Agpaytech's Research
26th July, 2022

Development and Regulation of Remittance to India

Agpaytech

Executive Summary

India is the largest receiving country of remittances globally, receiving US $89 Billion in 2021. Furthermore, in 2022, remittances to the sub-continent are projected to grow by 2.6%, where-in 2021, low and middle-income countries (LMICs) received US$ 589 billion in the form of remittances (World Bank, 2021). This inward international money transfer significantly contributes to national GDPs, especially for developing nations like India, where domestic resources and national production are insufficient to provide full employment for the existing labour supply. India's average wage rate is lower than other countries from where remittances originate, which catalyses workforce migration to such nations in search of better opportunities. India's remittance inflows are like China's; however, the share of remittance as a percentage of GDP is higher in India (2.5%) than in China (0.6%), and India's domestic economy depends significantly on foreign remittances. Apart from the US, which contributes to almost 20% of remittance inflows into India, the Middle East, specifically the Gulf states, is a significant source for India. Many provinces in India rely on inward international money transfers.

Furthermore, remittance plays a vital role in rural areas, accounting for an estimated 40% of the worldwide international money transfer value. Although technological innovation has changed the life of India's urban population, however, this transformation is yet to make a significant impact in rural areas. Cash-to-cash transactions remain the primary mode of transaction in such areas. There are barriers to receiving direct remittances in bank accounts that enhance the cost of remittances, like paying an agent's fees and transport costs, ultimately impacting the receiver's savings and investment potential. This paper profoundly discusses Indian remittances and the policies & regulations that govern them.

Table of Contents

Agpaytech

Background of the study

Remittances contribute significantly to the economic upliftment of India. It has a massive impact on many households where it helps create economic self-dependency and enhanced incomes. This report intends to understand the remittance market in India in terms of remittance flows. Furthermore, it will present an enhanced understanding of remittances from the gulf countries. This paper further profoundly discusses the contribution of gulf countries in remittance based on a survey conducted by the Agpaytech research team. The outcome of the research suggests that most people use banks and money transfer operators to send remittances. The adoption of digital payment has also helped enhance the volume of cross-border transactions. The worldwide remittance market has been well serviced by commercial banks, money transfer operators (MTOs), Foreign exchange houses and post offices. However, in India's context, banks have played a prominent role in intermediating remittances flowing into the country.

Key Words

- Diaspora remittance
- Remittance Flow
- Policy & Regulations
- Gulf countries.

Remittance Flows to India

Inward remittances are the money transferred or sent by the overseas Indian diaspora to their family, friends, and relatives back in India. According to the Ministry of Overseas Indian Affairs (MoIA), around 32 million non-resident Indians and Overseas Citizen of India contribute to the nation's inward remittance kitty. Inward remittance forms around 22%-23% of the country's foreign exchange money. Inward remittances have been pivotal in financing the trade deficit (43% in 2017-18) for India. Consequently, it continues to be the top recipient country globally, where money is sent by a large pool of skilled, semi-skilled and unskilled Indian migrants across the globe. India's most significant remittance corridors are The United States of America, The United Arab Emirates, and Saudi Arabia, amongst others. The Middle Eastern (Gulf) countries contribute 53.5% of the total remittances to India (The Reserve Bank of India). According to a Ministry of External Affairs data the total NRI population of India is more than 13.1 million of which 23.6% and 21.4% are in the UAE and Saudi Arabia respective.

Hereunder, is a chart reflecting the percentage share of country-wise contribution of significant inward remittance to India.

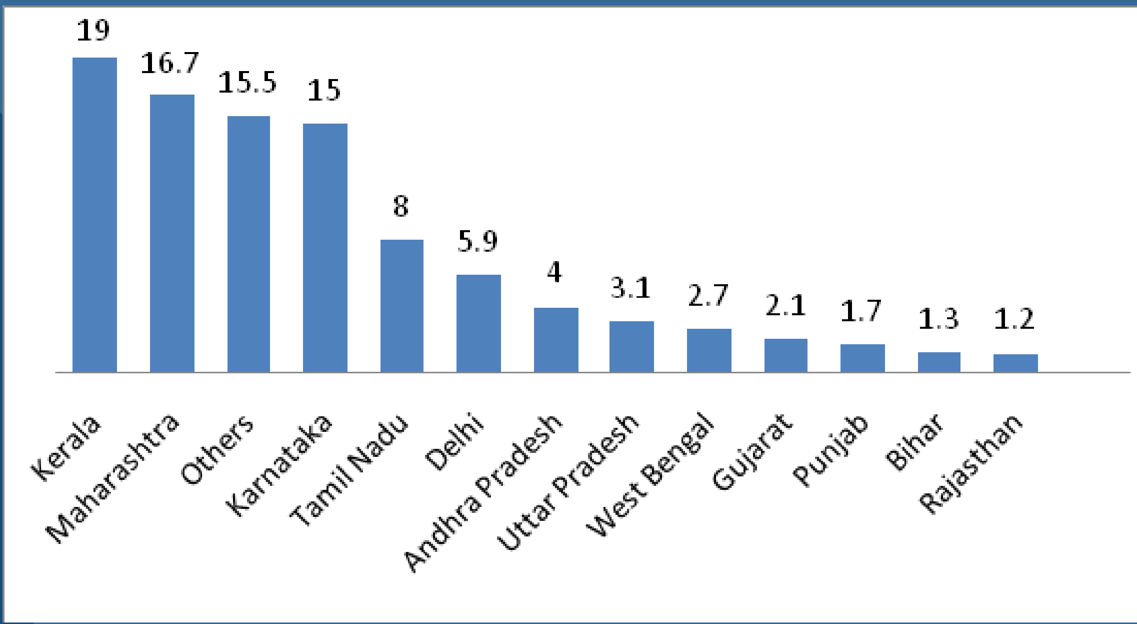
Table 1: Country wise contribution in percentage – inward remittance to India

Country name	GDP %
The United Arab Emirates	26.9%
The United States of America	22.9%
Saudi Arabia	11.6%
Qatar	6.5%
Kuwait	5.5%
Oman	3%
The United Kingdom	3%

Source: Agpaytech Research

Inward remittance is the transfer of money from an overseas bank to a domestic Bank. It can be against the export of Goods or Services, investment purposes, donations, and gifts, amongst others. According to the Ministry of Overseas Indian Affairs (MOIA), approximately 25 million Non-Resident Indians (NRIs) contribute to its inward remittance. This values about 22%-23% of the country's foreign exchange money. An analysis of remittance reveals that 58.7% of the total remittance goes to four states: Kerala, Maharashtra, Karnataka, and Tamil Nadu. Hereunder, is a state-wise break-up of inward remittance India.

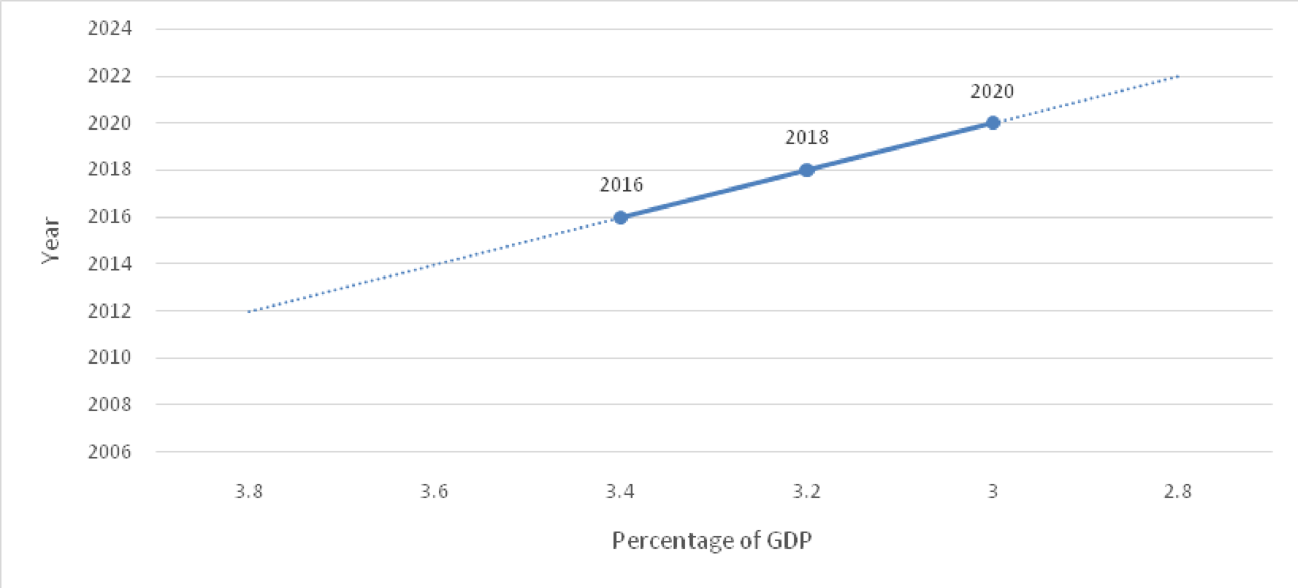
Figure 1: Inward Remittances to India- State-wise Percentage



Source: Reserve Bank of India (Survey 2016-2017)

In India, there are no restrictions on sending money from abroad. A remitter can send the funds to their personal accounts without requiring a Foreign Inward Remittance Certificate (FIRC). However, if the international money transfer is for business purposes, the FIRC is a must to get tax concessions. In 2020 India's remittance inflows to GDP (%) were reported at 3.17 %, which is a significant value.

Figure 2. India- Remittance Inflows to GDP

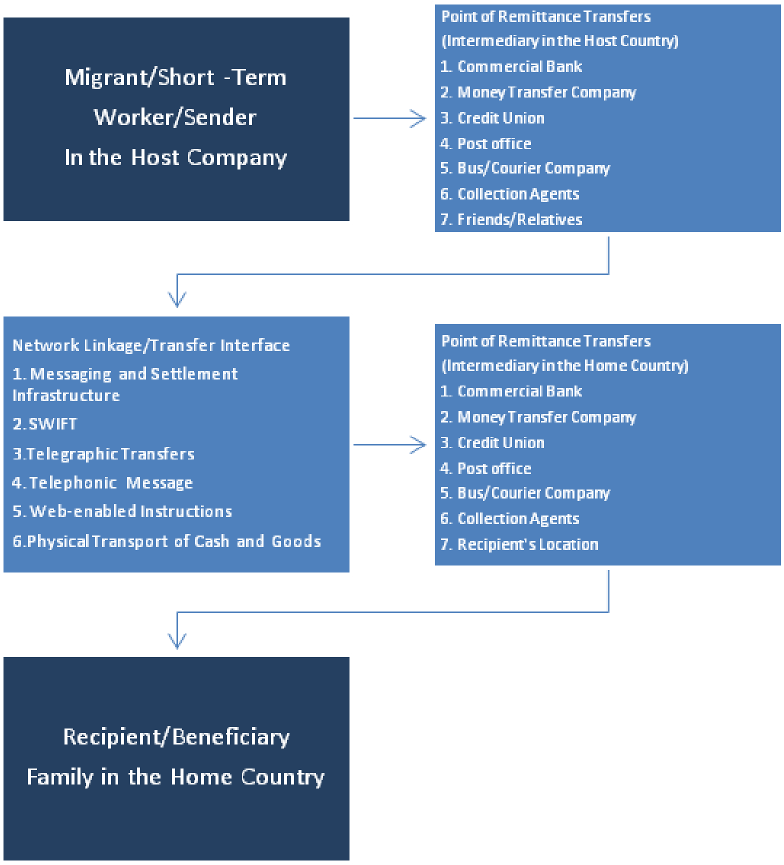


Source: World Bank (July 2022)

Remittance Channels and Sources

Mostly remittance transactions typically involve a sender, a recipient, intermediaries in both countries and the payments interface used. Interestingly, both the formal and the informal channels use a similar framework to manage the flow of money. Here under is a high-level understanding of the remittance channel structure.

Figure 3. A framework of Remittance Channel



Source: IMF (2009)

The cost of sending remittances to India varies by the source country and the transfer mode. In GCC countries, banks mainly operate with the exchange houses to use RDA (Rupee Drawing Arrangement)/ vostro transactions with costs ranging between 2 to 4 %, which is lower than in non-GCC countries. Amongst the non-banking players, Money Transfer Operators (MTOs) play vital role in global remittances. MTOs are financial companies undertaking cross-border transfers of funds on behalf of their clients by using their internal systems and cross-border networks. MTOs play a crucial role by catering to the needs of migrant workers who cannot use the banking channel for various reasons, including however not limited to financial illiteracy. MTOs servicing the Indian diaspora use a network of their outlets or other transfer agents (e.g., banks, exchange bureaus, post offices, cell phone centres, travel agencies, drug stores, and gas stations) to transfer remittances. Notably, the cost of remittances through MTOs is competitive vis-à-vis banks, usually favoured for low-value cash transactions. The recent surge in FinTech has empowered MTOs to pose a significant challenge to the dominance of the banking sector in the remittance business.

Table 2: Cost borne by receivers in India (All figures are in percentage)

Bank Type/Mode	Public Sector Banks	Private Sector Banks	Foreign Banks	Public Sector Banks	Private Sector Banks	Foreign Banks
	Sending $200			**Sending $500**		
Direct Transfer to Bank Account/Electronic wire	0-1.5	0-1.9	0-2.0	0-0.7	0-1.1	0-0.8
SWIFT	0.5-4.4	0-12.7	0-13.3	0-2.5	0-6.3	0-5.4
RDA/Vostro Account	0-2.4	0-4.5	0-5.5	0-1.0	0-1.8	0-2.0
Others (Including Cheque and draft)	0-2.3	0-12.6	0-40.4	0-1.0	0-5.1	0-16.4

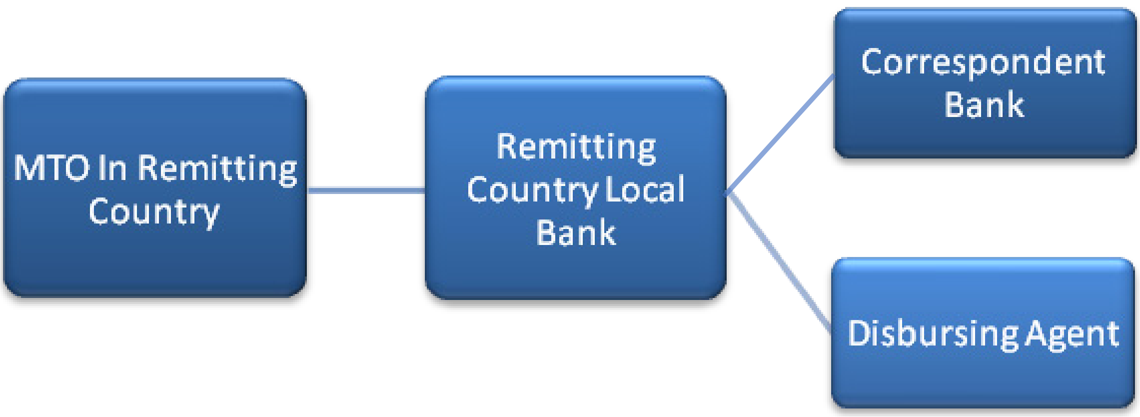
Source: Reserve Bank of India (RBI)

Changing Pattern of Sending Remittance

- **Authorised Dealer (AD)-** Banks operate through different schemes of payment transfers. In the current scenario, traditional modes like cheques and drafts have transformed into more advanced tools like online direct transfers (e.g., wire transfers), Worldwide Interbank Financial Telecommunication (SWIFT) transfers and Rupee drawing arrangements (RDAs). (Rupee drawing is a channel to receive cross-border remittances from overseas jurisdictions). According to the Reserve Bank of India, The RDA is the most preferred mode, accounting for 75.2 % of remittances, particularly from GCC countries. The second most popular channel is the SWIFT, followed by direct transfers, cheques, and drafts. The analysis shows that 70.3 % of transactions were of more than US$500, and only 2.7 % were less than or equal to US$200.

- **MTO Channels -** MTOs operate through a franchised network of cross-border fund transfers under the Money Transfer Service Scheme (MTSS). This scheme involves a tie-up between reputed money transfer companies abroad known as Overseas Principle and agents in India known as Indian Agents. Money transfer activities in India must be performed by registered entities licensed by the financial regulatory authority with the Department of the Payment and Settlement Systems of the RBI under the Payment and Settlement Systems Act (PSS Act) 2007. The MTSS is perceived as a convenient means of funds transfer for migrants with limited access to the banking system in the host country and a preference for cash-to-cash services. According to the AML/CFT regulations, the scheme allows personal Remittance toward family maintenance and foreign tourism in India with a cap of US$2,500 in value terms. However, Remittance related activities and investments to NRE/NRO accounts are not permissible under the scheme. Henceforth, Limited access to operating licenses through the RDA channel overseas has also played a role in focusing the business model of MTOs on low-value transactions under the MTSS.

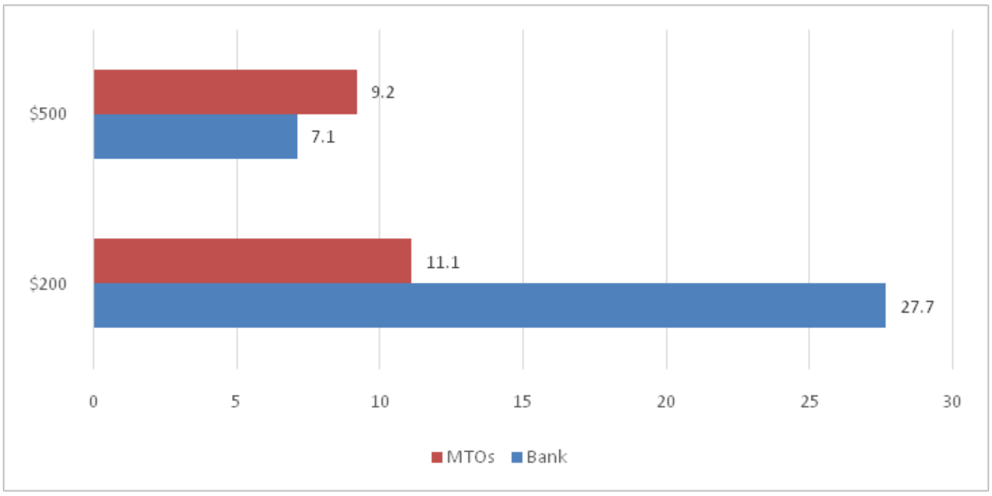
Figure 4. Funds Transfer Process for MTOs



Source: Reserve Bank of India

MTOs from GCC countries channel 50 % of remittances. The survey suggests that the average sender cost is lower for MTOs than for banks, and the cost differential narrows with higher value remittances.

Figure 5: Cost across Banks and MTOs



Source: Source: Reserve Bank of India (Survey based estimates)

Wire Transfer/money transfer :

This method is outlined for outward remittance from India. The RBI mandates that the funds be transferred through the bank or the chosen money changers account, which deals with online bank transfer (NEFT/RTGS/Payment Gateway). No cash, cheque or card payment is permitted. The money transfer must be initiated from the individual personal savings account (Resident Indian).

SWIFT network:

This mechanism is used for foreign currency remittances to the Non-Resident (External) & the Foreign Currency Non-Resident (FCNR)15 accounts in India.

Exchange Houses (EH):

Exchange Houses are the one of the easily accessible institutions to migrant workers who send money back home through agents and sub-agents.Indians' banks have relationship with such EHs 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).

The Rupee Drawing Arrangement (RDA):

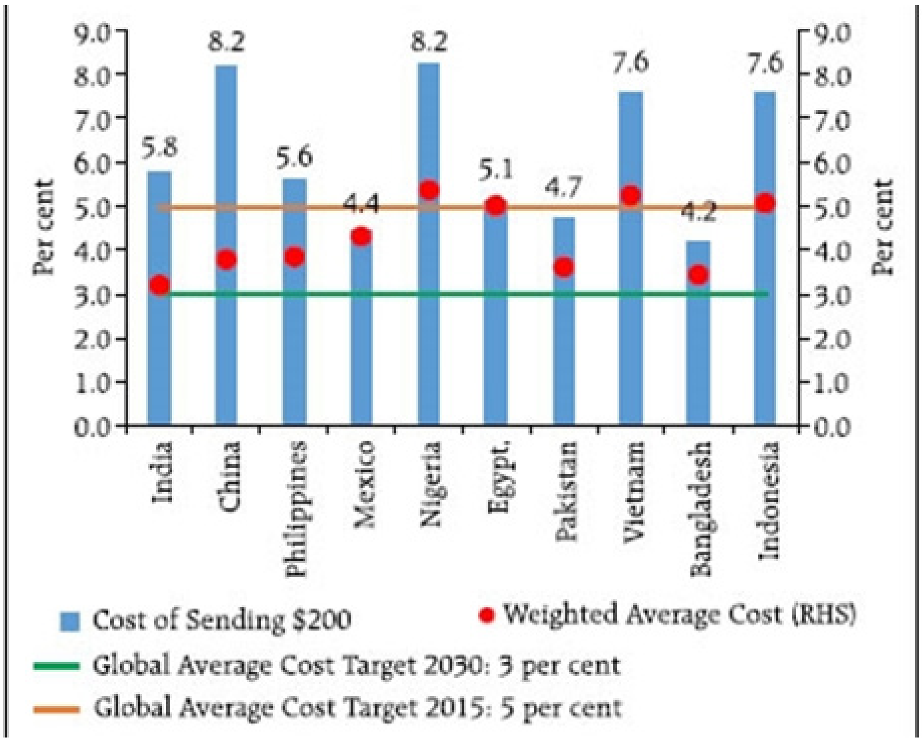
This mechanism is used when the remitter wants to transfer money through banking instruments such as a cheque or draft. The RBI permits the Authorized Dealer category-1 banks for opening and maintaining of rupee/foreign currency Vostro accounts of non-resident EHs located in Gulf countries, Hong Kong, Singapore, and Malaysia. The banks disburse the remittances to the final recipient immediately after the cheque/draft is deposited in the Vostro account.

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.

Component of the Remittance Cost

Remittance Price Worldwide (RPW), under the aegis of the World Bank, monitors the cost of sending remittances across 365 country corridors. RPW uses the benchmark size of US $200 (or equivalent) for providing data on the cost of sending remittances for significant corridors. The average price of sending US$200 to India declined 9.1% in 2013 to 5.6% in Q1 of 2018 and from 4.9% to 3.3 % for sending US$ 500.

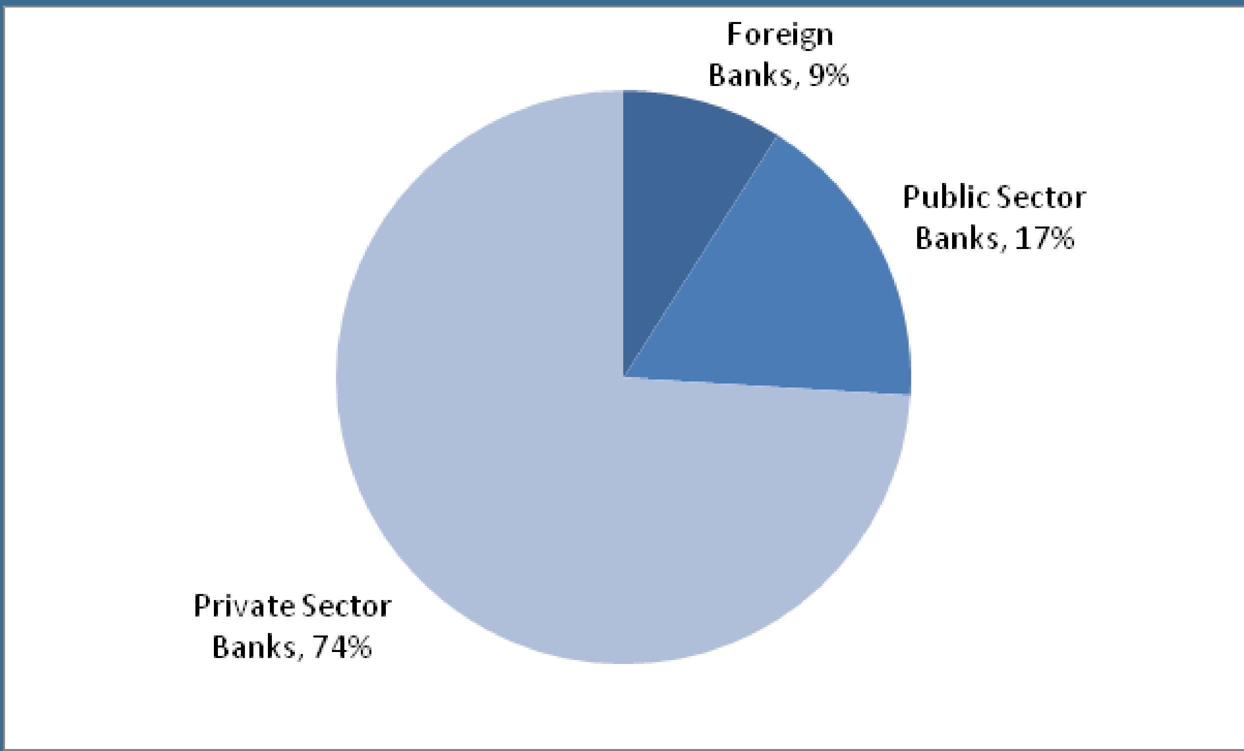
Figure 6: Remittance average cost of sending US$200 in Q1 of 2018



Source: World Bank

Although the cost of sending US$200 to India through banks and MTOs have declined. However, bank charges are almost double the cost of MTOs, reflecting higher compliance costs regarding AML/CFT regulations amongst other reasons. Around three-fourths of total remittances to India are routed through private sector banks. A large portion is channelled using RDA, particularly Private and foreign banks.

Figure 7: Bank wise share in Remittance



Source: Reserve Bank of India (RBI)

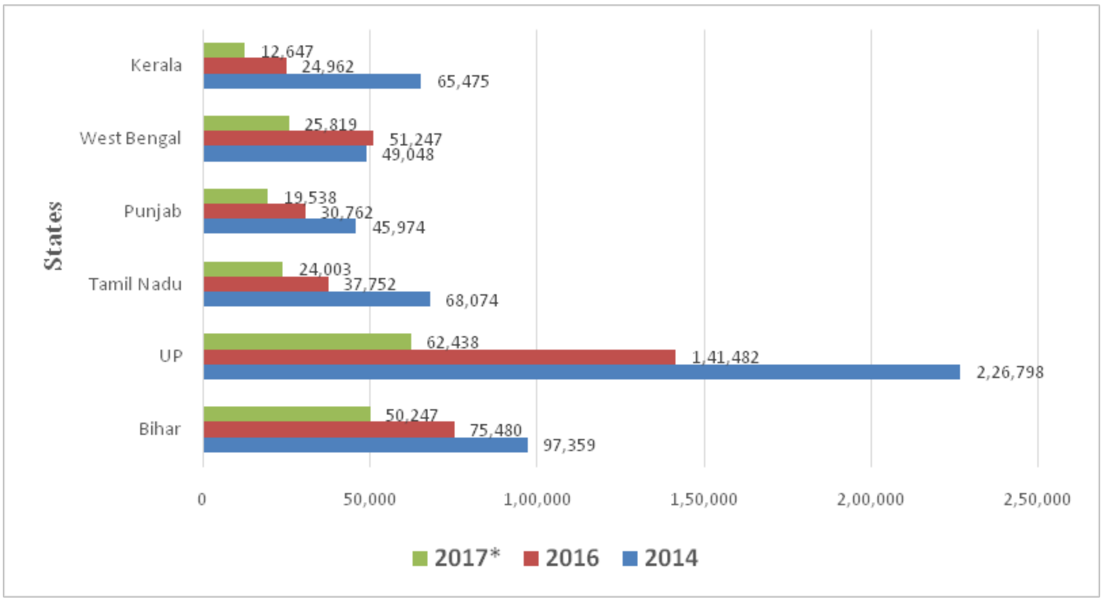
Remittances Coming to India from Gulf Co-operation Countries (GCC)

Since India is the largest remittance-receiving country worldwide, it is susceptible to international geopolitical situations. Any fluctuations in oil prices affect labour migration between gulf oil-producing nations and India. Consequently, it also affects NRI remittances to India from the GCC countries of Bahrain, Kuwait, UAE, Oman, Qatar & Saudi Arabia.

Given the situations originating from disruptions caused by the COVID-19 pandemic, World Bank stated that in 2020, global remittances would decline sharply by almost 20%. This disruption could severely impact the financial situation of people residing in Kerala, Tamil Nadu, Karnataka, Punjab, Uttar Pradesh, Bihar, West Bengal, and Odisha who depend on remittances for their livelihoods.

According to the external affairs ministry data, eighty-five lakh Indians work or reside in GCC countries. The UAE has absorbed most job seekers. In 2015 alone, India received $34.67 billion from the UAE, Saudi Arabia, Kuwait, Qatar, and Oman; data for Bahrain is not in the public domain.

Figure 8: States with High Migrant Rates to GCC



Source: Agpaytech Research (Economic Times)

The cost of remittance varies across GCC countries, depending on the source and destination locations. The current news and articles show that the average remittance cost across MTOs transferring money from Qatar and Saudi Arabia charge the highest transfer fees compared to Kuwait and the UAE. For instance, the average remittance price of USD 200 from Qatar to India stands at 3.9%, while Kuwait to India is 1.9%.

Table 5: Remittances and Costs- GCC outflows to major receivers (USD Mn)

Receiver	**India**	
Sender	Remittance Flow (in USD Mn)	Average Remittance Cost %
Bahrain	1,336	1.7
Kuwait	4,587	1.9
Oman	3,250	3
Qatar	4,143	4
KSA	11,239	3.5
UAE	13,823	2

Source: Marmoremena intelligence (2019)

Remittance is a very profitable business for Exchange companies operating in the GCC region. However, the revenue generated by exchange companies is based on the cost of remittances across different corridors.

Agpaytech

Remittance Regulations and Legal Framework

Financial services in India are highly regulated. The Reserve Bank of India has several sections or lists of foreign exchange or withdrawal transactions, which require the government's approval. In addition, payment of commission on exports made towards equity investment in Joint Ventures or owned subsidiaries of Indian companies abroad is also prohibited. Furthermore, many restrictions on outward remittance transactions require RBI approval. For example, private visits per financial year need a license if they exceed US$10,000, and payment for consultancy services procured by Indian companies executing infrastructure projects requires RBI approval for more than US$10,000,000 per project. Remittance for business visits needs RBI approval if they exceed US$25,000.

▪ **Remitting from NRO (Non-resident ordinary) accounts:** NRO account is a savings account where holders must maintain and manage their income earned in India. Therefore, the remittances from NRO accounts are limited to US$1,000,000 per financial year (April-March). Furthermore, there is a need to submit documents such as Form 15 CA and Form 15 CB while making payments to a foreign entity.

▪ **Liberalized Remittance Scheme (LRS):** The Liberalized Remittance Scheme (LRS) was announced in 2004 as a step toward further simplifying India's foreign exchange services. ON 26 May 2015, the RBI increased the remittance limit for individuals, including minors, from US$200,000 to US$250,000 per financial year. The LRS allows Indian residents to acquire and hold shares, including property, outside India without prior approval of the RBI. Therefore, a foreign national wishing to remit funds under the LRS must furnish their Permanent Account Number (PAN). The purpose of the PAN is to bring a universal identification to all financial transactions and prevent tax evasion. Therefore, without a PAN, remittance transactions will not be processed. LRS is unavailable to corporate and partnership firms.

▪ **Other remittance schemes:** Those not qualified for the LRS schemes can make remittances up to US$25,000 for current account transfers. These are called Small Value Remittances. Furthermore, remittances up to USD 100,000 per financial year may be made for the following purpose.

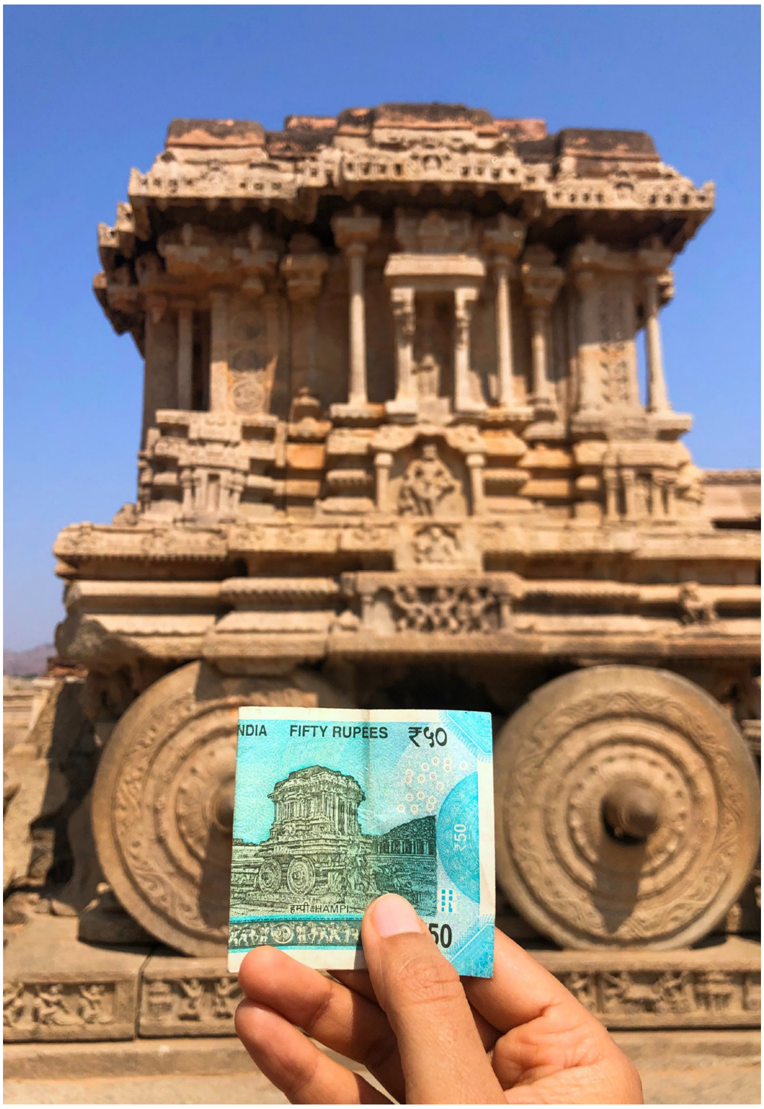
(a) Overseas Education abroad
(b) Overseas Employment
(c) Emigration
(d) Maintenance payment for close relatives

(e) Overseas Medical treatment
All resident individuals (Including foreigners with a PAN) are allowed to use this scheme.

India's remittance procedures for expatriates and foreign companies require significant knowledge of the relevant regulations. In India, outward Remittance is generally more difficult rather than inward Remittance. Companies must ensure they comply and are under the legal procedures to not fall out of the Anti-Money Laundering (AML) standards.

Conclusion

The Indian remittance market has a hefty volume and significant amount payments are received in the rural areas. The Indian Remittance market is based on Appliance, Channel, Type and End-user. The appliance market is classified into consumption, saving, and investment. The remittance industry faces multiple challenges like migrant joblessness due to an unforeseen scenario such as the Covid-19 Pandemic. If a significant number of migrants are jobless, it affects the economy.



Conversely, the technology adoption wave is transforming the new payment landscape era. FinTech's are expanding their offering and building comprehensive solutions in the forms of Neo banks and supper apps. Digital Remittances to India will continue to grow further with UPI-like model replication in other countries under discussion.

Reference

Basu, S. (2014). How Inward Remittances Impact the Indian Economy. My India.

How does remittance cost in the GCC stack up. (2019). Marmore Article.

How economic downturn in Gulf states has resulted in a drop in remittances into India. (2017). The Economic Times.

India largest remittance-receiving country in the world. (2018). The Economic Times.

India, R. B. (2018). Globalising People: India,s Inward Remittances.

Manjhi, T. (n.d.). Trends and Pattern of Remittances From Abroad to India.

Rahman, S. (n.d.). Why Remittances from the Middle East Matter to India.

Remittance Inflows to GDP. (2022). Trading Economics.

Remittances to India: where does the money come from and What does it mean? (2019). Factly.in.

Remitting Money from India: Procedres and Regulations. (2016). India Briefing.

Shikha, D. (2020). A Complete Overview of RBI Guidelines for Outward Remittance.

About Agpaytech

Agpaytech is a company pioneering in the Fintech Space with a focused approach to building robust technologies for eCommerce Card Processing Solutions for Payment Service Providers (PSPs). Additionally, we provide Compliance and Regulatory Umbrella, Remittance-as-a-Service White-Label Solution, Foreign Exchange, Cross Border Payments, and digital currency technology. We have partnered with multiple banks, non-banking financial institutions, and corporate organizations to create a solid service delivery model for them and their customers to ease their international remittances and payments concerns.

AGPAYTECH
3rd floor, 86-90 Paul Street
London, EC2A 4NE, UK
info@agpaytech.co.uk
www.agpaytech.co.uk