Unit – 3

# Framework for Cross-Border Remittances in India

There are various models for cross-border remittances. It mainly happens through channels such as commercial banks, credit unions, post offices, money transfer services, Society for Worldwide Interbank Financial Telecommunication (SWIFT) and Rupee Drawing Arrangements.

# CORRESPONDENCE BANK/ SWIFT

* Banks and other financial institutions such as banks, securities dealers, asset management companies, clearing houses, depositories and exchanges extensively utilise the SWIFT network for sending and receiving international payments.
* This network encompasses over 11,000 financial institutions spanning more than 200 countries.
* In the case of Indian banks, they establish partnerships with foreign correspondent banks and establish a NOSTRO account. The transfer request is then processed by both the correspondent and the Indian bank through the SWIFT messaging infrastructure.
* The duration of these transactions typically ranges from one to five days, and the charges incurred depend on the amount and the country involved (with some Indian banks implementing a flat fee structure starting at INR 500).
* Although SWIFT has been widely adopted by institutions and individuals worldwide for cross-border payments, concerns regarding the speed of remittance, particularly with the emergence of faster payment rails, have arisen.

# MONEY TRANSFER SERVICE SCHEME

* MTSS refers to a strategic collaboration between international principals and Indian agents, wherein funds are distributed to beneficiaries in India at prevailing exchange rates.
* The transfer process takes between one to three days, with fees ranging from 0.3% to 5% of the transaction value.
* This service is exclusively applicable for inward personal remittances, with a maximum transaction limit of USD 2,500 and a maximum of 30 transactions per beneficiary per year.
* Notably, remittances related to trade activities, such as property purchases, are not permitted within the framework of this arrangement.

# RUPEE DRAWING AGREEMENTS

* Indian banks have established collaborations with international exchange houses to offer a more expedited remittance service to Indian individuals living abroad.
* AD-1 banks have formed partnerships with non-resident exchange houses in countries that adhere to the FATF (Financial Action Task Force) regulations, allowing them to maintain vostro accounts.
* Through these exchange houses, customers can conveniently transfer funds to India, with the money being promptly credited to the beneficiary account held by the bank that maintains the rupee drawing agreements or RDAs.
* The RDA solely facilitates inward remittances, and there are certain limitations, either in terms of value or volume, imposed on individual transactions.

# POSTAL CHANNELS

* The International Financial System (IFS) is a software/ platform developed by the Universal Postal Union (UPU) to facilitate the transfer of funds both into and out of partner countries through the postal channel.
* These transfers are carried out using electronic data interchange (EDI) messages, which are sent from India Post’s central server to the IFS national server and then to the postal operator in the destination country via the UPU system.
* This service is available through the post office in India and is operated by the La Poste Group in France and the IFS in the UAE, utilising international money orders.

|  |  |
| --- | --- |
| **Service Provider** | **Country** |
| the post office | India |
| the La Poste Group | France |
| IFS | UAE |

* The IFS offers two main services, namely normal and urgent, with delivery times ranging from two to five days.
* It is important to note that certain commercial transactions, such as investments, loans, donations to charitable institutions, trusts, or NRE accounts, are not permitted.
* **Indian Post services**

#### **MO Videsh**

This is an international remittance service offered by India post to most foreign destinations.

Outward remittance is payable to beneficiaries by crediting the payment to the bank account of beneficiaries in the destination countries.

Each outward remittance shall not exceed 5000 USD & maximum 12 outward remittances are allowed in a year.

This facility is available in all computerized post offices.

The commission for MO Videsh vary with the amount to be transferred.

#### **Money gram International Money Transfer**

* The Department of Posts has entered into an International Cooperation Agreement with MoneyGram Payment Systems, Inc., USA to offer to the public the MoneyGram International Money Transfer Service through selected Post Offices in India. This service has been launched on 29th September 2011.

# Recent developments in cross-border payments

There are various developments that are seen both at a local and global scale.

# G20 ROADMAP

* The roadmap for enhancing cross-border payments was endorsed by G20 leaders in 2020, setting out the specific goals of achieving more affordable, efficient, transparent and inclusive cross-border payments.
* A multilateral platform refers to a payment system that facilitates cross-border payments and involves multiple jurisdictions.
* Unlike domestic payment systems that do not allow PSPs from foreign jurisdictions to participate, multilateral platforms are designed to enable entities from different jurisdictions to participate and offer cross-border payment services to their customers.
* This means that customers of one participating PSP in one jurisdiction can make payments to customers of another participating PSP in a different jurisdiction. Similar to domestic payment systems, multilateral platforms may have a tiered participation structure where some firms, indirect participants or third parties, can utilise the platform’s central payment, clearing, settlement, or recording facilities through direct participants, without establishing a contractual relationship with the platform.
* These platforms are typically governed by stakeholders from multiple jurisdictions and overseen by various public authorities through cooperative oversight arrangements.
* They can serve as alternatives to or coexist with traditional cross border payment arrangements such as correspondent banking and closed loop systems.
* In October 2022, the FSB released a prioritisation plan and engagement model to advance the roadmap.
* This plan acknowledged the necessity of transitioning towards implementing practical projects that would enhance cross-border payment arrangements and achieve quantitative targets by the designated deadline of 2027.
* Based on the analyses conducted thus far and the feedback received from stakeholders, the FSB, in collaboration with the CPMI and other relevant organisations, identified three interconnected themes to guide and concentrate the next phase of the roadmap.
* These themes include payment system interoperability and extension, legal, regulatory and supervisory frameworks, as well as cross-border data exchange and message standards.

# UPI DEVELOPMENTS BETWEEN INDIA AND FOREIGN COUNTRIES

* RBI has recently permitted foreign nationals and non-resident Indians (NRIs) visiting India to utilise UPI for making payments during their stay in the country.
* India is making significant progress in expanding its digital payment systems, such as RuPay and UPI, on a global scale. Recently, several countries, including France, Mauritius, UAE, Saudi Arabia, Bahrain, Singapore, Maldives, Bhutan and Oman, have embraced these Indian payment systems.
* Europe is one of the latest regions to accept India’s payment systems. This development allows Indians to make payments through UPI and other platforms in these countries.
* During the G20 digital economy working group meeting in Lucknow, Union Minister Ashwini Vaishnaw announced on February 13, 2023, that India has signed MoUs with 13 countries interested in adopting the UPI interface for digital payments.
* These international partnerships have been facilitated by NIPL, a subsidiary of NPCI, which is actively collaborating with various countries to establish a widespread acceptance network for RuPay and UPI.
* This network will enable Indian travellers to make payments using these channels in their destination countries. NIPL was established in April 2020 with the sole purpose of deploying RuPay and UPI outside India.
* Furthermore, as part of its efforts to expand the digital economy, India has announced UPI access for NRIs in 10 foreign countries.
* This access will be available to NRIs whose Indian bank accounts are linked to foreign mobile numbers.
* Additionally, foreign travellers arriving in India will also have access to UPI services, initially at select international airports.
* There are also various ongoing discussions with countries such as Russia, Thailand and other G20 countries.

**SINGAPORE**

* PayNow SG is a service in Singapore that facilitates peer-to-peer funds transfer for customers of both Banks and Non-Bank Financial Institutions (NFIs).
* It offers an improved funds transfer process, allowing customers to send and receive Singapore dollars instantly and is available 24/7, using only their mobile number or VPA.
* This eliminates the need for senders to have knowledge of the recipient’s bank account or e-wallet provider and account number when using PayNow Singapore for money transfers.
* The linkage offers a convenient and secure method for customers of participating Banks and NFIs to transfer funds across borders.
* For instance, an Indian UPI user, who is a part of the linkage, can easily send money to a user of Singapore’s PayNow, who is also a part of the UPI-PayNow linkage and vice-versa.
* There are multiple participants in this linkage such as Axis Bank, Indian Bank, State Bank of India, DBS Bank, Singapore, and Liquid Group, etc.

**FRANCE**

* During Prime Minister’s state visit on July 13, 2023, India and France entered into an agreement that permits the use of UPI for transactions in the latter country.
* This development will facilitate Indian tourists to conduct their financial transactions in rupee by utilising local QR codes or UPI IDs and will no longer have to necessarily carry foreign currency.

**UAE**

* The RBI and the Central Bank of UAE (CBUAE) have recently entered into two agreements in Abu Dhabi.
* These agreements aim to establish a comprehensive framework that facilitate cross-border transactions in local currencies and enable the interlinking of payment and messaging systems between the two countries.
* The MoUs have been established with the objective of creating a structured framework to facilitate the utilisation of domestic currencies, specifically the Indian rupee (INR) and the UAE dirham (AED), for conducting cross-border transactions.
* Additionally, the MoUs aim to foster collaboration between the two parties to integrate their respective payment and messaging systems.
* The utilisation of local currencies would enhance the efficiency of transaction costs and settlement time for various transactions, including remittances from Indian individuals residing in the United Arab Emirates (UAE).
* In relation to the commitment made on ‘Payments and Messaging Systems’, the RBI has stated that the two central banks have agreed to collaborate to connect India’s UPI with UAE’s Instant Payment Platform (IPP). Additionally, they will establish links between their respective Card Switches, namely the RuPay switch and UAESWITCH.

# Conclusion

* The field of cross-border payments is undergoing continuous advancements, aimed at reducing time and expenses involved, as well as simplifying the overall process.
* These innovations have the potential to facilitate growth of local businesses and expand their customer base at a minimal cost.
* Additionally, the local tourism industry will also benefit from these developments.
* Countries are making significant progress in this area, as fintech innovations are rapidly erasing boundaries between intermediaries, markets, and new service providers.
* While barriers to entry are changing, with some being lowered and others being raised, the emergence of large closed networks may limit competition.
* Nevertheless, trust remains a crucial factor in this domain.
* Furthermore, technology holds the promise of enhancing cross border payments by offering improved and more affordable services, as well as reducing the costs associated with compliance to anti-money laundering and counter-terrorism financing regulations.

# Electronic Payment System

# Automated Clearing House

* The NACH serves as India's automated clearing house, providing a centralized electronic payment service for banks, corporations, financial institutions, and the government.
* It was established by the NPCI with the aim of implementing best practices in electronic transactions. NACH was developed as an improvement over the ECS, which it replaced in May 2016.
* NACH enables the seamless execution of high-volume electronic transactions, both periodic and repetitive, throughout the country without any geographical limitations.
* An unified set of rules governs all users, service providers, and participants of the NACH system.
* The NACH system is utilized for the efficient distribution of subsidies, dividends, interest, salary, pension, and other bulk transactions involving payments for telephone, electricity, water, loans, investments in mutual funds, insurance premiums, and more.

# Digital Wallets

* Instruments that come with preloaded value and are utilised to purchase goods and services are known as Prepaid Payment Instruments (PPI).
* Mobile wallets or digital wallets are the best example of PPIs.
* Master Direction on Issuance and Operation of Prepaid Payment Instruments (PPI Directions 2017) were issued by the RBI on October 11, 2017.
* The PPI Directions were issued by the RBI under the Section 18 read with Section 10 (2) of the PSS Act.
* After various amendments to the PPI Directions 2017, the RBI came up with Master Directions on Prepaid Payment Instruments on August 27, 2021 (2021 PPI The issuing bank verifies the card information and sends back a response to card network The credit card network requests payment authorization from the cardholder's issuing bank Directions).
* A software-based or an application-based system, which allows the user to make payments or receive payments, can be called a digital wallet.
* Digital wallets are popular as they offer quick and convenient way to pay electricity bills, book movie & travel tickets book hotels, etc., making them instantly popular.
* These wallets can also be used to transfer funds/money from one account to another.
* Fund transfer limits are calculated on the basis of available information and may vary from bank to bank.
* The RBI guidelines have restricted the liability of the consumer in case of unauthorised transactions made from mobile wallets.
* Further, it has been provided in the guidelines that a 24\*7 customer care or helpline should be established by the mobile wallets so that the consumers can immediately report any fraudulent or unauthorised transactions.

# Online Banking

* Online banking allows you to conduct financial transactions through a computer or smartphone using the internet.
* With online banking, you don’t need to visit a branch to complete many transactions.
* Many online banks offer lower fees and better rates than their brick-and-mortar competitors.
* To take advantage of online banking, you’ll need an electronic device, an internet connection, and perhaps your debit card or account numbers.
* IMPS, NEFT, RTGS, or bill payments.

# References

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