NATIONAL REMITTANCE PLAN 2015
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Background

India is the biggest recipient of private remittances in the world with remittance flows of around USD70.4 billion in 2014, accounting for around 4 per cent of GDP. India has a fairly competitive and well regulated remittance payment market in which the remittance payments are not restricted to banks. Privately managed Money Transfer Operators (MTOs) are operating in this market. In the Indian context remittances play an important role, being a durable form of current receipts in balance of payments.

Cross-border remittances coming to India are also an integral part of the Financial Inclusion policy in India since these are often sent to places which do not have internet connectivity and to people who do not have bank accounts. **Pradhan Mantri Jan-Dhan Yojana (PMJDY),** the Government of India's comprehensive national mission on financial inclusion, was launched in August 2014 to ensure access to various financial services like availability of basic savings bank account, access to need-based credit, remittances facility, insurance and pension to the excluded sections, i.e. weaker sections and low income groups.

Beneficiaries in India can receive cross-border inward remittances through banking and postal channels. There are two more channels for receiving inward remittances: Rupee Drawing Arrangement (RDA) and Money Transfer Service Scheme (MTSS). These two channels are regulated by the Reserve Bank of India (RBI). These two schemes are primarily aimed at facilitating foreign inward remittances of personal nature as it is estimated by the RBI that around 49 per cent of the remittances received are utilized for family maintenance, e.g. to meet the requirements of migrant families regarding food, education and healthcare.

Several measures have been initiated in India at the domestic level which have led to decline in the cost of remittances (as per the World Bank report on Remittance Prices Worldwide, the average cost of sending remittances to India was 6.78 per cent in Q1 2015 vis-à-vis 7.57 per cent in Q1 2014). The RBI has been constantly addressing the needs of the overseas remitters as well as the concerns of the various agents involved in the official business of inward remittances through the two schemes as mentioned above, which are directly monitored by the RBI. It is observed that the impact of measures to reduce cost of remittances has been marginal given the fact that we have little or no control over cost of inward remittances. The cost of cross-border remittances vary largely from corridor to corridor despite domestic efforts due to persistence of high costs in certain corridors.

2014 Call to Action on Remittances

India has taken several measures to liberalize the remittance scheme to drive competition and thereby reduce costs. Initiatives include increasing the cap on the number of remittances sent through money transfer schemes, facilitating the appointment of more intermediaries/money transfer agents, reducing collateral requirements, as well as time periods, and introducing more official channels to route cross-border remittances. As an innovative step with the potential to reduce the cost of remittance transfers, India's central bank has facilitated the receipt of foreign inward remittances directly into the bank accounts of beneficiaries under the Money Transfer Service Scheme (MTSS). The foreign inward remittances received by the bank acting as an Indian Agent under MTSS can now be electronically credited directly to the account of the beneficiary, even if held with a bank other than the Indian Agent Bank.

Updates

The important changes brought about in the two channels of MTSS and RDA, to reduce the cost of remittances **and to make them more customer friendly**, are enumerated below:

- Under the MTSS the number of remittance per year has been increased.

- In both the schemes we have permitted the facility of direct credit to the know-your-customer compliant accounts maintained with banks.

- The scope of RDA has been expanded to include more jurisdictions. Earlier it was restricted to Gulf Cooperation Countries (GCC), Singapore and Malaysia.

- The RDA scheme has also been expanded to include remittances meant for payment of utility bills, loan installments, etc. Further, the limit for remittances under trade transactions through the RDA has been augmented from INR 500,000 to INR 1500,000 with effect from May 21, 2015. Also, the RDA scheme was enlarged to receive donations towards the Prime Ministers' Relief Fund.

- To ensure availability of additional payment options, authorisation was issued to nine entities during 2014-15 - five entities authorised for operating prepaid payment instruments (PPIs), and the remaining four entities were authorised for the MTSS (cross-border inward remittances), white label ATMs (WLAs) and instant money transfer. In June 2014, non-bank financial companies not raising public deposits (NBFCs-ND) were permitted to act as sub-agents under MTSS without requirement of prior approval from the Reserve Bank.

- The Markets and Payment Systems subgroup of the Global Partnership for Financial Inclusion has been examining the ways to "harness innovative mechanisms such as mobile instruments and technology, especially in the remittances area." RBI expects mobile and internet-based payments to grow exponentially in India in the near term and to play a major role in remittance transfers.

Furthermore, in view of the resumption of buoyant capital inflows in the recent period and as part of macro-prudential management, the limit under the liberalized remittance scheme (LRS) was enhanced to USD250,000 per individual per financial year from the existing limit of USD125,000. Further, to ensure ease of transactions, all the facilities for release of exchange/remittances for current account transactions available to resident individuals under Schedule III of the Foreign Exchange Management (Current Account Transactions) Rules, 2000, as amended from time to time, were subsumed under this limit.

2015 Country plan for reducing remittance transfer costs

1. Increase Remittance Market Competitiveness

a. To prevent Money Laundering / Terrorist Financing, the entities authorized for remittance to India, and also the Indian agents, are required to comply with the necessary Know Your Customer/ Anti-money Laundering/ Combating the Financing of Terrorism guidelines and provisions of the Prevention of Money Laundering Act, 2002 (PMLA). The agents are also required to submit the Suspicious Transaction Reports (STR) to the Financial Intelligence Unit (FIU- Ind).

b. Under the MTSS, India issued instructions, long ago, on the removal of exclusivity clauses.

2. Improve Financial System Infrastructure and Pursue Policies Conducive to Harnessing Emerging Technologies

a. Under the MTSS the RBI has enabled the banks to issue prepaid instruments to the beneficiaries up to a maximum value of INR50,000 subject to certain terms and conditions.

b. RBI is also considering extension of MTSS facility to all temporary visitors including those travelling to India under tourist, medical, conference/seminar/meeting, mountaineering and other visas.

3. Improve Transparency and Consumer Protection of Remittance Transfers

a. The PMJDY scheme integrates components of financial literacy through widespread public campaigns to enhance financial inclusion for increased access to remittance facilities for low income consumers and weaker sections of society.