BACKGROUND PAPER ON REMITTANCES FROM THE GCC TO INDIA: TRENDS, CHALLENGES AND WAY FORWARD

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Executive Summary

The report on Remittances from GCC to India has been attempted to address four major issues- (a) volume of total remittances, (b) cost of remittance transfer, (c) components of the cost factor and finally, (d) the banking and non-banking channels involved. Drawing from various sources, the report presents information on the stock of Indians in the GCC region, the cost of remittance transfer (as made available by the World Bank Remittance Price System) and the major channels of transfer. The Master Circulars of the RBI concerning the FEMA are analyzed to identify various types of financial institutions involved in receiving remittances in India. The report also covers various ways of remittance transfer and a comparative indication of cost component.

One of the important conclusions of the study is that the cost of remittance transfer has declined due to emerging competition in the remittance market with more financial institutions beginning to play an active role. This opinion was echoed by officials of the RBI during the field visit. In fact, the costs when remitting from the UAE (one of the GCC countries) to South Asia are among the cheapest corridors. With regard to the reduction in the costs, it was observed during the field visit that the onus is more on the country of origin of remittances that the country receiving them. In a given corridor, the cost of the transfer depends on various factors: the key being upfront fee, exchange rate applied and fee collected at the recipient's end, if any. It is observed that the cost factor is highly influenced by the mode- whether it is SWIFT[1], electronic, draft, cheque, instant etc. These issues are explained in a general context in the report. Yet another important observation is the number of financial institutions, more prominently, the exchange houses from GCC, which are playing an active role at both sending and receiving ends. This is evident from the Master Circulars of the RBI.

Needless to emphasize, data on remittances is scarce except for the aggregate figures released by the RBI and the details published in its surveys. India receives the largest remittances in the world, yet there is dearth of mechanisms to collect and publish data on remittances at a disaggregate level, say state-wise, bank branches-wise. Moreover, country-specific remittances data on volume, cost and channels are also not readily available too.

There is a need to design ways to collect such data and made available to various stakeholders. The challenge is to institutionalize these ways so that collection, analysis and publication of data on remittances are done on a sustained basis. Secondly, although, academic surveys in the

[1] Society for Worldwide Interbank Financial Telecommunications.

past and those by the RBI (2006, 2009 & 2012-13) provide only broad, yet useful estimates; that too based on remittances sent via select bank branches. The urgency to broaden the scope of surveys is imminent. Thirdly, collaborative efforts among government, academicians, banking & non-banking organizations are a necessary to debate and identify ways to address the issues concerning remittance flows. Finally, it is important to find approaches to create awareness to the migrants on various remittance channels available & their cost.

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Remittances from GCC to India: Trends, Challenges and Way Forward[2]

20 July 2013

Background:

1. India currently receives the largest remittances sent to any country by its overseas population. Remittances to India grew over the years, even during the times of global recession, and continue to impact the quality of life of families that receive them. While most remittances are used for immediate family consumption, increasing focus has been to identify ways to translate remittances sent to fruitful investment leading to asset creation. There is an increasing interest by policy makers and academicians to understand the nature and impact of remittances in the broader context of the current debate on migration and development. Additionally, understanding the extent of their role in achieving the Millennium Development Goals and in the development agenda post 2015 is now a pertinent issue for governments. The report outlines various issues concerning the remittance flows to India and presents details obtained from the Reserve Bank of India with an emphasis on remittances from the GCC to India. The draft report also attempts to highlight the challenges in the process.

Remittances in the Indian Context:

2. Data available from the World Bank sources[3] indicates that an estimated USD 401 billion[4] was sent in form of remittances to the developing world, with India being the largest recipient at USD 69 billion in the calendar year 2012.

3. The World Bank also estimated (ref. same as foot note 2), that the global remittance flows would reach USD 529 billion in 2013, USD 559 billion in 2014 and USD 609 billion in 2015.

4. In 2012, India is followed by China (USD 60 billion), Philippines (USD 24 Billion), and Mexico (USD 23 Billion)[5]. Other countries in South Asia in the top ten recipients include Pakistan & Bangladesh, each receiving USD 14 billion in 2012. However, as a share of

[2] The report has been prepared by T.L.S.Bhaskar, ICM.
[3] Ref. Migration and Development Brief 20 (19 April 2013). The Brief also provides projections for 2015.
[4] Of the total global remittances of USD 514 billion sent in 2012, USD 109 billion was remitted to South Asia.
[5] Ref. opp. cit (for data on remittance flows).

GDP, remittances to Tajikistan constitute 47% of its GDP making it the largest recipient in terms of GDP. At a global level, remittances are now considered to be larger than the official development assistance[6].

5. Remittances are considered as private transfers and personal flows, without quid pro quo. In the Indian context, the following items are included as remittances:

    a. Private transfers by Indians overseas for family maintenance
    b. Local withdrawals and redemptions from the non-resident deposits
    c. Gold and silver brought to India through passenger baggage
    d. Personal gifts and donations to charitable institutions in India

6. Remittances are recorded in the ‘invisibles’ component and provide cushion to the India’s Balance of Payments. Table 1 below provides data on flow of remittances to India, their percentage increase over the years and more importantly how they act as cushion against the current account deficit. In a way, increasing remittances help stabilize the value of rupee against the US dollar[7].

7. As the figures shown in Table 1, remittances are resilient and stable over the years, even during times of global recession. They are counter-cyclical in nature during adverse economic situation in the native country (Gupta 2005, Ratha & Mahapatra 2010). Reasons such as increasing emigration from India, expanding destination base for Indian migrants, the culture of saving for the family and future, even at the cost of cutting down personal expenditure in destination countries, have contributed to rise in remittances to India. Also, the easing of regulations by RBI at regular intervals with regard to NRE deposits, interest rates, etc., have also contributed to the increase of remittances to India.

[6] Definition of coverage of Official Development Assistance (ODA) can be seen at the OECD’s website http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm (Referred on 12 July 2013). ODA is a sum of bilateral official development assistance and multilateral official development assistance (Ref. Stat Extracts of OECD).

[7] Similarly, it is important to understand the impact of devaluation of rupee (1966 & 1990s), proposed exchange rate convertibility in current account, liberalization of gold imports had in fact any effect on increase in remittances.

Table 1: Flow of Remittances to India

S. No	Year	Remittances/Private Transfers(in USD Million)	Percentage increase from previous year	Private Transfer as a percentage of Current Account Deficit (CAD)
1	2011-12	66,129	18.8	84.6
2	2010-11	55,618	3.8	121.1
3	2009-10	53,636	14.3	140.5
4	2008-09	46,903	7.8	168.0
5	2007-08	43,508	43.3	
6	2006-07	30,835		

Source: RBI Bulletins

8. The comprehensive table on invisibles published by the RBI (2010:578)[8] mentions the following numbers for private transfers (in US Millions)- 1999-2000 (12,290), 2000-01 (13,065), 2001-02 (15,760), 2002-03 (17,189), 2003-04 (22,182), 2004-05 (21,075), 2005-06 (24,951), 2006-07 (30,835), 2007-08 (43,508), and 2008-09 (46,903).

9. In terms of origin of the remittances to India, the following 15 countries send the highest amount of remittances to India with United Arab Emirates ranked at no.1 followed by the US, as shown in Table 2 below. The countries from the GCC region are highlighted for reference.

[8] Ref. March 2010 Bulletin of RBI.

Table 2: Leading nations sending remittances to India

Rank	Country	Amount remitted to India (2012) In Million USD
1	**United Arab Emirates**	**14,255**
2	United States	10,844
3	**Saudi Arabia**	**7,621**
4	United Kingdom	3,904
5	Bangladesh	3,716
6	Canada	3,145
7	Nepal	2,934
8	**Kuwait**	**2,673**
9	**Oman**	**2,373**
10	**Qatar**	**2,084**
11	Sri Lanka	1,283
12	Australia	1,245
13	Singapore	1,113
14	**Bahrain**	**690**
15	Malaysia	493

Source: World Bank (2012)

Remittances from the GCC to India:

10. A large number of unskilled and semi-skilled workers migrate from India to various destinations in the Gulf every year making the region one of the prominent destinations to workers from India. Data from the Ministry of Overseas Indian Affairs indicate on an average 6-7 lakh migrate every year under the Emigration Clearance Required (ECR) category, with as many as 7.47 lakh migrating during 2012. Economic growth in the GCC regions has attracted many expatriates, especially from countries in South Asia, who have fuelled its economic growth.

11. Geographical proximity from South Asia is another key factor in this regard, facilitating migration to this region. The GCC region does not permit permanent settlement or change in the legal status that permit the entry in the first place. Hence, the only option

for most of the migrants is to save and remit the savings back to homeland for various purposes. The flows may continue as long as regulations with regard to easing of property ownership, promoting family reunion, and naturalization are not addressed to (Naufel 2010). This draft report does not discuss the utilization pattern of remittances at the recipient end.

12. Table 3 & Figures 1 & 2 below indicate the number of overseas Indians/NRIs in the GCC region, and a comparative of local and expatriate population in the GCC. These reflect an increase of migrants, as a stock, over decades. The volume of migration happening in just two corridors, that is India- UAE and India-Saudi Arabia, is considered one of the largest migratory streams in the world. It is only obvious to state that increasing stock of migrants from India in the GCC has direct impact on the volume of remittances received over a period.

Table 3: NRI Population in GCC Countries (in thousands)

Country	**1991**	**2001**	**2010**
Bahrain	100	130	350
Kuwait	88	295	579
Oman	220	312	558
Qatar	75	131	500
Saudi Arabia	600	1500	1789
UAE	400	950	1703
GCC Total	**1483**	**3318**	**5479**

Source: Data compiled by Shafeeq Rahman[9]

[9] Ref. http://twocircles.net/2011aug23/india_receives_45_its_international_remittance_gcc_countries.html (As browsed on 12 July 2013).

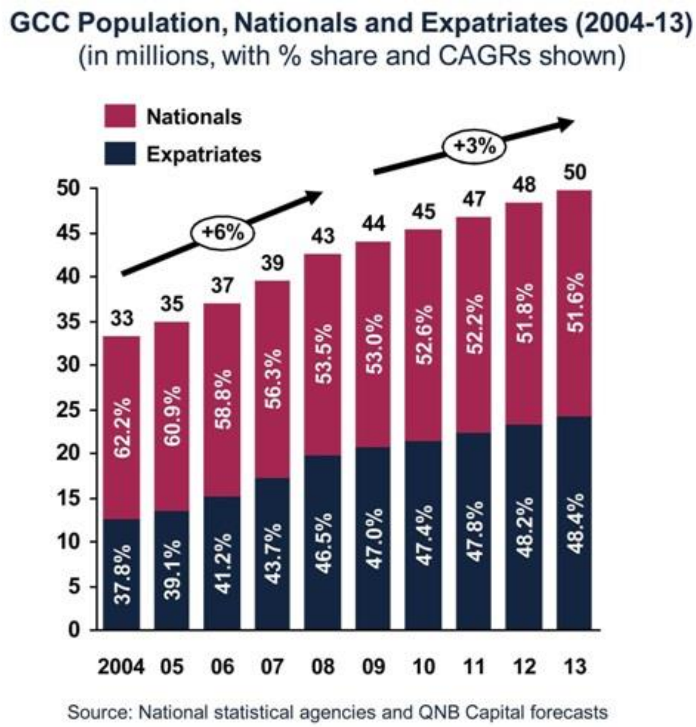


Figure 1: Source as above mentioned[10]

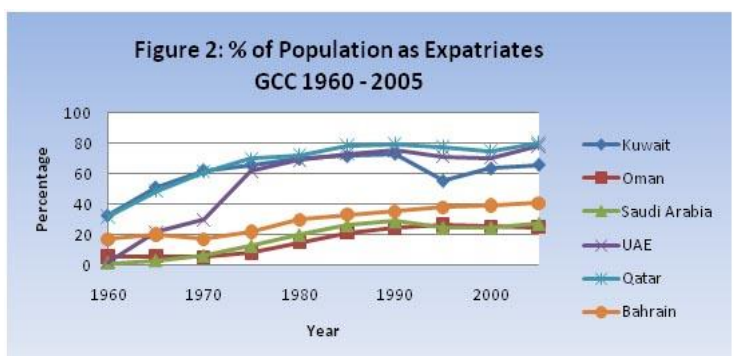


Figure 2 & Source: Naufel 2010

13. The figures 1 & 2 reflect the increase of expatriates in the GCC population as compared to the nationals and Indians constitute the top immigrant community in the GCC, with nearly 32% of the total immigrant population. Relative to the increase in number of Indians in the GCC, it is evident from the Table 2 that approximately USD 30 billion of a total of USD 69 billion (in 2012) was remitted by Indians in the GCC region comprising of the UAE, Saudi Arabia, Oman, Qatar, Kuwait and Bahrain. This is equivalent to 42.5% of the total remittances received in India.

[10] http://www.bi-me.com/main.php?id=56731&t=1 (As browsed on 12 July 2013).

14. In 2012, the GCC region is source for nearly 12% of the global remittances, which is equivalent to USD 61 Billion. Of this, approximately 50% is remitted to India (Ref. same as foot note 2). This also indicates the volume of remittance market just from the GCC region and scope it provides for various financial institutions to involve in the transfers.

15. According to the data quoted by the UAE Exchange[11], one of the largest players in the GCC market, nearly 50% of remittances from the Gulf region are sent to India, making it the largest recipient. In general, as indicated in the figures 3 and 4, remittances from the GCC has been on rise since the oil boom of 1970s and thereafter.

Figure 3

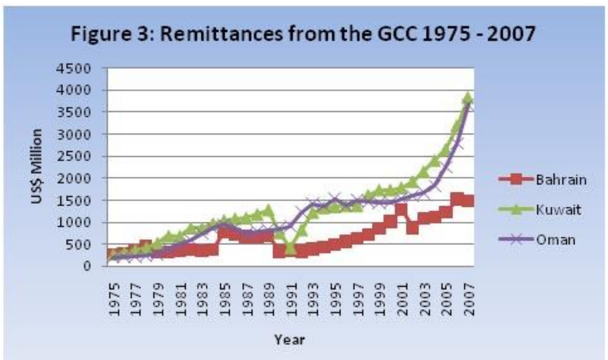
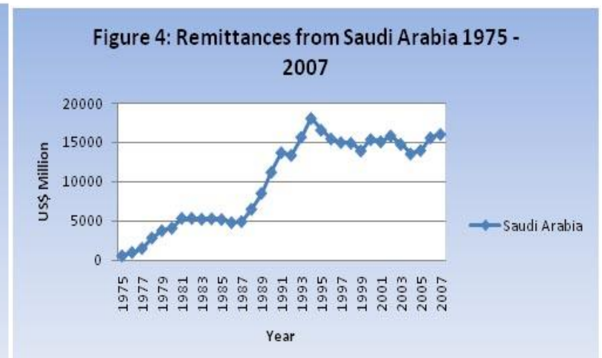


Figure 4



Source: Naufel 2010

16. On the recipient side, the RBI does not maintain country-specific statistics on remittances to India and this applies to GCC also. However, it had conducted surveys[12] of Authorized Dealers in 2006, 2009 and 2012-13[13] on various issues pertaining to remittances to India.

Ways of Remittance Transfer:

17. Some of the prominent ways through which remittance transfer happens are as follows:

a. **Transfer to an Indian Bank through Correspondent Bank (CB) overseas:** In this mechanism an Indian Bank has a tie-up with a foreign bank (the CB) and opens a current account. A remitter instructs his own bank overseas to deposit money in the

[11] Ref. http://www.transfer-sendmoney-payroll.com/india-largest-recipient-of-global-and-gcc-remittances/ (As browsed on 12 July 2013).
[12] These surveys are conducted by the Department of Economic Analysis and Policy (DEAP), RBI.
[13] The results of this survey are yet to be published.

current account of the Indian Bank in the CB. Further, the CB and the Indian Bank process the transfer to the final recipient. Here, the remitter provides the account number, branch name and location of the final recipient. An Indian Bank can have more than one CB overseas. For the remitters, SWIFT codes of the Indian Bank are provided online (recipient should have a savings account).

b. **Through the SWIFT[14] network:** This mechanism is used for foreign currency remittances to the Non-Resident (External) & the Foreign Currency Non Resident (FCNR)[15] accounts in India. For the remitters, the process is similar to the one mentioned in above paragraph.

c. **Through Exchange Houses (EH):** Exchange Houses[16] are one of the easily accessible institutions to millions of workers abroad through the agents and sub-agents. Usually the rates charged by the EHs are half-of what is charged by the banks for a transfer[17]. This is because of the volumes handled, economies of scale and a lesser upfront fee.

   Indians banks do tie-up with the EHs[18] at destination for processing the transfer of remittances to India. The credit facility is instant and both the remitter and recipient receive a message of confirmation upon completion of the process. The remitter approaches an EH, provides details of the recipient (bank account/branch/location). Moreover, the Indian Bank can also have an arrangement with the EH to open NRE accounts/savings deposit accounts etc (recipient should have a savings account). EHs also have tie-up with service providers who are into instant money transfer where both the remitter and recipient do not have a savings account.

d. **Money Transfer Service Scheme (MTSS):** This mechanism is often used when the remitter and recipient do not have a savings account. The Reserve Bank of India permits

[14] The Society for Worldwide Interbank Financial Telecommunication facilitates financial institutions across the globe by sending and receiving transaction related information in a secured environment. It is a mechanism that transports financial information, and does not perform any clearing or settlement in the process. An analysis of the data available on SWIFT's website indicates that messages related to payments constitute nearly half of the SWIFTNet FIN traffic (49.2% in May 2013).
[15] FCNR accounts are term deposit accounts unlike savings accounts. Transfers to FCNR accounts can happen through wire/cheque/transfer from NRE account/s.
[16] For example, the UAE Exchange in Abu Dhabi & Dubai, Hadi Express Exchange.
[17] Interview with the ICICI Representative on 9 July 2013
[18] For example: ICICI has tie-up with 42 Exchange Houses overseas, with 16 alone in UAE.

instant payment of cash[19] in respect of a foreign inward remittance to individual beneficiaries. The list of service providers under the MTSS is available on the RBI's website. Indian banks can have tie up with brands such as the MoneyGram, Western Union, etc. Every transaction is processed via a unique transaction number which should be provided to the recipient during the claim. This mechanism can be used only for personal remittances such as for family maintenance.

Note: Remittances to foreign tourists in India are permitted through this.

e. **Transfer through the Rupee Drawing Arrangement (RDA):** This mechanism is used when the remitter wants to transfer money through cheque/draft. The RBI permits the Authorized Dealer category- I banks for opening and maintaining of rupee/foreign currency Vostro accounts[20] of non-resident EHs located in Gulf countries, Hong Kong, Singapore and Malaysia. The banks disburse the remittances to the final recipient immediately after the cheque/draft is deposited in the Vostro account[21]. However, the issue of mandatory collateral that EHs have to deposit in the banks may have slight impact on the cost. This is because the EH has to raise the collateral[22] from the open market and pay interest. This might indirectly be added to cost calculation, thus collected from remitter.

   Note: For all the above mechanisms, funds transfer between banks within India, till they reach the recipient's bank account, happen through the NEFT or RTGS mechanisms[23].

f. **Institutions involved in the remittance market in India**: The Authorized Dealers of the Reserve Bank of India (ADs in three different categories) & their franchises, and agents[24] under the Money Transfer Service Scheme (MTSS) are permitted in the remittance market under the Foreign Exchange Management Act (FEMA). A detailed table, as at Annexure A, lists the ADs and agents/sub-agents under the MTSS. Apart from these, the Full Fledged Money Changers (FFMCs) can involve in this business with

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[19] As per the RBI Guidelines, remittances cannot be more than USD 2500 in this regard. Moreover, only amounts up to Rs. 50,000/- are paid in cash. Any amount exceeding this limit is be paid by means of cheque / DD /PO etc or credited directly to the beneficiary's account. Usual KYC norms apply.
[20] This facility is now extended to all Financial Action Task Force (FATF) compliant countries.
[21] The AD Category I banks in this regard cannot give any overdraft to the EHs .Remittance transfer to the final recipient is done only money is deposited in the Vostro account
[22] This view needs further analysis so as to understand the impact on cost of remittance transfer
[23] The National Electronic Fund Transfer & Real Time Gross Settlement mechanisms allow individuals, firms/companies to transfer funds within India between banks.
[24] These should have a tie-up with an overseas entity.

approval from RBI to act an agent also under the MTSS. There are three such entities as shown in Annex B. Overall, the entities include banks, travel agents, money transfer operators, exchange houses etc. ADs can also act as agents under the MTSS but they should have a tie up with a foreign entity.

Cost of Remittance Transfer:

18. The issues concerning the cost of remittances can be better understood by appreciating government policies towards remittance transfer, both at the origin and recipient end. This includes having the knowledge of how various financial institutions which operate at both ends, and legislations permitting their role (Ratha & Reidberg 2005). Factors such as number of money transfer channels, competition among them, accessibility, exchange rates, awareness on channels and transfer mechanisms, regulations governing these channels influence the cost of remittance transfer. Specific costs to the provider (and which in return influence the cost of transfer) include staff, technology, location and admin costs, foreign exchange risk, supply of currency, anti-money laundering, security & marketing (opp.cit).

19. As mentioned on the World Bank Remittance Prices Worldwide website[25], the cost of remittance transfer constitutes the following elements:

    a. An upfront fee charged for sending a certain amount (direct/visible cost). It is observed that the fee is usually very high if transfer is done through SWIFT or wire, and minimum when done through exchange houses.

    b. a margin taken on the exchange rate by the companies/financial institutions (hidden/invisible cost), and

    c. a fee component charged to the recipient of the funds (this does not happen in all cases). This might occur when there are multiple channels of transfer even at the recipient end (for example, if the recipient is in a remote location which requires transfer through multiple banks till the last mile).

COST = Upfront Fee+ Margin on the Exchange Rate applied+ Fee charged on the Recipient

[25] http://remittanceprices.worldbank.org/

20. Of the above elements, it is exchange rate applied on a specific money transfer instance that makes difference in the cost. For a specific instance, the key questions to be asked are- what the prevailing interbank rate is and the mark up applied on the prevailing rate.

21. A host of factors influence the cost of remittance transfer (opp.cit)[26]. They include the following:

    a. Technology used in the transfer (it in turn affects the time taken and then reflected in cost)

    b. Number of financial institutions involved in the remittance market in a given country or in a given corridor (say, for example: the UAE-India corridor, the Saudi Arabia-India corridor etc.), and the legislations governing them

    c. Administrative and other operational costs that will reflect in transaction fee

    d. Banking and other financial regulations in both origin and destination countries

    e. Remitter's preferences

    f. Legal status of the remitter

    g. The larger the chain of agents & sub agents, the costlier is the transfer (especially in the MTO market). Interestingly in this mode, the cost is high because the transfer is instant almost.

22. While the RBI does not maintain data on cost of remittance transfer to India, its Survey[27] on remittances refers to the argument that 'small remittance transactions for family maintenance are offered less favorable exchange rate' and that this can be 'exorbitant for some countries with less developed exchange markets' (2009: 784-785). However, in light of the fact that there are quite a number of exchange houses in the GCC region and the remittance market is expanding, the costs of remittance transfer from this region has been relatively low compared to locations such as in Europe. The report further states that it is 'difficult to find out the cost of remitting money as the cost is paid by the remitter to the overseas MTO or correspondent bank' (opp.cit: 785). Further to this, the observations on the cost element are limited to remittances from the US to India. To

[26] For a detailed explanation on the cost to the consumer & service provider, refer PP 15-20.
[27] A sample survey (2009) of the bank branches across major centers in India- Ahmedabad, Bengaluru, Bhubaneshwar, Chandigarh, Delhi, Hyderabad, Jaipur, Kolkota, Mumbai, Patna, Kochi and Ranchi.

conclude, RBI does not maintain any data on cost of remittance transfer as we are at the recipient end, and it maintains data on money remitted and channels involved in the process. It is worth mentioning in this regard, the recommendations of the 2009 Survey. They are aimed at improving the flow of remittances and will definitely impact on the cost involved. The recommendations are placed at Annex C for reference.

23. Competition in the remittance market had definitely reduced the cost of money transfer.[28] Activating competition in a given corridor (say UAE-India) definitely reduces prices. For example, most of the nationalized banks now have RDAs with EHs, and some of these banks are willing to have lesser profits via market exchange rate (by taking lesser margin). This not only reduces the cost of money transfer, but also helps the banks to expand their destination base, have more accounts to their credit.

24. Over the years, several measures introduced by the RBI have allowed more institutions to enter the remittance market in India, this resulting reduction in the cost element. The result is mainly due to easing of regulations monitoring the institutions involved. Increase in competition had in fact had a positive impact leading reduction in the costs. Some of the regulations that had an impact include:

    a. Dispensing with the rule that required the AD Category-I banks to take prior approval from RBI for opening and maintaining of each Rupee Vostro account in India that of non-resident EHs in conjunction with the RDAs that banks into with the EHs (in 2012). However, the banks in this regard are mandated to external audit whenever the total number of RDAs reaches 20.

    b. Easing rules concerning licenses given to financial institutions to act as full-fledged money changers. FFMCs can register as agents under the Money Transfer Service Scheme (MTSS).

    c. Attractive interest rates for NRE deposits (this coupled with falling rupee always encourages overseas Indians to remit more to the NRE accounts[29]).

25. The Remittance Prices Worldwide[30] is the only platform that provides details on cost of remittance transfer in a comprehensive manner. It not only provides information on the

[28] Discussion with GM, Foreign Exchange Department, RBI (9 July 2013)
[29] Interest accrued is tax free and the funds can be repatriated easily.
[30] Launched by the World Bank in September 2008.

cost of remittance (quarter-wise) across select corridors. The online platform covers 220 country corridors and this includes 32 remittance sending countries and 89 recipient countries.

26. In the Indian context, information is available for remittances transfer to India from three GCC countries- Saudi Arabia, UAE and Qatar- on the World Bank Remittances Price System. The tables for these countries contain details on firms involved, nature of the firm, fee charged, exchange rate margin applied, speed, network coverage, date data collected and the total cost of remittance transfer (both in percentage and actual cost).

27. The tables for Qatar, UAE and Saudi Arabia are as shown in figures 5, 6 and 7 that follow:

Note: Source for Figures 5-7: Remittance Prices Worldwide, World Bank

Figure 5: Cost of remittance transfer from Qatar to India (for 730 Qatari Riyals)

Remitting from Qatar to India

Collection Period for First quarter 2013 Go to top

QAR | USD |

730 1820

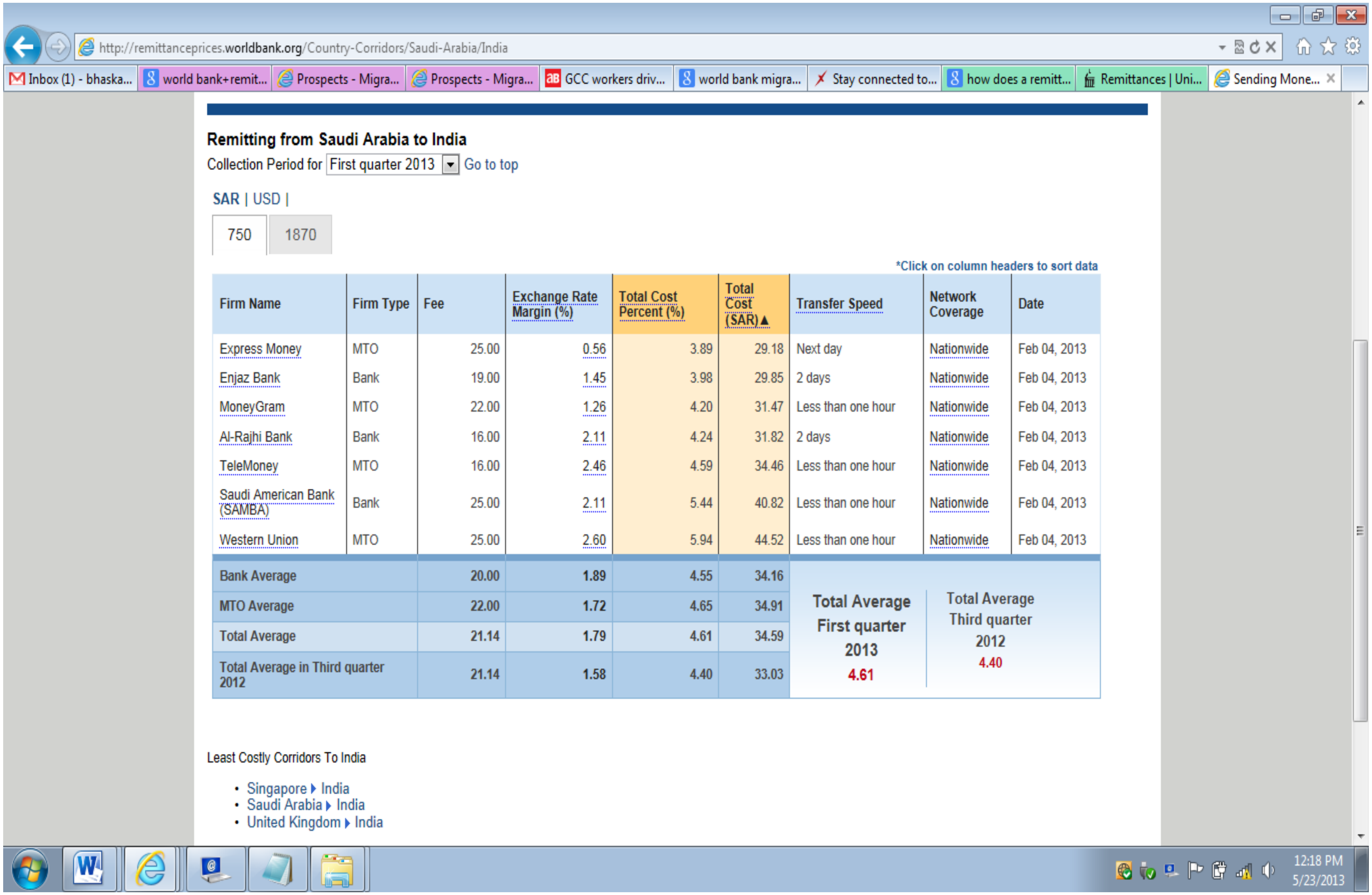
*Click on column headers to sort data

Firm Name	Firm Type	Fee	Exchange Rate Margin (%)	Total Cost Percent (%)	Total Cost (QAR) ▲	Transfer Speed	Network Coverage	Date
Doha Bank	Bank	15.00	-0.52	1.54	11.23	2 days	Nationwide	Feb 06, 2013
Xpress Money	MTO	17.00	1.17	3.50	25.56	Next day	Nationwide	Feb 06, 2013
Al Dar Exchange	MTO	20.00	0.85	3.59	26.20	3-5 days	Nationwide	Feb 06, 2013
Commercial Bank	Bank	20.00	0.95	3.69	26.91	3-5 days	Nationwide	Feb 06, 2013
Arabian Exchange Company	MTO	20.00	1.47	4.21	30.72	3-5 days	Nationwide	Feb 06, 2013
Commercial Bank	Bank	25.00	0.95	4.37	31.91	3-5 days	Nationwide	Feb 06, 2013
Al Fardan Exchange	MTO	20.00	1.73	4.47	32.62	3-5 days	Nationwide	Feb 06, 2013
Speed Remit	MTO	15.00	2.68	4.74	34.59	Next day	Nationwide	Feb 06, 2013
Ezremit	MTO	20.00	2.39	5.13	37.43	Next day	Nationwide	Feb 06, 2013
Ezremit	MTO	25.00	2.39	5.81	42.43	Next day	Nationwide	Feb 06, 2013
Western Union	MTO	25.00	4.19	7.62	55.61	Less than one hour	Nationwide	Feb 06, 2013
HSBC	Bank	50.00	3.24	10.09	73.65	3-5 days	Nationwide	Feb 06, 2013
HSBC	Bank	70.00	3.24	12.83	93.65	3-5 days	Nationwide	Feb 06, 2013
Bank Average		36.00	1.57	6.50	47.47			
MTO Average		20.25	2.11	4.88	35.64			
Total Average		26.31	1.90	5.51	40.19			
Total Average in Third quarter 2012		22.46	1.93	5.01	36.56			

Total Average First quarter 2013 **5.51**

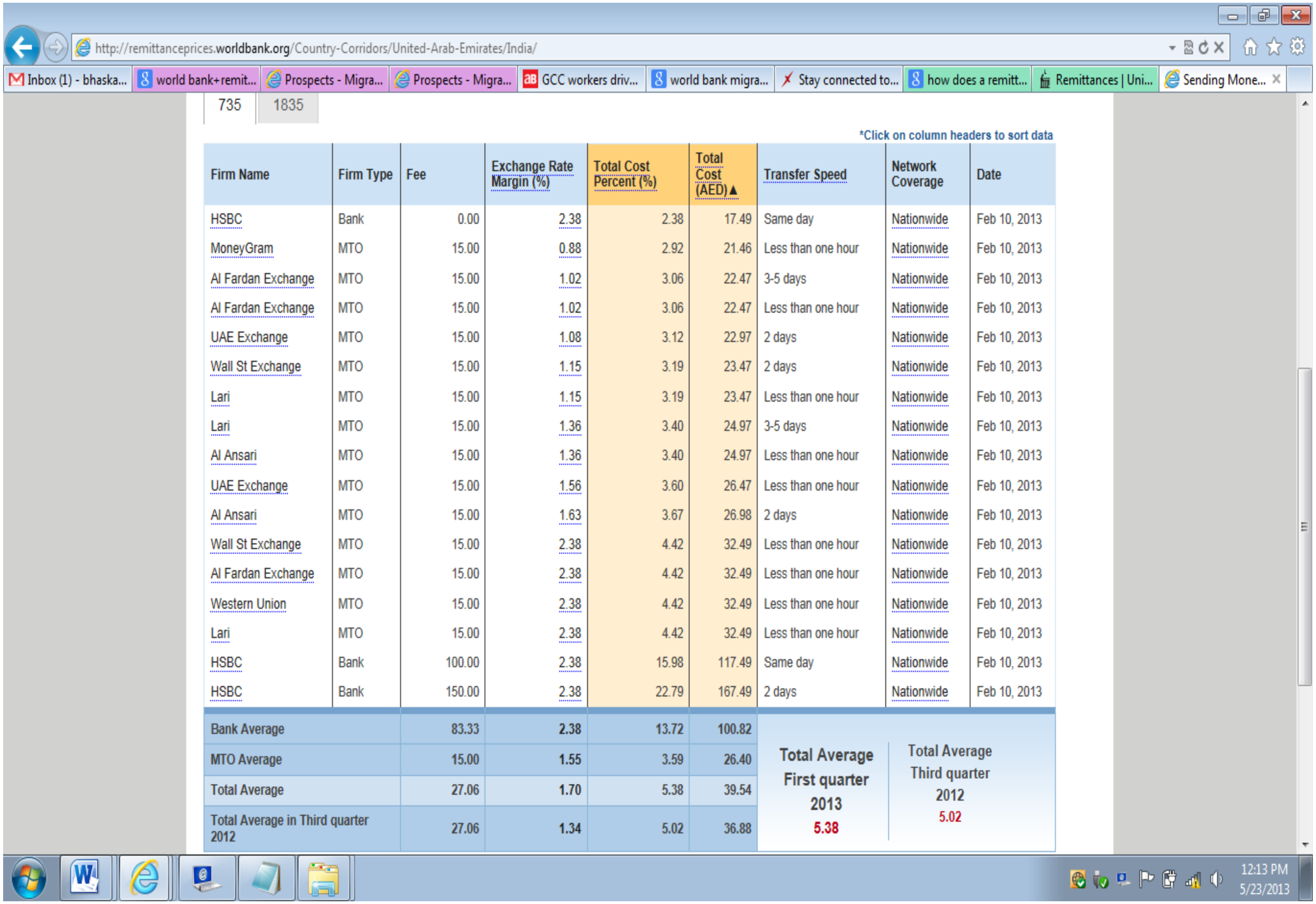
Total Average Third quarter 2012 5.01

Figure 6: Cost of remittance transfer from Saudi Arabia to India (for 750 SAR)



Firm Name	Firm Type	Fee	Exchange Rate Margin (%)	Total Cost Percent (%)	Total Cost (SAR)▲	Transfer Speed	Network Coverage	Date
Express Money	MTO	25.00	0.56	3.89	29.18	Next day	Nationwide	Feb 04, 2013
Enjaz Bank	Bank	19.00	1.45	3.98	29.85	2 days	Nationwide	Feb 04, 2013
MoneyGram	MTO	22.00	1.26	4.20	31.47	Less than one hour	Nationwide	Feb 04, 2013
Al-Rajhi Bank	Bank	16.00	2.11	4.24	31.82	2 days	Nationwide	Feb 04, 2013
TeleMoney	MTO	16.00	2.46	4.59	34.46	Less than one hour	Nationwide	Feb 04, 2013
Saudi American Bank (SAMBA)	Bank	25.00	2.11	5.44	40.82	Less than one hour	Nationwide	Feb 04, 2013
Western Union	MTO	25.00	2.60	5.94	44.52	Less than one hour	Nationwide	Feb 04, 2013
Bank Average		20.00	1.89	4.55	34.16	Total Average First quarter 2013 **4.61**	Total Average Third quarter 2012 **4.40**	
MTO Average		22.00	1.72	4.65	34.91			
Total Average		21.14	1.79	4.61	34.59			
Total Average in Third quarter 2012		21.14	1.58	4.40	33.03			

Figure 7: Cost of remittance transfer from UAE to India (for 735 AED)



Firm Name	Firm Type	Fee	Exchange Rate Margin (%)	Total Cost Percent (%)	Total Cost (AED) ▲	Transfer Speed	Network Coverage	Date
HSBC	Bank	0.00	2.38	2.38	17.49	Same day	Nationwide	Feb 10, 2013
MoneyGram	MTO	15.00	0.88	2.92	21.46	Less than one hour	Nationwide	Feb 10, 2013
Al Fardan Exchange	MTO	15.00	1.02	3.06	22.47	3-5 days	Nationwide	Feb 10, 2013
Al Fardan Exchange	MTO	15.00	1.02	3.06	22.47	Less than one hour	Nationwide	Feb 10, 2013
UAE Exchange	MTO	15.00	1.08	3.12	22.97	2 days	Nationwide	Feb 10, 2013
Wall St Exchange	MTO	15.00	1.15	3.19	23.47	2 days	Nationwide	Feb 10, 2013
Lari	MTO	15.00	1.15	3.19	23.47	Less than one hour	Nationwide	Feb 10, 2013
Lari	MTO	15.00	1.36	3.40	24.97	3-5 days	Nationwide	Feb 10, 2013
Al Ansari	MTO	15.00	1.36	3.40	24.97	Less than one hour	Nationwide	Feb 10, 2013
UAE Exchange	MTO	15.00	1.56	3.60	26.47	Less than one hour	Nationwide	Feb 10, 2013
Al Ansari	MTO	15.00	1.63	3.67	26.98	2 days	Nationwide	Feb 10, 2013
Wall St Exchange	MTO	15.00	2.38	4.42	32.49	Less than one hour	Nationwide	Feb 10, 2013
Al Fardan Exchange	MTO	15.00	2.38	4.42	32.49	Less than one hour	Nationwide	Feb 10, 2013
Western Union	MTO	15.00	2.38	4.42	32.49	Less than one hour	Nationwide	Feb 10, 2013
Lari	MTO	15.00	2.38	4.42	32.49	Less than one hour	Nationwide	Feb 10, 2013
HSBC	Bank	100.00	2.38	15.98	117.49	Same day	Nationwide	Feb 10, 2013
HSBC	Bank	150.00	2.38	22.79	167.49	2 days	Nationwide	Feb 10, 2013
Bank Average		83.33	2.38	13.72	100.82			
MTO Average		15.00	1.55	3.59	26.40			
Total Average		27.06	1.70	5.38	39.54			
Total Average in Third quarter 2012		27.06	1.34	5.02	36.88			

Total Average First quarter 2013	Total Average Third quarter 2012
5.38	5.02

Conclusions

28. The following observations can be deduced from the Figures 5-7:

    a. The cost of transfer depends on various elements such as the amount transferred, exchange rate applied, institution facilitating the transfer and the upfront fee charged.

    b. As indicated from the above figures, it is evident that the cost of remittance transfer is approximately 5% of the amount for UAE, Saudi Arabia and Qatar when remitted to India, which is relatively less compared to other corridors for India (for ex: from countries in the EU to India). This can be applied to remaining three countries in the GCC too. Relative to the low incomes that migrant workers receive, the costs are high.

    c. In the case of the GCC nations, the cost is relatively cheaper when done through exchange houses than banks as they handle higher volumes of money transfer as compared to banks, and they also have better network and outreach to the expatriate workers. The factor that differentiates the transfer cost is the exchange rate applied for a transfer. Minutest differences in the rate applied reflect in the overall cost for the amount transferred.

    d. For the same period (say March 2013 & May 2013) for which the data for the three GCC countries is collected, the percentage cost of transfer to India from certain other destinations are as follows - Australia (8.99%), Canada (10.01%), France (14.63%), Germany (11.86%), Italy (5.37%), Japan (20.16%), New Zealand (7.59%), Singapore (4.48%), United Kingdom (5.05%), and United States (3.92%). There is an obvious relation between the size of the Indian community and the cost of transfer.

Recommendations:

a. MOIA may initiate steps to collaborate with RBI to collect remittance data at disaggregate level. As a pilot we may cover states known for sending emigrant workers overseas. This would in turn assist us in all our programs concerning migration & development.

b. MOIA may organize a round table with the RBI, other Banks, IMF, Money Transfer Operators (MTOs), Exchange Houses (EHs), Academicians in Delhi. MOIA may ask RBI to partner in this effort. The effort would delineate the current scenario and debate the issue of the cost with a view to identifying and recommending clear cut measures for its reduction. This round table can aim at:

i. Creating the India Working Group on Remittances (IWGR) that can lead the strategy on all issues concerning remittances received in India. We may propose ICM as the Secretariat for this initiative with funding from MOIA, RBI and other like-minded institutions in India and abroad.

ii. Identify thematic areas that need academic collaboration among the MOIA, RBI, ICM and other bodies, which can be pursued post-the round table.

c. Moreover, MOIA in collaboration with the RBI and a partner bank may design financial product/s[31] to encourage saving of remittances and promote remittance independent development. Access to these products would further enhance financial inclusion & literacy.

d. Explore the possibility of remittance transfer through mobile and other payment systems, and consult the RBI accordingly. Similarly, understand if there would be any reduction in the cost of transfer with improved retail payment system infrastructure in India.

e. Understand and explore the possibility of applying the Inter Bank Rate, instead of Card Rate for smaller transactions to reduce the cost of transfer, which might as a result vary the overall cost by 0.25% to 1%.

f. Identify different ways to make the price transparent and empower the migrant.

g. On other fronts, the following suggestions may be considered with a view to generate awareness on ways of remittance transfer, prices, channels available at destination:

i. Design an Remittance Information System (with technical inputs from RBI & World Bank) or collaborate with the existing Remittance Price System of World Bank, if needed.

[31] The strategic nature of the Products in the Indian context was originally conceived and developed by Mr. G.Gurucharan to promote remittance independent development among the families that receive remittances. This idea was included in the Proposal submitted by the ICM to the World Bank.

ii. Update Ministry's Pre-departure Orientation & Training (PDOT) & its manuals with snapshots of information on remittance channels, ways, safeguards etc.

iii. Sensitize the OWRC/MRC staff on issues concerning remittances. These will in turn assist the efforts in creating awareness.

iv. Mandate ECR applicants to have a bank account in their name.

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Annexure A

Annexure A: Authorized Dealers, Agents & Sub-agents under the MTSS (FEMA) -

Type	Presence		Total	Branches/Sub Agents Across India
AD Category- I (Banks which can have RDA)	**All India**	Available on RBI Website[32]	**97**	**NA**
AD Category-II	Ahmedabad		**5**	
		Green Channel Travel Services		23
		Vadilal Industries Ltd.		
		Prime Co.Op Bank		
		Rajkot Nagrik Sahakari Bank Ltd.		
		Dahod Mercantile Co Op Bank Ltd.		
	Bangalore		**4**	
		M/s. Weizmann Forex Ltd.		119
		M/s. UAE Exchange & Financial Services Ltd.		335
		M/s. Travel Tours Ltd.		6
		The Bhatkal Urban Co. Op Bank Ltd.		9
	Chennai		**3**	
		India Cements Capital Ltd.		19
		Prithvi Softech Ltd.		14
		VKC Credit and Forex Services (P) Ltd.		59
	Chandigarh		**1**	
		M/s. Paul Merchants Ltd.		112
	Hyderabad		**4**	
		The Darussalam Cooperative Urban Bank Ltd		6
		The A.P. Mahesh Co operative Urban Bank Ltd		6

[32] Ref. Master Circulars on FEMA, RBI website

		The Visakhapatnam Co operative Bank Ltd		21
		Deccan Grameena Bank		
	Kanpur		**1**	
		Prathama bank		
	Kochi		**3**	
		Muthoot Fincorp Ltd.		461
		Muthoot Exchange Co. (P) Ltd.		47
		Manappuram Finance Ltd.		35
	Kolkota		**2**	
		Mercury Travels Ltd.		16
		R.R.Sen & Bros. Ltd.		14
	Mumbai		**17**	
		Thomas Cook (I) Ltd.		153
		Wall Street Finance Ltd.		47
		Cox & Kinds (India) Ltd.		110
		CitizenCredit Co.Op Bank Pvt. Ltd.		12
		Ace Co. Op Bank Ltd.		3
		New India Co.Op Bank Ltd.		6
		Thane Bharat Sahakari Bank Ltd.		11
		The Zorastrian Co. Op Bank ltd.		1
		NKGSB Co.Op Bank Ltd.		41
		The Mahanagar Co.Op Bank Ltd.		1
		Centrumdirect Ltd.		76
		Pheroze Framroze & Co. Pvt. Ltd.		31
		Sahebrao Deshmukh Co.Op Bank Ltd.		2
		The Greater Bombay Co.Op.Bank Ltd.		1
		Kesari Tours Pvt Ltd.		14
		Shri Arihant Co.Op.Bank Ltd.		1
		Janata Sahakari Bank Ltd.		12
	New Delhi		**3**	
		American Express Banking Corporation		1
		Supreme Securities Ltd.		19
		Department of Posts (Ministry of Communications & IT)		1000

	Patna		**1**	
		Madhya Bihar Gramin Bank (Head Office)		
AD category- III	**All India**		**9**	
Indian Agents under the MTSS	**All India**	**Available on the RBI Website**[33]	**21**	
Sub Agents under the MTSS	**All India**		**7**	
		Bahrain Financing Company, Bahrain		30
		Buy.Indiaonline.Com, USA		1
		Globle Foreign Exchange, Canada		12349
		MoneyGram Payment Systems Inc, USA		7
		Royal Exchange Inc, USA		4
		UAE Exchange Centre LLC, UAE		40438
		Wall Street Exchange Centre LLC, UAE		9793
		Western Union Financial Services Inc, USA		44614

Table prepared by the author with details from Master Circulars on FEMA, RBI

[33] Ref. opp. cit