Benchmarking Survey on Factors Influencing Remittance Costs

Report by CUTS International

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Name of Organisation	**CUTS International**
Country	**India**
Migrant group that is being studied	**Indian migrants in specific corridors such as US, UK, Germany, Saudi Arabia and Australia**

INTRODUCTION

This study has been undertaken by Consumer Unity and Trust Society (CUTS International), a leading consumer organisation of India (www.cuts-international.org) in partnership with international body of consumer voices, Consumers International (www.consumersinternational.org). The study supported by World Bank will allow Consumers International (CI) to recommend measures to contribute to the reduction in remittance pricing by highlighting potential causes of high remittance costs in specific corridors.

Overall aim of the study is to contribute to the reduction in remittance pricing by highlighting potential causes of high cost in specific corridors which will help to focus future research and policy.

DESK RESEARCH

Understanding Remittances: Indian Scenario

India has the second largest Diaspora in the world, with around 25 million people living in more than 100 countries. Overseas Indians are socially and economically diverse group of people, however it has been seen that the bulk of migration is low skilled in nature. More recently, high-skilled migration has picked up and has become increasingly considerable especially in the specific corridors. Major destinations for Indian migrants include Australia, the United Kingdom, the United States; Saudi Arabia and Germany among others.

Non-resident Indians as a community have a tendency to save, because of which they will always send across money to their families through remittances. There are more professionals migrating to foreign countries and there has been an increase in government to government contracts. Moreover, people now prefer moving their money through formal means rather than informal and illegal means like hawala.

As per the Reserve Bank of India (RBI) report remittances to India constituted around 3 to 4 percent of India's gross domestic product (GDP) since 1999–2000, have provided considerable support to India's balance of payments. Remittances also have surpassed both foreign aid flows and FDI flows to India. A large number of Indian households (around 4.5 percent) receive remittances.

According to the RBI, more than half of these remittances are utilized for family maintenance (that is, to meet the requirements of migrant's families regarding food, education, health, and other needs) while the rest are either deposited in bank accounts (20 percent) or invested in land, property, and securities (7 percent).

Remittance transfers often can be costly relative to the low incomes of remitters and the small amounts involved. Various studies over the past eight years have shown that although the costs of sending remittances to India through banks or Money Transfer Operators (MTOs) have been declining over time, it was cheaper to use unofficial methods. The Global Remittance Price database (World Bank 2010b) shows that, for all remittance channels to India, the costs of sending remittances decline with the amount sent. Prices of remittance transfers to India differ depending on several factors: sending country, remittance sending scheme, and type of remittance service provider (RSP).

Although the speed of delivering remittances to the recipient depends on the remittance sending scheme, the location of the recipient, and the type of transfer (cash or account), the delivery times have been shortening and now vary from instant delivery to five days. Provision of remittances through banking channels can expand financial inclusion.

Most remittance-receiving households in India report receiving these remittances in cash. Financial institutions in India have not yet taken active steps to expand outreach through remittance-linked financial products. Some banks in India are offering special remittance savings accounts; however, none of these banks are providing any special remittance-linked loan products. Remittances can be leveraged to improve financial access by improving migrants' access to bank accounts, designing appropriate remittance linked products, and using technology to provide remittance and financial services.

Governance and Regulation Framework:

An understanding of the legal and regulatory aspects of remittances is important. The existence of multiple channels and the institutional and legal environment governing remittances transactions pose numerous challenges to fund transfer operators. Furthermore, the regulatory environment and practices substantially vary across countries in the treatment of entities engaged in fund transfers and the various modes of transfer used, which has significant implications for the business.

In India, different aspects of remittance-related activities fall under the jurisdiction of various authorities, such as the RBI, the Ministry of Finance (MoF), and the Ministry of Overseas Affaris (MOIA). The RBI and MOIA collaborate in the production and publication of tables with comparative information on costs and other relevant variables relating to remittance services.

In India when we look at the Government Statistics Bodies and Financial Sector and Competition Regulators and other authorities, it is found that the most important role is played by the Reserve Bank of India in regulation. The Foreign Exchange Department of the RBI is responsible for the oversight of the remittances market. Commercial banks, cooperative banks, and nonbanks are supervised by different departments of the RBI.

Till the year 2000, The Foreign Exchange Regulation Act, 1973 (FERA) was an important legislation to regulate the remittances which was repealed and a new Act called the Foreign Exchange Management Act, 1999 (FEMA) came into force with effect from June 1, 2000, with a view to facilitating external trade and payments and promoting orderly development and maintenance of foreign exchange market in India.

Under the FEMA, foreign exchange transactions are divided into two broad categories - current account and capital account transactions. Transactions that alter the assets or liabilities, including contingent liabilities outside India, of persons resident in India or assets or liabilities in India of persons resident outside India are classified as capital account transactions. All other transactions are current account transactions.

The procedures have been simplified and powers have been delegated to the Authorised Persons under the FEMA, 1999. Foreign exchange based pre-paid card and wallets are driven by banks (FEMA) Act. Banking partners are necessary to launch pre-paid wallet based remittance products. However payment banks can offer wallet and prepaid based CB remittance products without partnership with banks.

It is also estimated that, white collar professionals are also increasingly borrowing money from banks in their country of work and sending it to the accounts of the recipients in India. This is largely to take benefit of the falling Indian currency and it doesn't hurt much because the interest rates in developed nations are much lower than in India.

The employment of Indian workers abroad helps earn foreign exchange and thereby adds to the foreign exchange reserves of the country.

Nonbanks in India can offer remittance services under the MTSS scheme. Both the overseas principal and their Indian disbursement agents need to seek prior approval. Nonbanks can also launch mobile wallets in India. However, nonbanks are not allowed to perform international remittances through mobile sans a banking partner.

There is a cap on the number of remittance allowed per annum. The Reserve Bank of India (RBI) has increased the number of remittances a single individual beneficiary can receive in a calendar year to 30 from the earlier 12. This was done in order to boost remittances to the country.

Liberalised Remittance Scheme (LRS) is a window provided by the government of India to remit money across the border, without seeking specific approval. One can freely remit an amount within the LRS limit every financial year for a permissible set of current or capital account transactions. The current LRS limit is $250,000. The scheme is available to all resident individuals, including minors.

Other agencies include the Competition Commission of India and the enforcement agencies. **The Competition Commission of India (CCI)** is a statutory body responsible for enforcing the Competition Act of 2002. The CCI, first established in 2003, began functioning in May 2009. The Act is in consonance with international standards, prohibiting anti-competitive agreements and abuse of dominant position by enterprises.

Law enforcement agencies like Enforcement Directorate (ED) and Central Bureau of Investigation (CBI) take appropriate action whenever cases of illegal remittances are noticed. Whenever a case involving remittance of black money abroad or illegal remittance of money abroad come to the notice of the government, appropriate action is taken by relevant law enforcement agencies like Income Tax Department, CBI, DRI, ED etc.

As for the risks to remittances, experts cite exchange rate volatility, persistent unemployment in Europe and the US, coupled with difficult immigration rules and uncertainty about the direction of oil prices.

STUDY FINDINGS

Respondent Profiling:

During the course of study, four categories of respondents were contacted i.e. the Consumers, Government Statistics Bodies and Financial Sector and Competition Regulators and Other Authorities, the Service Providers and the Diaspora associations.

Responses were received from all categories except Diaspora association wherein no response could be received. The responses from Government Bodies and Service providers were also limited. Category wise and corridor wise details of responses received have been provided in the following table:

Respondent Details

S. No.	**Respondent Category**	**Details**	**Respondent Sample size**
A.	Government Bodies and Regulators	Reserve Bank of India	1
B.	Service Provider	Western Union	1
C.	Diaspora Association	Not Applicable	Nil
D.	Consumers		
		i. USA-India	8
		ii. UK-India	2
		iii. Saudi Arabia-India	3
		iv. Australia-India	1
		v. Germany-India	0
Total			**16**

Government and Regulatory Bodies:

Under the category the interview was conducted of officials in Foreign Exchange Department of RBI. As per the information gathered, corridor wise information on remittances was not available. However, it is estimated that a significant proportion of remittances is contributed by an increasing number of unskilled and semi-skilled Indian workers employed in the Gulf countries.

Reserve Bank of India has also issued a Master Circular on Miscellaneous Remittances which is a guiding force for remittance related services. The circular was issued by RBI on July 1, 2015.

It was also told that the Prevention of Money Laundering Act (PMLA) of 2002 requires all banks to adhere to Combating the Financing of Terrorism and Anti-Money Laundering requirements. PMLA has been amended subsequently, and its present form requires all MTOs to adhere to the same requirements. Proportionally relaxed Know Your Customer requirements are in place for cash-to-cash transactions under Rs 50,000 (approximately US$1,000). Banks are required to submit regular statistical information and to report to the RBI any new subagent agreements. The RBI currently has detailed guidelines relating to governance and risk management for commercial banks regarding their banking operations, which also covers remittance services. No specific guidelines are issued for the MTSS principal agents, however. The nonbank MTSS principal agents have designed certain in-house mechanisms. The officials also referred to the various documents, material available online.

Remittance Service Providers:

Under this category interview was conducted of one of the major Remittance Service Providers (RSPs) in India.

There are various remittance service providers in the country which provide the services to almost all the specified corridors. These service providers include prominent ones such as Thomas Cook, Western Union, Xpress Money Business and MoneyGram International.

India continues to lead the pack of developing countries receiving remittances. Of the total worth of remittances, a significant proportion is done through cash-to-cash methods, where customers send across cash directly in the hands of the recipient. Money transfer companies play largely in the cash-to-account business, where customers send money to the bank account of the recipient.

It has been found that most of the inward remittance in India from the specified Corridors is being undertaken through banks/electronic transfer. Other than this, there are numerous money transfer agents from various top companies located in Jaipur which is a prominent city of India and capital of Rajasthan state. It has been found that the big service providers have appointed principal agents. These principal agents in turn appoint many small agents who for providing remittance services. Western Union alone has more than 10 agents in the city of Jaipur through their Principal Agent which is Paul Merchant.

Consumers:

Average amount transferred per migrant and the average number of transactions per year:

There is a wide difference in the quantum of funds transferred, although most of them reported either in the 1to 5 Lacs or 5to 10 Lacs. A few respondents reported sending more than 10 Lacs per annum. Most of the respondents reported average number of transactions per year at 1 to 2 times. Some of the respondents reported that they have made transactions 3 to 5 times and 6 to 10 times in a year, while two respondents reported more than 10 times a year.

Sectors and type of work migrants perform in the host country and wage or salary earned on average per job type:

There is a wide range of sectors and type of work these respondents are engaged in. This includes computer software/IT systems, Health Systems/College of Nursing, Law, Pharma companies, Insurance & Finance, Merchant in Super Market/Retail Store, Social Sector and Government Services etc. Most of them reported that they get annual salaries which correspond in the range of more than 1 million Indian Rupees. Apart from the salary they also receive various kinds of other perquisites of which the paid leave is common in mostly all the corridors and sectors. Other entitlements include 5 days a week, retirement benefits, family medical benefits, emergency leave provision, air fare for leave, transportation allowance, living out allowance and accommodation facilities etc. It was also found that in some industries in specific corridors the job benefits are reported as standard throughout the industry.

Average education level of migrants:

Most of the consumers responded were highly skilled/ professionals working in the destination countries, although the respondents include graduates as well. Although most of the consumer respondents are highly skilled professionals, some of them are skilled and semi-skilled.

Average number of years migrants remains abroad:

Most of the consumer respondents reported that they are staying in the host country for more than 10 years. They also reported that they either intend to stay for more than 10 years or get permanent resident status. Some of the respondents also reported that they have already received the permanent resident status.

Most popular companies or means used to send money home:

Most popular means of money transfer or sending money home found are online money transfer/Banks or electronic transfer. Although the respondents have used diversity of banks/companies for sending the money. The means used are Bank to Bank transfer/ online money transfer, cash in person and the banks/ companies include various entities such as xoom.com, ICICI Bank, State Bank of India, UAE Exchange, Chase Bank, National Commercial Bank, Federal Bank, Arab national bank, National Commercial bank, BFC, Remit2India.com, OFX.com, XOOM Corporation, BB&T, Transferwise etc. Consumers reported that they prefer safe and easy transactions. It was also reported that Banking channels are costlier and do not offer a seamless user experience. Channels like transfer wise are cheaper, faster and easy to use with high degree of mobile integration.

Use of informal sector to send funds, how it works and the cost compared to the money transfer companies:

Most of the consumers are aware of informal sector means such as Hawala, Gold etc. Although some of the respondents accepted that they have sent the money through their relatives/friends occasionally, most of the consumer respondents indicated that they have never used other illegal methods such as Hawala. The reason for sending money through relatives was that there was no cost involved in the same.

It was also reported that consumers prefer informal means some time due to no or lower fees (typically $6 by an online exchange, and $30+ at traditional bank), better exchange rate because they split the buy/sell rate of the day, Local currency exchange (cash) in India on the street/back-shops. The $ sell rates are often better than banks. Rates differentials range from Rs 0.50 – 3.00 per dollar. Fees range from $0 - $30and more. Traditional banks require 1-2 weeks for money transfer. Currency exchange websites take as much as 2-4 days to deliver funds.

Consumer's level of awareness of different options to send money/mobile money options:

Most of the consumers are aware of wire transfer through banks, mail check for deposit and mobile money options. It was reported that convenience, cost of transfer and quickness are major factors in deciding on the means of fund transfer. It was also reported that wire transfer is preferred as it is quick although expensive. Word of mouth and better exchange rates are also deciding factors in some cases.

ANALYSING CONSUMER ISSUES

Pricing

There are several consumer issues connected with the foreign inward remittances ranging from expensive to unreliable to inconvenient to uncompetitive. Migrants face charges of 10 to 20 percent on each of such remittances, with the result that for every Rs. 100 sent home their families may receive only Rs. 80 or 90. The social angle of such high costs is two-fold: less money available for use by the migrant in the host country and less money for consumption in the home country.

Lack of Information

Availability of information enables individuals to make informed decisions in any market. This is particularly important in a financial market, related to remittance, as information on exchange rate and other fees is required in order to calculate the cheapest and quickest service. Exchange rates are one of the key factors that consumers consider in choosing RSPs for remittance. As a result, information about exchange rates has the potential to help remitters make well-informed choices about the services which best meet their needs, and to facilitate competition among RSPs.

Adequate consumer protection is also important because many remitters find difficulties in understanding the foreign language and/or in providing adequate identity proof for opening a bank account. They also lack required financial literacy and time to search and compare different remittance services.

Inadequate Infrastructure

Proper remittance services require support of a well-developed and efficient financial infrastructure or the network of access points. It may not always be easy for service providers to identify suitable partners in other countries particularly in receiving countries, where domestic financial infrastructure is underdeveloped. This has caused slow, insecure and unreliable transfer of funds.

Less Competitive Market for RSPs

The efficiency of remittance services depends on existence of a competitive business environment for RSPs. In general, an RSP allows its agents or other RSPs to offer its remittance service only on condition that they do not offer any other remittance service. Due to this exclusivity condition3, competition does not flourish in RSPs market and lead towards monopolistic practices of high price and poor services.

Poor or Disproportionate Regulation

The remittance industry needs a sound regulatory framework where the contracts are most likely to be enforced because parties are in different jurisdictions. The regulation should also address concerns of money laundering activities and terrorist financing.

Risks

Losing funds (due to the bankruptcy or error of the RSP or one of the intermediaries, or because of fraud) in transit is one of the potential risks for money senders or receivers. The extent of the risk depends on the nature of the contract between the remitter and the RSP and where the problem occurs. The contract between the remitter and the RSP is likely to be to get the funds to the disbursing agent and it will be the RSP's responsibility if this fails to happen. With negotiated and open networks, it may be less clear-cut: at some point in the transaction, responsibility may transfer from capturing to disbursing RSP.

The extent of the risk of loss of funds in transit depends on the nature of the remittance service. Reputation risk could also arise from misuse of the service for illegal purposes such as money laundering. Lack of sound governance and risk management practices on the part of RSPs can exacerbate such problems. Add to this the possibility of poor exchange rates offered at the point of origin and delays and charges sometimes levied at the receiving end and one has a murky scenario.
