impacts, legal and regulatory challenges, and potential for integration into the formal financial system.

Historical Context and Operational Mechanisms

Hundi has a deep historical lineage, originating from ancient trade practices in South Asia. Historically, it was used by merchants to transfer funds across long distances without relying on formal banking systems. The system has evolved significantly, yet it remains rooted in traditional practices of trust and personal networks (Mahmud, 2017). The operational mechanisms of hundi are grounded in a system of mutual trust and informal contracts. Transactions are facilitated through intermediaries who issue promissory notes or vouchers, which are redeemed by recipients at the destination. This system allows for rapid and flexible transfers, often bypassing the bureaucratic hurdles associated with formal financial institutions (Rahman, 2010). Hundi operates through a network of local agents who are trusted by both senders and recipients. These agents coordinate the transfer of money, ensuring that funds are delivered quickly and efficiently. One of the primary advantages of hundi is the competitive exchange rates it offers. Research indicates that hundi operators frequently provide better rates than banks or official money transfer services, which can be particularly advantageous for migrants sending money to Bangladesh (Siddiqui, 2020). This feature is





crucial in a country where remittance inflows are vital to the economy. The favorable exchange rates offered by hundi make it an attractive option for those looking to maximize the value of their remittances.

Socioeconomic Impacts

The socioeconomic impacts of hundi are profound and multifaceted. At the individual level, hundi provides a crucial financial lifeline for many families. It enables quick and efficient transfers of funds, which is especially important in emergencies or for everyday expenses (Islam et al., 2022). For recipients, particularly in rural and remote areas with limited access to formal banking services, hundi often represents the only feasible means of receiving international remittances (Chowdhury, 2021; Mahmud, 2017). Beyond individual benefits, hundi plays a significant role in poverty alleviation and economic development. By facilitating reliable and cost-effective money transfers, hundi supports the financial stability of recipient households and contributes to local economic growth. The influx of remittances through hundi enhances the purchasing power of recipients, which in turn stimulates local businesses and supports economic activities (Rahman, 2010). Studies have shown that remittances can lead to increased investment in education and health, further contributing to the development of communities (Siddiqui, 2020). Despite these positive impacts, the informal nature of hundi also introduces several risks and challenges. The lack of regulation and oversight means that hundi transactions are not subject to the same safeguards as formal financial systems. This lack of transparency raises concerns about the potential for fraud, mismanagement, and financial losses (Chowdhury, 2021). The reliance on personal relationships and informal agreements can create vulnerabilities, particularly if intermediaries are dishonest or fail to deliver the promised funds.

Legal and Regulatory Challenges

The legal status of hundi is a significant factor influencing its operation. In many countries, including Bangladesh, hundi is considered illegal due to its unregulated nature and potential for misuse. National financial regulations typically require money transfer services to be formally registered and monitored to prevent activities such as money laundering and terrorist financing (Khan, 2021; Rahman et al., 2008). However, enforcing these regulations in the context of hundi is challenging due to the system's reliance on informal networks and personal trust. Efforts to regulate hundi have had varying degrees of success. On one hand, regulatory authorities aim to integrate informal remittance systems into the formal financial sector to enhance transparency and reduce risks (Mahmud, 2017). On the other hand, there is a risk that stringent regulations could push users further underground or discourage them from using formal financial services altogether (Rana, 2024; Islam et al., 2022). The challenge lies in finding a regulatory balance that addresses the risks associated with hundi while accommodating its benefits. One approach to regulation has been the development of hybrid models that incorporate aspects of both formal and informal systems. For example, some countries have explored the use of licensed agents or partnerships between informal operators and formal financial institutions to create a more regulated yet accessible remittance system (Rana et al., 2022; Khan, 2021; Rahman, 2010). Such models aim to maintain the advantages of hundi while introducing mechanisms to mitigate risks and enhance oversight.

Integration into the Formal Financial System

Integrating hundi into the formal financial system presents both opportunities and challenges. Incorporation into the regulated financial sector could improve transparency, reduce fraud, and enhance financial stability (Khan, 2021; Rahman, 2010). It could also expand financial inclusion by reaching underserved populations who rely on hundi for their remittance needs. However, this process must address the unique characteristics of hundi and the reasons for its continued use. To facilitate integration, any formalization efforts must consider the features that make hundi attractive to users. For example, competitive exchange rates, low transaction costs, and the ability to process transactions quickly are critical factors that contribute to the popularity of hundi (Siddiqui, 2020; Rana, 2016). Policymakers must ensure that formal remittance channels can offer similar benefits to avoid pushing users back to informal systems. Additionally, understanding the cultural and social factors that drive the use of hundi is essential for successful integration. For many users, hundi represents more than just a financial transaction; it is a deeply ingrained practice rooted in trust and community relationships





(Islam et al., 2022; Hossain, 2019; Azad, 2023). Any attempts to formalize hundi must respect these cultural aspects and involve stakeholders in the design and implementation of new systems. Therefore, the informal remittance system hundi continues to play a significant role in Bangladesh, despite its legal status. The historical evolution, operational advantages, and socioeconomic impacts of hundi highlight its importance as a remittance method. However, the challenges associated with its informal nature, including regulatory and legal issues, underscore the need for a balanced approach to integrating hundi into the formal financial sector. Future research and policy efforts should focus on understanding the motivations behind hundi usage and developing strategies to address its risks while leveraging its benefits.

Methodology

This study used a quantitative research design to explore the factors influencing the use of informal remittance systems in Bangladesh. Data were collected through a structured survey questionnaire with Likert-scale questions focused on three dimensions: drivers and barriers, cultural acceptance, and convenience. A sample of 310 respondents was selected using stratified random sampling, ensuring representation from both urban and rural areas. Surveys were administered online and in-person. For data analysis, exploratory factor analysis (EFA) was conducted to identify key factors, with the Kaiser-Meyer-Olkin (KMO) test and Bartlett's test of sphericity ensuring data adequacy. Cronbach's alpha was used to test the reliability of the scales, and correlation analysis explored relationships between factors. All statistical analyses were performed using SPSS software for accurate and reliable results.

Analysis and Findings

Table 1. Demographic Characteristics of Respondents

Variables	Categories	Frequency	Percentage
Gender of Respondent	Male	139	44.8
	Female	171	55.2
	Total	310	100
Age of Respondent	Below 25 years	85	27.4
	25-30 years	131	42.3
	31-35 years	53	17.1
	36-40 years	36	11.6
	41 years or More	5	1.6
	Total	310	100
Level of Education	High school or lower	27	8.7
	College	47	15.2
	Bachelor's degree	163	52.6
	Master's degree	68	21.9
	Doctorate or higher	5	1.6
	Total	310	100
Monthly Income	Less than 30,000 BDT	152	49.0
	30,000-50,000 BDT	92	29.7
	51,000-70,000 BDT	43	13.9
	71,000-90,000 BDT	20	6.5
	Above 90,000 BDT	3	1.0
	Total	310	100
Occupation	Students	125	40.3
	Workers	27	8.7
	Business Man	51	16.5
	Government Employee	42	13.5
	Private Sector Employee	49	15.8
	Other	16	5.2
	Total	310	100

The table 1 summarizes the demographic characteristics of the 310 respondents, providing insights into their gender, age, education, income, and occupation. Gender distribution shows that the sample is slightly female-dominated, with 55.2% female respondents compared to 44.8% male. This indicates a relatively balanced representation but with a marginal female majority. Age distribution reveals a predominantly young respondent base: 42.3% are between 25 and 30 years old, and 27.4%



are below 25 years, suggesting that the majority of participants are in the early stages of their careers or education. The educational attainment of the respondents is notably high, with 52.6% holding a Bachelor’s degree and 21.9% possessing a Master’s degree. Only 8.7% of the respondents have a high school education or lower, reflecting a generally well-educated sample which may influence their understanding and perspectives on informal remittance systems. Regarding monthly income, nearly half of the respondents (49.0%) earn less than 30,000 BDT, indicating that a significant portion of the sample falls within the lower income bracket. This is followed by 29.7% earning between 30,000 and 50,000 BDT. The lower income levels among many respondents may affect their reliance on and perceptions of informal remittance systems like hundi. In terms of occupation, the largest group consists of students (40.3%), which may skew the data towards younger and potentially less financially stable individuals. Business persons (16.5%) and private sector employees (15.8%) are the next largest groups, with a smaller percentage in other roles such as government employees and workers. This diverse occupational background, combined with a youthful and educated demographic, provides a broad perspective on the use and impact of informal remittance systems, highlighting the varied experiences and needs of different respondent groups.

Table 2. Correlation Matrix of Study Variables

Variables	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16
F1	1															
F2	.520**	1														
F3	.297**	.473**	1													
F4	.216**	.351**	.445**	1												
F5	.261**	.288**	.481**	.453**	1											
F6	.174**	.289**	.341**	.390**	.439**	1										
F7	.061	.147**	.239**	.197**	.246**	.262**	1									
F8	.254**	.316**	.289**	.343**	.387**	.367**	.353**	1								
F9	.160**	.295**	.291**	.382**	.431**	.354**	.332**	.369**	1							
F10	.140*	.248**	.327**	.381**	.446**	.377**	.325**	.421**	.420**	1						
F11	.148**	.144*	.377**	.285**	.268**	.299**	.394**	.323**	.224**	.351**	1					
F12	.111	.184**	.221**	.285**	.289**	.351**	.253**	.349**	.318**	.371**	.458**	1				
F13	.307**	.285**	.317**	.232**	.336**	.244**	.262**	.363**	.300**	.343**	.315**	.334**	1			
F14	.081	.213**	.282**	.210**	.326**	.243**	.208**	.298**	.366**	.367**	.226**	.303**	.315**	1		
F15	.245**	.285**	.284**	.207**	.261**	.168**	.285**	.341**	.351**	.361**	.308**	.323**	.427**	.420**	1	
F16	.186**	.364**	.232**	.166**	.197**	.282**	.144*	.365**	.307**	.292**	.213**	.323**	.386**	.364**	.469**	1

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

* Correlation is significant at the 0.05 level (2-tailed).

Table 2 illustrates the Pearson correlation coefficients among sixteen variables, revealing the strength and direction of their relationships. The correlations, significant at either the 0.01 or 0.05 levels, range from weak to strong. For instance, F2 demonstrates a robust positive correlation with F1 ($r = .520, p < .001$), suggesting a strong association between these variables. This aligns with the findings of Cohen (1988), who notes that coefficients above .50 represent substantial relationships. F2 also correlates significantly with F3 ($r = .473, p < .001$) and F4 ($r = .351, p < .001$), indicating its central role in these relationships (Field, 2013). Similarly, F3 shows notable correlations with F4 ($r = .445, p < .001$) and F5 ($r = .481, p < .001$), suggesting that these variables are closely related (Rana et al., 2021; Pallant, 2020). The strong positive correlation between F5 and F4 ($r = .453, p < .001$) and F6 ($r = .439, p < .001$) highlights its integrative function within the dataset. Conversely, F7 has weaker correlations across the variables, with most coefficients falling below .25, indicating limited association with other variables (Hair et al., 2014). On the other hand, variables like F8 and F9 exhibit strong positive correlations, particularly with each other ($r = .369, p < .001$), suggesting a high degree of interconnectedness (Kline, 2015). F10 and F11 also show significant positive correlations with variables such as F15 ($r = .361, p < .001$) and F12 ($r = .458, p < .001$), reflecting their broad impact (Tabachnick et al., 2013). The notable correlations between F13, F15, and F16 (e.g., F15 and F16 at $r = .469, p < .001$) further emphasize their interrelated nature, indicating possible underlying constructs influencing these variables (DeVellis, 2016; Azad, 2003). Overall, the correlations provide valuable insights into the complex relationships within the dataset, highlighting key variables that warrant further exploration (Cohen, 1988; Field, 2013).





Table 3. Reliability Statistics

Cronbach's Alpha	N of Items
.871	16

Table 3 presents the reliability statistics for the 16 items in the study, measured using Cronbach's Alpha, which is .871. This coefficient indicates a high level of internal consistency among the items (Cronbach, 1951). According to George and Mallery (2003), a Cronbach's Alpha value above .70 is generally considered acceptable, with values above .80 indicating excellent reliability. Therefore, a Cronbach's Alpha of .871 suggests that the items in the scale have a high degree of internal consistency, meaning they reliably measure the underlying construct they are intended to assess. This high reliability is crucial for ensuring that the data collected is stable and dependable, enhancing the validity of the study's findings (Rana et al., 2023; Nunnally et al., 1994). This level of reliability indicates that the measurement instrument is robust and the items are well-correlated with each other, making the results of the study more credible and trustworthy.

Table 4. KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.887	
Bartlett's Test of Sphericity	Approx. Chi-Square	1516.063
	df	120
	Sig.	.000

Table 4 provides the results for the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test of Sphericity, which are essential for evaluating the suitability of data for factor analysis. The KMO value is .887, which is considered excellent according to Kaiser (1974), who suggested that values above .80 indicate a good sampling adequacy for factor analysis. This high KMO value implies that the correlations among the variables are sufficiently high, suggesting that factor analysis is appropriate for this dataset. Bartlett's Test of Sphericity shows an approximate chi-square value of 1516.063 with 120 degrees of freedom and a significance level of .000. This test evaluates whether the correlation matrix significantly differs from an identity matrix, where an identity matrix would suggest that the variables are unrelated (Islam et al., 2023; Redwanuzzaman et al., 2021; Bartlett, 1954). The significant p-value ($p < .001$) indicates that the correlations among variables are sufficiently strong to proceed with factor analysis, confirming that the variables are indeed related and factor analysis will likely reveal meaningful underlying factors. Overall, these results suggest that the data is suitable for factor analysis, with adequate sampling and significant correlations among the variables (Islam et al., 2024; Mamun et al., 2023; Kaiser, 1974; Bartlett, 1954). This supports the validity of conducting factor analysis to identify underlying structures within the data.

Table 5. Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.582	34.888	34.888	5.582	34.888	34.888	3.492	21.826	21.826
2	1.397	8.730	43.619	1.397	8.730	43.619	2.725	17.031	38.856
3	1.271	7.944	51.563	1.271	7.944	51.563	2.033	12.706	51.563
4	.975	6.095	57.657						
5	.819	5.121	62.778						
6	.786	4.913	67.691						
7	.691	4.317	72.008						
8	.632	3.950	75.958						
9	.597	3.732	79.690						
10	.580	3.627	83.318						
11	.536	3.348	86.666						
12	.498	3.110	89.776						
13	.481	3.005	92.781						
14	.445	2.784	95.565						
15	.391	2.446	98.012						
16	.318	1.988	100.000						

Extraction Method: Principal Component Analysis.





Table 5 presents the results of the Principal Component Analysis (PCA) for determining the underlying factors in the dataset. The Initial Eigenvalues indicate that the first component explains 34.888% of the variance, with an eigenvalue of 5.582, which is considered substantial, as values above 1 are typically significant (Islam et al., 2021; Kaiser, 1960). The second and third components explain 8.730% and 7.944% of the variance, respectively, bringing the cumulative explained variance to 51.563% after three components. This result suggests that these three components are key in capturing the majority of the dataset's variance (Field, 2013). The Extraction Sums of Squared Loadings corroborate these findings, with the first three components explaining the same proportion of variance, indicating stability in the factor structure (Hair et al., 2014). After rotation, the Rotation Sums of Squared Loadings show that the first component explains 21.826%, the second 17.031%, and the third 12.706% of the variance, demonstrating that rotation has clarified the factor structure, enhancing interpretability (Tabachnick et al., 2013). These results are consistent with the recommendations by Kaiser (1960) and the guidelines for PCA which emphasize that retaining components that explain a substantial proportion of the variance is crucial for effective data reduction and interpretation (Costello et al., 2005). Overall, the PCA results indicate that the first three components are adequate for summarizing the data, confirming the robustness of the factor analysis (Rana, 2024; Kline, 2015).

Table 6: Rotated Component Matrix

Variables	Component		
	1 (Drivers and Barriers to Using Informal Remittance Systems)	2 (Cultural and Social Acceptance of Informal Remittance Systems)	3 (Convenience and Trust in Informal Remittance Systems)
F4	.658		
F5	.666		
F6	.649		
F7	.535		
F8	.580		
F9	.533		
F10	.616		
F11	.567		
F12	.592		
F13		.596	
F14		.586	
F15		.761	
F16		.732	
F1			.777
F2			.782
F3			.520

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 11 iterations.

The Rotated Component Matrix in Table 6 presents the factor loadings of variables across three distinct components—Drivers and Barriers to Using Informal Remittance Systems (Component 1), Cultural and Social Acceptance of Informal Remittance Systems (Component 2), and Convenience and Trust in Informal Remittance Systems (Component 3)—following a Varimax rotation. Varimax rotation aims to simplify the data by maximizing the variance of loadings across components, ensuring that each variable is clearly associated with one factor (Kaiser, 1958). This facilitates clearer interpretation and understanding of underlying relationships (Field, 2013). Component 1 (Drivers and Barriers) explains much of the variance, with variables F4 to F12 loading significantly (ranging from .533 to .666). These variables represent key considerations influencing the choice of informal remittance systems, including economic advantages like lower fees (F5), avoiding bureaucratic processes (F6), and legal awareness (F12). The strong loadings suggest that these variables are highly interrelated, reflecting practical and legal reasons why individuals opt for informal systems like hundi over formal channels (Hair et al., 2014). Component 2 (Cultural and Social Acceptance) includes variables F13 to F16, with loadings from .586 to .761, highlighting how societal norms and cultural factors significantly influence the use of informal remittance systems. High loadings on variables like F15 (.761) and F16 (.732) indicate that informal systems are widely accepted and play a critical role in supporting families, which aligns with the cultural embeddedness of such systems in Bangladeshi





society (Tabachnick et al., 2013). This component reflects how cultural norms and social dynamics encourage the use of informal systems despite their illegality. Component 3 (Convenience and Trust) captures variables F1 to F3, with loadings between .520 and .782. This component relates to the perceived reliability and convenience of informal remittance systems. The high loadings on trust and convenience variables suggest that individuals prefer informal channels for their speed and reliability compared to formal systems, even when aware of legal risks (Islam et al., 2022; Costello et al., 2005). Overall, this analysis reveals three key factors shaping the use of informal remittance systems: practical economic drivers, cultural acceptance, and perceptions of convenience and trust (Rana et al., 2023; Kline, 2015).

Conclusion

In conclusion, this study provides a comprehensive understanding of the factors that drive the continued use of informal remittance systems, such as hundi, in Bangladesh despite their illegal status and the availability of formal remittance channels. From the analysis, it is evident that several interrelated factors influence this preference, including economic, cultural, social, and practical dimensions. The introduction highlighted the importance of remittances for Bangladesh's economy and the significant role they play in supporting household incomes, especially in rural areas. However, the prevalence of informal systems like hundi poses a challenge to formal financial institutions and government regulations, with users often preferring informal channels due to their affordability, convenience, and trustworthiness. The methodology used in this study, which included a survey of 310 respondents, helped uncover the specific variables that influence the choice of remittance systems. The demographic breakdown of the respondents revealed insights into the preferences of different age groups, education levels, and income categories, showing that younger and lower-income individuals are more likely to rely on informal systems. Furthermore, the correlation analysis identified significant relationships between variables such as convenience, cost, trust, and cultural acceptance, which were pivotal in explaining why informal systems continue to dominate despite government efforts to formalize remittance flows. From the factor analysis, three key components were extracted: drivers and barriers to using informal remittance systems, cultural and social acceptance, and convenience and trust. These components emphasize that, while informal systems provide clear economic advantages, their social embeddedness and ease of use are also critical. Informal channels, being faster, less bureaucratic, and often free of formal documentation requirements, appeal to users who seek flexibility and simplicity in their transactions. The analysis also underscored the importance of trust in informal operators, with users relying on personal relationships and community networks to ensure secure transfers. However, the risks of using such systems, including legal implications, lack of regulatory oversight, and potential for fraud, cannot be overlooked. The study's findings suggest that while informal systems are seen as a solution to the shortcomings of formal channels, there is a growing awareness among users of the benefits that formal systems could offer if they were more affordable, accessible, and efficient. In this regard, government initiatives aimed at reducing the costs of formal remittance transfers, increasing their accessibility in rural areas, and improving their service efficiency are crucial. Additionally, promoting awareness of the legal risks associated with informal systems and providing incentives for using formal channels could gradually shift user preferences. Overall, the study highlights the complex interplay of economic, cultural, and practical factors that sustain the use of informal remittance systems in Bangladesh. It calls for a multi-faceted approach to policy interventions, combining improvements in formal remittance services with efforts to address the deeply ingrained social and cultural norms that favor informal systems. By doing so, Bangladesh can enhance its financial system's resilience, increase transparency, and support the long-term economic well-being of its population while safeguarding against the risks posed by informal remittance channels.

Policy Implications and Suggestions

The findings of this study offer significant policy implications for the government, financial institutions, and regulatory bodies in Bangladesh to address the ongoing reliance on informal remittance systems like hundi. Despite government efforts to promote formal remittance channels, the research shows that informal systems continue to be widely used due to their affordability,



convenience, and trustworthiness, which poses challenges for the country's financial stability and regulatory framework. Below are the policy implications and suggestions based on the study:

- a) **Lowering Transaction Costs for Formal Channels:** One of the primary reasons people opt for informal remittance systems is the high fees associated with formal channels. The government, in collaboration with banks and money transfer operators, should work towards reducing the costs of sending remittances through formal institutions. Offering competitive exchange rates and fee structures can make formal systems more attractive to users, particularly those sending smaller amounts of money.
- b) **Improving Accessibility in Rural Areas:** Informal systems are more prevalent in rural areas where access to formal financial institutions is limited. To address this, the government should expand the reach of formal remittance services by establishing more banking
- c) **Awareness and Trust in Formal Systems:** Many people continue to rely on informal systems because of the trust they place in local infrastructure, such as branches, agents, or mobile banking services, in rural and underserved regions. Strengthening digital financial services and mobile money platforms could also offer a viable alternative to informal systems.
- d) **Increasing operators and personal networks.** There is a need for public awareness campaigns that educate remittance senders and recipients about the benefits of formal channels, such as security, legal protection, and transparency. Building trust in the formal financial system through improved customer service, faster processing times, and simplified procedures will be essential.
- e) **Strengthening Legal Frameworks and Enforcement:** While informal systems are convenient, they pose risks to the formal economy and contribute to the informal sector. The government must strengthen the enforcement of laws against illegal remittance channels, such as hundi, and implement stricter penalties for those involved in such transactions. Enhanced monitoring of cross-border financial flows and collaboration with international regulatory bodies can help curb the use of informal systems.
- f) **Encouraging Formalization through Incentives:** To encourage the shift from informal to formal remittance channels, the government can introduce incentives for remitters and recipients. These could include tax benefits, discounts on transaction fees for frequent users of formal channels, or financial literacy programs that promote the advantages of formal systems. Providing financial incentives for remittance senders to use formal channels can create a positive impact on the overall remittance landscape.
- g) **Improving Financial Literacy:** A significant portion of the population, particularly in rural areas, lacks financial literacy, which contributes to their reliance on informal systems. The government and financial institutions should collaborate to offer financial literacy programs aimed at educating remittance users about the risks of informal systems and the long-term benefits of engaging with the formal financial sector. Such programs could focus on teaching people how to use formal remittance services and the importance of regulatory compliance.
- h) **Digitalization of Remittance Services:** The rise of digital and mobile banking presents an opportunity to modernize remittance channels. The government should promote the use of digital financial services, such as mobile wallets and online banking platforms, which can offer the same level of convenience and speed as informal systems while ensuring legal compliance. Encouraging financial institutions to invest in user-friendly, secure digital platforms could significantly reduce the dependence on informal systems.
- i) **Collaborating with Diaspora Communities:** The government should engage with Bangladeshi diaspora communities, which are key drivers of remittances, to promote the use of formal remittance channels. Partnerships with diaspora organizations can help raise awareness about the risks of informal remittances and encourage the use of legal, formal methods for transferring money back to Bangladesh.

In conclusion, addressing the reliance on informal remittance systems requires a multi-faceted approach that combines policy reforms, improved financial infrastructure, and increased awareness among the population. By implementing the above suggestions, the government and financial institutions can encourage a shift towards formal remittance channels, which will not only enhance the



financial system's transparency and stability but also ensure the long-term economic well-being of the country.

Ethical Declaration

During the writing process of the study “*Unveiling the Dynamics of Informal Remittances: An In-Depth Study of Hundi Practices in Bangladesh*” scientific rules, ethical and citation rules were followed. No falsification was made on the collected data and this study was not sent to any other academic publication medium for evaluation.

Statement of Contribution Rate of Researchers

The contribution rates of the authors in the study are equal.

Declaration of Conflict

There is no potential conflict of interest in the study.

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