

Chapter – 10

Remittance Needs of the Poor

10.01 The credit needs and avenues for safe custody of savings for the poor have been recognized as areas of substantial gaps and have been sought to be addressed by expansion of bank branches, cooperative credit structure and microfinance initiatives. However, the remittance needs have traditionally been thought to be well met by money orders from Post Office, sale of traveler's cheques, demand drafts by banks and through informal sources, including physical carrying of cash by the poor themselves and their relatives and friends.

Remittance System Required by the Poor

10.02 The poor need a remittance system to send money to their families when they migrate out of their villages or towns. Situations often arise when migrant workers in a city remit money to their families in the village or when parents in the village need to remit money to their children in the city. Other cases of remittance could arise on account of transfer payments by Government or remittances of miscellaneous nature. As such the service they need should meet the following criteria :

- a. Accessible service - The product should be available to them without unnecessary hassle. Entry barriers such as existing relationship with banks, possession of checkable accounts or filling up long forms act as deterrents in accessing the services.
- b. Timeliness and certainty of delivery - Predictability of delivery at the recipient's place is important for those who depend on remittances for meeting their basic needs.
- c. Cost effectiveness, affordability and value for money services - The remittance needs are mostly repetitive and small value. The present system of remitting through post offices is costly. Other sources are risk prone, further adding to the cost of the service.
- d. Receipt of delivery status - Timely confirmation of delivery is a requirement for poor people who have limited access to communication facility.

10.03 With new technology and computerization of banking operations, new remittance products have been introduced in the market, which have increased the speed, cost effectiveness and efficiency of the payments and settlement system. These include the National Electronic Funds Transfer (NEFT), Electronic Clearing System (ECS), Real Time Gross Settlement (RTGS) and ongoing endeavour at cheque truncation system leading to a national payment and settlement system.

10.04 While these systems meet the needs of a modern economy, they leave the financially excluded sections of the population untouched. The basic requirement of ECS and cheque transactions is a checkable account with a bank which offers these products. The RTGS is also a bulk payment facility and would be addressing the needs of high value settlements. As such these systems pose a high entry barrier for the financially excluded sections. This calls for a conscious attempt to build a payment and settlement system that caters to the needs of the poor and excluded sections of society.

10.05 One of the starting points in this direction is the present drive at financial inclusion through “no frills” accounts and use of BFs and BCs. However, it would be useful to look also into a few international experiences in expanding the choice of remittance facilities for the poor.

International Experiences

10.06 Wizzit, a South African company enables customers to use their phones to send funds to one another, buy airtime and pay their bills. The funds come from customer accounts at Wizzit, which operates as a bank in South Africa under license from the Johannesburg-based South African Bank of Athens (SABA). SABA is a subsidiary of the Athens-based National Bank of Greece⁶.

10.07 Globe Telecom, a mobile service provider in Philippines provides an e-wallet facility to its customers. The product turns cell phone into an e-wallet, and the customers can use their phones to transact business. Non subscribers can send money electronically to Globe mobile subscribers⁷.

Experiences from India

10.08 In India, mobile services are presently used for conveying information regarding banking transactions. The potential exists to expand the services for enabling remittance facilities through mobile phones. Already no frills accounts and Government payments are being routed through mobile network and telephone on a pilot basis at Warangal, Pithoragarh and Aizwal.

10.09 One successful example of suitable remittance product is the model adopted by Ahmednagar DCCB. It has implemented a system of low cost anywhere banking solution which has a facility of card to card transfer. Savings / current account holders at all its 280 branches have a choice to keep their savings bank account or a part thereof in a separate account at the bank's head office. Customers can have access to this account from all the bank branches. Each branch has been provided with two PoS devices which are connected through a dial-up telephone line to the head office. The customers can go to any branch and deposit or withdraw cash after authenticating access to their account. About 30,000 cards have already been issued. Wholesale dealers have adopted the model and ask retailers to make payments through this mechanism. Add-on cards have also been provided to the customers asking for the same. An account holder at a village can deposit cash in the village branch of the bank and her children studying in the city can withdraw cash from another card. It was learnt that the customer is charged only Rs.4 per transaction. Such experiments may be studied for replication.

10.10 A low-value card, linked to a bank account, which can be encashed at PoS and which would allow transfer of small amounts from one card to another, would alleviate the problems that poor face in getting affordable remittances facilities. This would require national switch with linkages to PoS. Further, this would substantially increase banking outreach as at present there are about 3 lakh PoS as compared to around 70,000 scheduled commercial bank branches and 22,000 ATMs. However, a majority of PoS machines are now located in urban and semi-urban areas. It is expected that as the system takes roots more PoS will come in rural areas, facilitating such transfers.

⁶ <http://www.bai.org>

⁷ <http://www1.globe.com.ph>

10.11 The e-kiosks in villages could be yet another source of operating a remittance system that is accessible to the poor.

10.12 Thus, while the financial inclusion through opening of no frills accounts with banks would improve the remittance facility for the poor, a conscious effort at devising a product within the existing payment and settlement system would enable the poor to benefit from the improvements in banking technology.

10.13 From the above it is quite clear that when it comes to transferring money from one village to another, the poor in India are substantially challenged. Both the originator and the beneficiary have to sometimes travel quite a lot of distance to be in a position to send/ receive money. Also, the base fees for enabling a transfer work adversely against small ticket remittances. For small transfers, the fee itself would constitute more than 25% of the remittance. The remittance needs of the poor may have to be met by a multi-pronged strategy which uses the existing infrastructure optimally and in addition, new products should be introduced which leverage on technology.

Other Recommendations

10.14 The following additional suggestions would substantially alleviate the remittance needs of the poor in the country :

- The combined network of nearly 70000 branches of scheduled commercial banks (including RRBs) and a network of more than 1.50 lakh post offices can ideally provide the institutional mechanism for extending remittance facilities in remote areas. With adoption of appropriate technology, it may be possible to bring down the transaction costs which would encourage and enable the poor to make use of such remittance facilities. A committee may be set up with representatives from RBI, Department of Posts, NABARD and commercial banks for exploring the feasibility of integrating postal network with the banking system and developing a nation wide remittance system.
- The remittance product could be an electronic product similar to “Instacash” where a 16 digit code is given to the originator of the transaction, and the beneficiary can take the amount from select post offices by giving the code, and identity proof. This product should be available across banks, post offices and other institutions and be affordable. Another option could be to credit the remitted amount to a central server at the originating point and at every touch point should be able to withdraw it.
- Banks should endeavour to have a BC touch point in each of the six lakh villages in the country. There should be a micro-bank in every village.
- Banks should introduce card-based remittance products which can be encashed all over the country. This may be card to card transfer, or simply a scratch card type remittance card.