GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2803
ANSWERED ON:29.08.2012
CHARGES LEVIED BY BANKS ON MONEY TRANSFER QUESTION
Joshi Shri Mahesh

Will the Minister of FINANCE be pleased to state:

(a) whether the RBI do not regulate the charges levied by banks on cross border money transfer;

(b) if so, the details thereof; and

(c) the steps taken/ being taken by the RBI for reduction in the cost of remittances?

Answer

The Minister of State in the Ministry of Finance (Shri Namo Narain Meena)

(a) to (c) Reserve Bank of India (RBI) has informed that inward cross border remittance facility has been permitted through non bank entities authorised under Payment and Settlement System (PSS) Act 2007 viz. Western Union, Money Gram, etc. for operating Money Transfer Service Scheme (MTSS) with a bank (Authorised Dealer) at the receiving end as one of the agents in India. RBI does not regulate the charges levied by banks on cross border money transfer. The RBI has taken various steps towards lowering the cost of remittances. Some of them are mentioned below:-

(i) To have more competition and increase in outreach, Authorised Dealers Category - I banks are allowed to have any number of tie-up arrangements and any number of drawee branches, under Rupee Drawing Arrangement (RDA), subject to having sound risk management systems and regular monitoring of funds position to avoid concealed overdrafts in the vostro accounts.

(ii) The banks have been advised to put in place an `Awareness Programme1 to sensitize NRIs on the options available to them to minimize the cost of remittances. This will make the costing more transparent.

(iii) Banks have also been advised to review their existing scale of charges, both at the foreign and domestic end to minimize the current cost of remittances. Banks may also endeavour for improvements in infrastructure and extending the scope of electronic payment mechanism for inter-city settlement between the banks in India so as to reduce the cost of NR1 remittances.

(iv) The float period of transferring the funds from DDA account to a bank`s nostro account for ultimate credit to the vostro account of an Exchange House has been enhanced from 3 days to 5 days.

(v) Exchange Houses under RDA have been permitted to open Liaison Offices (LOs) in India. These LOs may issue Demand Drafts in favour of the beneficiaries in a cost-effective manner,
(vi) The period for the collateral requirement under Non-DDA has been reduced from 30 days to 10 days, which can be kept either in the form of cash deposit or a bank guarantee from an international bank of repute.

(vii) Requirement of collateral under Speed Remittance Arrangement has been reduced from 3 days` to 1 day`s remittances.

(viii) Collateral requirement for Exchange Houses, which have not completed 3 years` of operation has been reduced from 1 month`s to 7 days` remittances.

(ix) Necessary KYC/ AML/ CFT Guidelines have been issued to the Indian Agents under MTSS.

(x) RBI has advised the Overseas Entities, authorized by the Reserve Bank of India, under the Payment and Settlement Systems Act, 2007, to operate in-bound cross border money transfer services through agents appointed in India, shall not enter into any arrangement with any entity regulated by the Reserve Bank, appointed as agent, incorporating any kind of `exclusivity` clause in the contracts which restrict or prohibit the agent from entering into agency relationship with other overseas entities operating in-bound cross border money transfer services. This will ensure greater competition, leading to reduction in cost of remittances.

(xi) The RBI has increased the number of remittances to be received by a single beneficiary in a calendar year under MTSS from 12 to 30.