Remittances

Remittance

Banks also undertake money transfer for their customers – this activity is called “remittance”. For this purpose banks issue Money Orders, Demand Drafts and Banker’s Cheques. In addition, for rapid transfer, banks offer the facility of Tele Cash Orders or Telegraphic Transfer.

Remittance – Process

The process is given below:

- Remittance business process is detailed below:
- Bank X accepts money at location x from customer A
- Bank X arranges for payment of exact amount at location y, through a Branch or other means, to either of the following:
  - Customer A
  - Another Entity/Person, as indicated by Customer A
- Bank X charges commission or exchange or service charge as the case maybe

Demand Draft

A demand draft (DD) is a negotiable instrument widely used in India for money transfer. Customers need to fill in an application form at banks so as to “buy” the DD. The application asks for details regarding the names of sender and recipient, amount to be transferred and the location and mode of payment.

Customer submits the form along with cash or cheque on his account with the clerk who then issues a DD. Banks charge certain fees for issuing DD.

Mail Transfers / Mail Orders

This product is rarely used today. The instrument is used for transferring an account holder’s money from one centre to another either to his account or other account.

This process also involves filling up an application form plus giving a cheque or a charge slip for the amount to be transferred in addition to the exchange. The Bank then sends an order to a branch at the other location to deposit the said amount in the designated account.

Telegraphic Transfers or Tele Orders

This is very much like the Mail Transfer with one major exception. The bank intimates the other centre through a telegram. Currently, however, banks are using fax instead of telegrams.

Funds are remitted by telegram / telex by banker himself for credit of the A/c of a beneficiary or for payment to the beneficiary by issuance of a bankers’ cheque. The messages are in coded form with Banks check signal duly affixed. The remitting branch sends a confirmation of telegraphic transfer for the amounts remitted. The paying branch has to mark off the confirmations with the entries in its telegraphic transfer payable register.

At the drawee branch the TT payable received are to be decoded, verified for check signal and entered in a TT payable register. The TT issued at the remitting branch are entered in TT issued register.

These entries are reported to inter office A/c department for reconciliation.

Electronic Remittances

An increasing number of banks in India are adopting electronic fund transfer techniques such as Electronic Transfer System and Cash Management product. These methods facilitate a much faster remittance. Funds are transferred on the same day for credit of beneficiary account through electronic system.

Bankers Cheque

Bankers' cheques are meant for making local payments on banks account. They are also used for making remittances received in favour of parties who do not have an account with the bank. Unlike a draft, the bankers cheque cannot be used for non-local payments and is payable locally. It should be marked as "Not transferable"

Banker cheques are also known as pay orders. The bank branch issuing the Pay Order will hand over the instrument to the customer, who in turn will hand it over to the beneficiary of the Pay Order. The beneficiary will deposit the Pay Order into his account, and through clearing this instrument will come to the issuing branch for payment.

Correspondent Bank

If a bank does not have a presence in a market, but wants to deal in that market, it does that by way of a correspondent bank.

Example: To illustrate, if Citibank wants to issue a demand draft payable at Mangalore, it cannot do so directly as it does not have a branch. Hence, it will tie up with a bank which has a branch in Mangalore (say Canara Bank) and issue the DD payable at Canara Bank, Mangalore. Thus Canara Bank is the correspondent bank for Citibank.

International/Worker Remittances

International remittances are different from banking remittances we talked about. International remittances are primarily worker remittances sent by migrant populations to their home nations. They are more of an economic component than a banking function.

Did you know?

Banks do have a role as the remitting intermediary…but there are several more entities operational in this field. Remittances can be made through:

- Banks (as already discussed)
- Online remittance companies (such as Western Union)
- Exchange houses (Indians in the Gulf states generally use this avenue and even private banks have tie-ups with these houses)

Trends in International Remittances

Volumes are rising, thanks to growing levels of immigration to prosperous nations. Non-banking entities are emerging as a major force to reckon with (example - Western Union). The opportunity is vast - according to World Bank statistics; remittances in 2000 to 80 countries for which there were data available, amounted to near seventy billion dollars.

Did you know?

India is the single largest remittance recipient nation. Flows into the country reached US$17.4 billion in 2003 from about US$11 billion in 2000.

Informal Value Transfer System

These refer to non-banking, non-conformist, information channels for remittances. These are often illegal and have been operational for centuries. Some of such channels are:

- Hawala and hundi (South Asia)
- fei chien (China)
- phoe kuan (Thailand)
- hui (Viet Nam)
- casa de cambio (South America).

Summary

- Banks offer money transfer services called “remittances”. These cover Money Orders, Demand Drafts, Banker’s Cheques, and Tele Cash Orders or Telegraphic Transfer.
- If a bank does not have a presence in a market, but wants to deal in that market, it does that by way of a correspondent bank.
- International remittances are primarily worker remittances sent by migrant populations to their home nations. They are more of an economic component than a banking function.

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