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# INDIA

# G20 National Remittance Plan

GPFI

Global Partnership for Financial Inclusion

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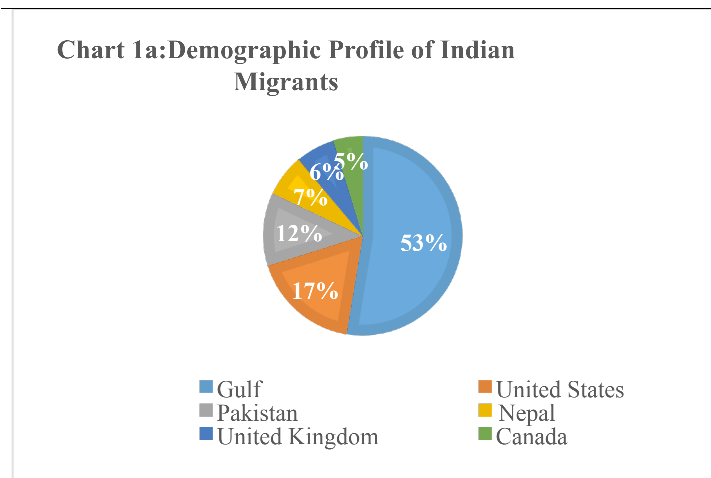
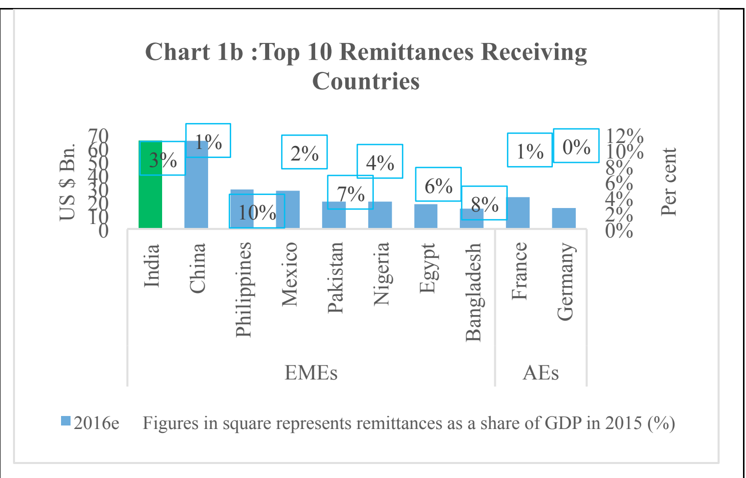
# COUNTRY PLANS FOR REDUCING REMITTANCE TRANSFER COSTS [INDIA]

## Background

*Provide a summary of the current remittances sector in your country and region, such as key emerging issues and/or challenges, e.g. number and types of providers, main corridors, costs (including how much they have fallen and why), legislative and regulatory overview. Where possible include the latest available data for the following: remittances sent and/or received as percentage of national GDP, total remittance inflows and/or outflows by region, percentage of total remittances (sent and/or received) for your country as a share of total regional remittance flows, and size of the migrant population within your country.*

According to the latest World Bank estimates on remittances (April 2017), India remains a top recipient of remittances with around US$ 62.7 billion from a diverse diaspora of Indian migrants which are mainly concentrated in Gulf region followed by USA, UK and Canada. India receives more than 50 per cent of its remittances from gulf countries. Remittances play a crucial role in financing India's trade deficit. Nevertheless, with the changing macroeconomic structure and pace of the economy, India's dependency (as measured in terms of GDP) on remittances remains stable and hovers at around 3 per cent. By contrast, in case of various low income countries, remittances not only play a developmental role but also pre-dominantly shape up their external sector policies and account for more than one-tenth of their GDP (Chart 1a and 1b)[1].




**Source**: World Bank

[1] World Bank provides data on remittances for around 214 countries but consistent time series data is available only for around 183 countries.

**Remittance Schemes:**

**Money Transfer Service Scheme (MTSS)** facilitates transfer of personal remittances from abroad to beneficiaries in India towards family maintenance and remittances favouring foreign tourists visiting India. No outward remittance from India is permissible under MTSS. Under the Scheme, an individual can receive up to 30 remittances in a calendar year. An upper cap of USD 2500 has been placed on individual remittance under the scheme. Amounts up to `50,000 may be paid to cash to a beneficiary in India. Any amount exceeding this limit shall be paid by means of account payee cheque / demand draft / payment order, etc., or credited directly to the beneficiary's bank account only. However, in exceptional circumstances, where the beneficiary is a foreign tourist, higher amounts may be disbursed in cash. Full details of such transactions should be kept on record for scrutiny by the auditors / inspectors.

The system envisages a tie-up between reputed money transfer companies abroad known as **Overseas Principals** and agents in India known as **Indian Agents** who would disburse funds to beneficiaries in India at ongoing exchange rates. The Indian Agents can in turn also appoint sub-agents to expand their network. Reserve Bank of India (RBI) has the powers under Section 10(1) of the Foreign Exchange Management Act, 1999, to accord necessary permission (authorization) to any person to act as an Indian Agent under MTSS.

The Overseas Principal should obtain necessary authorization from the **Department of Payment and Settlement Systems**, RBI under the provisions of the Payment and Settlement Systems Act (PSS Act), 2007 to commence / operate MTSS.

Application for necessary permission to act as an Indian Agent may be made to the respective Regional Office of the **Foreign Exchange Department** of RBI, under whose jurisdiction the registered office of the applicant falls. Regulation and supervision of Indian Agents is done by the Foreign Exchange Department.

As on August 31, 2017, authorization has been granted to nine Overseas Principals under MTSS. Oversight of the Overseas Principals is done by the Department of Payment and Settlement Systems by analysis of System Audit reports, Self-Assessment Template, Annual financial statements, Periodical returns on volume and value of transactions and other returns

as per Payment and Settlement System Regulations, 2008 furnished by the Overseas Principals.

Out of the 9 entities, 8 have commenced operations in India. The percentage change in inward remittances under MTSS during the last two years are furnished below:

**Inward Remittances**

| **Particulars** | **% change (2014-15 over 2013-14)** | **% change (2015-16 over 2014-15)** |
|---|---|---|
| MTSS Remittance Volume | -0.21 | 0.79 |
| MTSS Remittance Value | -7.75 | -5.84 |

From the above table, it can be observed that the MTSS remittance (in value) has declined by 5.84% in 2015-16 over 2014-15.

**a) Region-wise Inward Remittance**

The region-wise Inward remittance for the last 3 years is as follows:

(Proportionate Value in %)

| **Region** | **2013-14** | **2014-15** | **2015-16** |
|---|---|---|---|
| Gulf countries | 49.11 | 54.64 | 54.89 |
| North America | 23.06 | 16.71 | 14.89 |
| South America | 0.11 | 0.12 | 2.65 |
| Europe | 11.92 | 12.24 | 14.17 |
| East Africa | 0.55 | 0.58 | 2.81 |
| Others | 15.26 | 15.71 | 10.60 |
| **Total** | **100.00** | **100.00** | **100.00** |

It can be observed that the Gulf countries account for the major share. The region accounted for 49.11%, 54.64% and 54.89% of the total remittances in India in 2013-14, 2014-15 and 2015-16 respectively. Gulf, Europe and North America accounted for 80-85% of the total remittances received under MTSS for the last three years.

**Rupee Drawing Arrangement (RDA):** Apart from the facility under MTSS for remittances, the other channel available is under the Rupee Drawing arrangement.

**Direct to account**: Even for remittances under MTSS, the direct credit to bank account has been facilitated which has further reduced the dependency on the agents / sub-agents for disbursement of cost. This it is learnt has reduced the cost to the remitter.

**Conclusion:**

i. From the data received, it can be observed that MTSS as a mode of remittance is declining. The reason could be the remittances coming through the RDA route.

ii. In terms of region-wise inward remittance under MTSS, Gulf countries occupy a major share of the total remittances followed by North America and Europe.

iii. As regards charges for remittance to India, the remitting country could provide the information. For example please see the link http://remittanceprices.worldbank.org/en/corridor/United-States/India

## Call to Action on remittances

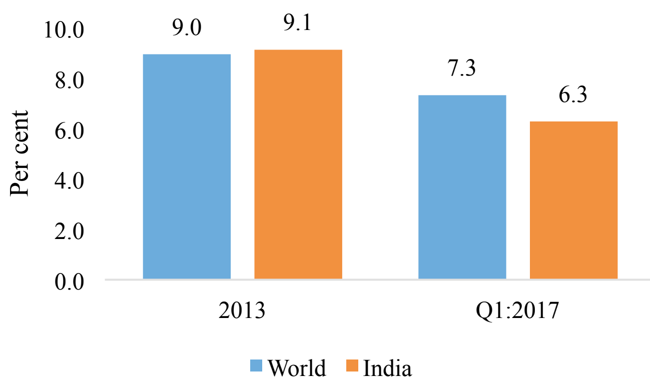
*Insert your countries' 2014 Call to Action on Remittances and provide any updates/outcomes since the commitment was made, including the 2016 G20 commitment towards achieving the Sustainable Development Goals under the United Nations 2030 Agenda and the Addis Ababa Action Agenda. Updates should also include where possible, a summary of changes in remittance flows and costs since the 2014 Call to Action (comparing remittance figures from your 2015 National Remittance Plan with the figures requested above in the Background section).*

With the endorsement of "5x5 objective" by G-8 and G-20 countries to reduce the remittances cost by 5 percentage points within five years from 2009 to 2014, there has a significant reduction in cost of sending remittances. Recently, G-20 realigned its target with the 2030 Agenda, by including the target (i.e. to reduce to less than 3 per cent the cost of remittances and to eliminate remittance corridors with costs higher than 5 per cent by 2030) under Sustainable Development Goal.

In this context, the World Bank Group is leading the global efforts to reduce the cost of sending money and to improve remittances markets through the Global Remittances Working Group which has helped in establishing global standards and codify best practices. The World Bank has also launched Project Greeenback 2.0 which helps in better understanding on how migrants use remittances services. Another World Bank initiative, "Remittances Prices Worldwide database" monitors the cost of sending remittances from 365 "country corridors" from 48 remittance sending countries to 105 receiving countries.

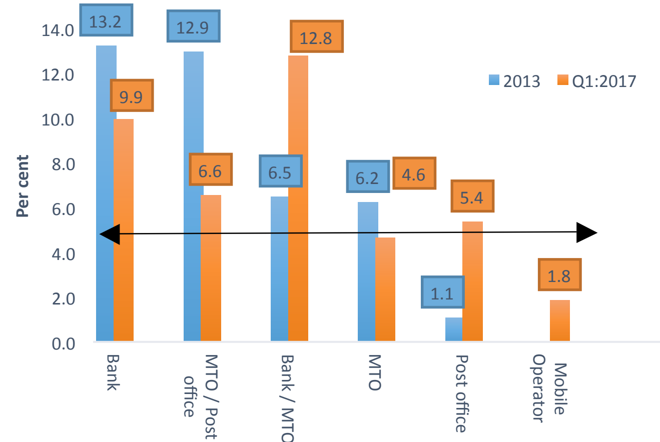
Although there has been a significant reduction in the cost from 9.0 per cent in 2013 to 7.4 per cent in 2016 at the World level, there is a long way to achieve the target of 5 per cent. In this regard, India's progress seems to be better as the cost has declined at a much faster rate as compared to the world average. This faster reduction in cost of remittances seems to be primarily driven by greater reliance on new mobile telephony and prepaid card sector (Chart 2a and 2b). The weighted average cost for sending US$ 200 to India is estimated to have declined from 9.1 per cent in 2013 to 6.3 per cent in Q1 of 2017 (Chart 2a and 2b)

Chart 2a: Global average cost of sending US$ 200




Source: World Bank

Chart 2b: Remittances Services Providers (RSPs) average cost of sending US$ 200 to India




## 2017 Country plan for reducing remittance transfer costs

*Outline how your country will take additional steps to help reduce the cost of transferring remittances and improve the availability of remittance services, while ensuring quality of remittances services and service delivery. Provide specific actions taken domestically and internationally, and timeframes for when commitments will be implemented drawing from the optional policy levers outlined below. These policy options were considered and agreed by G20 Sherpas in 2014 and agreed by leaders as part of the G20 Plan to Facilitate Remittance Flows that was annexed to the Brisbane Leaders Communique. Members can choose their potential actions, as appropriate, using these or other options including objectives and metrics if desired.*

*1. INCREASE REMITTANCE MARKET COMPETITIVENESS*

*2. IMPROVE FINANCIAL SYSTEM INFRASTRUCTURE AND PURSUE POLICIES CONDUCIVE TO HARNESSING EMERGING TECHNOLOGIES.*

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*3. DISCOURAGE TAXES ON MIGRANT REMITTANCE TRANSFERS.*

*4. IMPROVE TRANSPARENCY AND CONSUMER PROTECTION OF REMITTANCE TRANSFERS.*

*G20 members are also encouraged to consider new areas of action and utilise existing material including:*

- *the G20 Remittances Policy Toolkit,*
- *the World Bank Report on Remittance Agenda of the G20,*
- *the General Principles for International Remittance Services,*
- *Principles for Innovative Financial Inclusion,*
- *the Better Than Cash Alliance Responsible Digital Payments Guidelines, and*
- *the G20 High Level Principles for Digital Financial Inclusion.*

*Note: Country plans should be no more than one to two pages.*

In India, as more and more people are relying on faster, cheaper and convenient way of sending remittances through mobile telephony and prepaid cards; banking channel gets tougher competition from these alternatives modes. Further, banking channel is also reluctant to expand its business operations due to mandatory requirements imposed on account of anti-money laundering regulations resulting in keeping the cost on the higher side vis-à-vis its competitors. This is what is called de-risking which Financial Action Task Force (FATF) has defined as the situation where financial institutions terminate or restrict business relationships with entire countries or classes of customer in order to avoid, rather than manage, risks in line with the FATF's risk-based approach. This is a serious concern as de-risking may drive financial transactions into less/non-regulated channels, reducing transparency of financial flows and creating financial exclusion, thereby increasing exposure to money laundering and terrorist financing (ML/TF) risks. This is one of the important aspects which will have important bearing on the policies with regard to remittances financial architecture.

Furthermore there is a need to look into the issues relating to de-risking activities in remittances market. In fact, de-risking is a complex issue driven by various considerations including: profitability; reputational and liability risks; changes in banks' financial risk appetites; the amount of financial penalties imposed by supervisory and law enforcement authorities, increased compliance costs associated with implementing conflicting regulatory requirements, including anti-money laundering and counter-terrorist financing (AML/CFT) and confusion caused by the term Know-Your-Customer's-Customer (KYCC) (FATF guidance, October 2016). This has resulted in decline in the number of correspondent banking relationships.

Correspondent banking relationships (CBRs), which is an important means of facilitating cross-border movements of funds, and enabling financial institutions to access financial services in different currencies and foreign jurisdictions, thereby supporting international trade, commerce and remittances flows. A recent survey based IMF discussion note on June 2016, on “The Withdrawal of Correspondent Banking Relationships: A Case for Policy Action” highlights various aspects related to Correspondent banking relationships (CBRs).

- Survey outcomes reveal that in recent years several countries have reported a reduction in CBRs by global banks. This has resulted in disruption to certain categories of customers, business lines, jurisdictions or regions.
- Survey also indicates that smaller emerging markets and developing economies in Africa, the Caribbean, Central Asia, Europe and the Pacific as well as countries under sanctions may be the most affected.
- The withdrawal of CBRs by banks were based on number of factors such as cost-benefit analysis, shaped by the re-evaluation of business models in the new macroeconomic environment and changes in the regulatory and enforcement landscape, notably with respect to more rigorous prudential requirements, economic and trade sanctions, anti-money laundering and combating the financing of terrorism (AML/CFT) and tax transparency.

Since 2000, regulatory pressure on financial institutions relating to anti-money laundering and anti-terror financing compliance has increased. This is evident in higher number of cases and value of related fines imposed by regulators in the United States. In the five-year period from 2010 to 2015, the number of fines increased by more than 65 percent, and their value increased from US$161 million to more than US$2.6 billion (IFC, November, 2016).

To address the issue of de-risking and AML/CFT, FATF has provided guidance which clarifies the application of the FATF standards in the context of correspondent banking relationships and money or value transfer service (MVTS) providers rendering similar services. There is a need to ensure the appropriate corporation and coordination while framing policies on the important aspect of CBRs. In this regard, the following recommendation of the FATF guidance are noteworthy:

- Correspondent financial institutions do not require to conduct customer due diligence on each individual customer of their respondent institutions’ customers when establishing correspondent banking relationships.
- Financial institutions should identify, assess and understand their ML/TF risks, and implement AML/CFT measures that are commensurate with the risks identified; as RBA is the cornerstone of an effective AML/CFT system, and is essential to effectively manage associated risks.

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- Since not all correspondent banking relationships carry the same level of money laundering or terrorist financing risks, the enhanced due diligence measures have to be commensurate to the degree of risks identified.

Remittances transaction through banking channel is about nine time costlier than the other modes. Further, being a costly mode, it faces stiff competition from other remittances services providers. In our view, sending remittances through mobile operators has a huge potential as a good substitute. However it also requires the active support of Correspondent Banking Relationships, thus a payment gateway supported by Central Banks specifically to cater the needs of remittances on the lines of Unified Payment Interface (UPI) which, if worthy, may need to be explored.

Some of the recent measures are outlined below:

a. Increase remittance market competitiveness
    - To streamline the remittance arrangement under the Speed Remittance Procedure and make remittances cost-effective, the mandated requirement of maintenance of collateral or cash deposits by the Exchange Houses with whom the banks have entered into the Rupee Drawing Arrangement has been done away with. The AD banks are free to determine the collateral requirement, if any, based on factors, such as, whether the remittances are pre-funded, the track record of the Exchange House, whether the remittances are effected on gross (real-time) or net (file transfer) basis, etc., and the ADs may frame their own policy accordingly in this regard.
b. Improve financial system infrastructure and pursuing policies conducive to harnessing emerging technologies
    - We have permitted AD Category I Banks to partner and leverage on the systems and services of non- bank entities to effect small value outward remittances.
c. Discourage taxes on migrant remittance transfers
d. Improve transparency and consumer protection of remittance of funds
    - All the changes undertaken by us are subject to compliance of the instructions laid down in the Master Direction - Know Your Customer (KYC) Direction, 2016 issued by Department of Banking Regulation, RBI