Our Views

Cross Border Remittance – a need for transparency similar to capital markets

Each time I travel overseas and make payment through my credit card, the pos machine gives an option to debit either in INR or in Foreign Currency. Honestly, like many, I am also challenged to make a choice without much information on the mark up being charged for both the options. Similarly, when we make a cross-border remittance (CBR), as retail individuals, the currency conversion rates are left to the mercy of each intermediary bank with little transparency. In case I am loading a forex travel card or purchasing currency for foreign travel, again my negotiation skills with my bank relationship manager will determine what I pay per dollar.

From a business perspective too, no trade is complete without settlement which is usually done via transfer of money. So for international trade where the transfer of money is done between the two parties across the border, involvement of two or more different currencies makes CBR a complex proposition.

So CBR could be for various purposes such as for settlement of trade, investment, remitting money for personal use or for borrowing. Why is this important? Because the overall volume involving CBR is significant. For India, the CBR just for export-import and retail remittances would be more than one trillion US dollars. Additionally, investments and borrowing in foreign currency are also substantial. The bulk of the Indian CBR is done in US dollar terms. A significant part of the CBR, more than 50%, involves MSME and small consumers like us who are either too small to negotiate with banks or not very well versed with the nuances of CBR. The lack of transparency about bank charges in a CBR transaction further adds to the lack of our ability to get a good conversion rate.

For example, if someone travelling abroad buys something for $100 and pays through her credit card. A question pops up on the payment terminal: Would you like to pay in local currency or the home currency of the country where your card is from? If you choose to pay in home currency, the card terminal will do the forex conversion at a certain rate, often worse. If you opt to pay in local currency, your card issuing bank will do the conversion - but you have no information about the rates they charge, which too is exorbitant. Some banks may even charge a flat fee each time you use your card abroad. Similarly, an MSME exporter receiving payment from a foreign buyer has no knowledge of the commission being charged by the buyer's, her own bank and other intermediary or correspondent banks involved. Again, there is no transparency of charges.

The lack of disclosure or prior intimation of charges and mark-up on rates is not just an issue of transparency and fairness on banks' part, but also a significant financial cost for consumers which could be well upwards of 5%. Sometimes, if the remittance amount is small then almost the entire proceeds are applied towards commission with no credit being passed on to the beneficiary. This could make the transaction unviable.

On a CBR upward of 1 trillion, intermediation and conversion mark-up, even assuming an average rate of 2%, amounts to a very big sum of money. Usually, the explanation given for the lack of transparency or a common pricing parameter is that there are multi parties involved, banks from both sides i.e. buyer and seller are involved, there are different jurisdictions and multiple regulations. But certainly, there is a need for a service that can handle transactions of such voluminous magnitude with full transparency and clear method of pricing. A rationalisation of the charges could benefit many retail consumers who are transferring funds for education, medical purposes or family maintenance, and positively impact the viability of some of our MSMEs.

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Therefore, what's the solution to this major challenge? We have gone through a similar situation in the capital markets. There was a time till the late 1990s when actual purchase and sale price of a particular scrip was not known to the buyer or the seller as only the select brokers were allowed in the trading ring. Accordingly, one had to trust and totally rely on the brokers inputs. Introduction of technology in the stock exchanges brought about a full transformation, and transparency became the hallmark of the capital markets. Similarly, a platform can be developed to provide full transparency in foreign exchange markets also. Some of the fintech startups can certainly provide an appropriate solution to this issue.

A few days ago, a new chapter in cross border payment system was created as Hon. Prime Minister Modi, his Singapore counterpart Lee Hsien Loong and RBI Governor Shaktikanta Das launched the cross-border linkage between India and Singapore using their respective Fast Payment Systems, Unified Payments Interface (UPI) and PayNow. The launch of this direct payment platform between India and Singapore is very significant wherein a person sitting in Singapore can directly pay the bills in India via UPI by paying the foreign exchange commission to only one bank. Earlier the same person would have to use a bank in Singapore and a bank in India, and may be a few correspondent banks in between, and then wait for the money to be transferred before the payment.

The cross-border UPI payment has ushered in an era of cross-border disintermediation which righty brings down the cost for consumers, and also provides ease of doing business for the MSMEs. A similar focus on disintermediation and transparency is required across all other cross border payment products.

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