



Institutional and Regulatory Reforms for Remittance Management

SUMMARY

Migration of workers and flow of remittances play an important role in the economy of Bangladesh. Since the late 1990s successive governments of Bangladesh have initiated different policy reforms which resulted in significant increase in migration from and remittance flow to Bangladesh. Through research and policy advocacy, Refugee and Migratory movements Research Unit (RMMRU) of the University of Dhaka played a modest role in articulating the reform agenda. On 20 October 2010, RMMRU organised a dialogue on Institutional and Regulatory Reforms for Migration and Remittance Management at the University of Dhaka. This document presents some of the important regulatory reforms suggested by public and private banks, migrant workers, their associations and other civil society organisations at the dialogue. Those are presented under six broad heads: (a) pay cash exclusivity clause, (b) guideline for drawing arrangement, (c) interbank drawing arrangement, (d) diversification of investment products, (e) improvement of services, and (f) securing rights and honouring migrants.

ISSUE 1: PAY CASH EXCLUSIVITY CLAUSE

Cash to cash and spot cash methods have revolutionised remittance transfer in Bangladesh. A large number of unbanked customers could be brought under the formal transfer system and the speed of remittance transfer has increased tremendously due to introduction of these methods. Western Union, Money Gram and other large remittance houses played a vital role in introducing cash to

cash and spot cash systems. Of course, other banking methods such as DD, TT, EFT, and SWIFT, are not less important. Cash to cash and spot cash systems still have huge untapped potential for increasing remittance flow through formal channels. National and international and public and private banks who are involved in remittance business, identified the Pay Cash Exclusivity Clause as a major hurdle in the process of materialising such potential.

Problem: Large international money transfer companies



like the Western Union used to insert 'Pay Cash Exclusivity Clause' while signing agreement with banks for remittance transfer. Initially signing of such clause did not affect the remittance market as there were no other similar products available in the market. At that point of time majority of the payments was done through DD/MT which used to take a long time to reach the beneficiary. The introduction of cash payment reduced the lead time dramatically and brought convenience to both the remitter and the beneficiary. The migrant family and migrants quickly accepted the pay cash transfer system as it could match the speed of the hundi system. Due to quick acceptance of this remittance payment system among the migrants and their

families, now most of the exchange houses have also developed similar services. Signing of Exclusivity Clause with one company deterred concerned banks to sign similar cash to cash and spot cash agreements with any other companies.

At the beginning, Exclusivity Clause was applicable on both parties, the remittance house and the concerned bank. At a certain time the exchange houses managed to make free themselves from such obligation and began



signing agreements with other banks. The banks however, were not freed from such obligations and had to stick to the concerned exchange house (National Bank, 20.10.10)

The exclusivity clause undermined the basic private sector principle of fair competition. It helped big remittance houses to establish monopoly business in remittance transfer. It reduced migrant customers' convenience of remittance transfer at both sending and receiving locations. The remittance houses with which Bangladeshi banks had earlier signed pay cash agreement did not have their branches in all locations where Bangladeshi migrants were located. However, there were many other remittance transfer houses having branches covering those areas. The Bangladeshi workers, particularly those based in remote areas, were deprived of the opportunity of sending remittance using a locally available remittance house. This left no other option to the workers except hundi to send remittance to their families. In the ultimate analysis therefore, it hindered facilitation of larger flows of remittance into the country. Due to above reasons, over the years central banks of India, Pakistan and Nigeria had withdrawn the clause (BRAC Bank, 12.10.10, National Bank 20.10.10).

Recommendation: One of the important goals of Bangladesh Bank is to expand the access of formal remittance delivery services. All participants unanimously suggested that existence of such exclusivity clause limits



Bangladesh Bank to help them come out from such discriminatory provision of Pay Cash Exclusivity Clause.

the reach for harnessing remittance and thus works against Bangladesh's national economic interest in favour of big companies. The Managing Directors of seventeen banks therefore, requested the Governor of

Bangladesh Bank to help them come out from such discriminatory provision of Pay Cash Exclusivity Clause. The banks argued that the same rule should be applicable for both parties, the banks and the exchange houses. If the exchange houses could sign remittance transfer agreements with more than one bank, than the other party i.e. banks should have also the right to do the same with more than one exchange house (National Bank 20.10.10).

ISSUE 2: REFORM OF GUIDELINES FOR DRAWING ARRANGEMENT

In October 2007 the Bangladesh Bank has developed comprehensive policy guidelines on Establishing Drawing



Arrangements between Bangladeshi banks and foreign exchange houses. This has resulted in increase of remittance through formal channels manifold. The public and private banks suggested

that the following amendments be made to the current policy guidelines to facilitate entering into relationships with many other exchange houses.

2.1 Security Deposit for Drawing Arrangements

According to the Bangladesh Bank guidelines of Drawing Arrangement the amount of minimum security deposit in case of EFT system is US\$25,000 and in case draft drawing system it is US\$50,000 (Prime Bank Ltd., 13.10.10 and AB Bank Ltd, 18.10.10) and for balance of NRT account Tk. 5,00,000 (Premier Bank Ltd., 12.10.10)

Problem: This security deposit is the most important hindrance in developing newdrawing arrangements. Various banks particularly of Bahrain, Kuwait and Qatar expressed their regret to meet this condition as they do not accrue any interest and lie idle for years. Because of this security deposit / bank guarantee and balance of NRT accounts, the remittance houses only draw arrangements with one or two banks.

Recommendation: The participants in principle agreed that it is important to maintain secured transaction of



migrant remittances. The provision for maintaining Security Deposit may be withdrawn since payments are effected only after receipt of counterpart funds in the respective Nostro Accounts. Drawing arrangement deposit of Bangladesh Bank should be \$5000 (Jamuna Bank, 13.10.10).

2.2 Title of the Exchange House

The Clause 1/Gha of the 2007 guidelines stipulates that the concerned institution must have the nomenclature to demonstrate that it is involved in money transfer business. In other words these companies must have 'money transfer', 'exchange', 'remittance' etc in their company names.

Problem: Some exchange houses are involved in money exchange business with due authorisation from their governments but do not have the words 'money transfer', 'exchange' or 'remittance' in their company names. It would not be possible for them to change their existing names (Islami Bank Bangladesh Limited 13.10.10).

Recommendation: Islami Bank Bangladesh Limited (13.10.10) requested to allow particular banks to make special arrangements to enter into relationship with genuine exchange houses who may not meet the nomenclature requirements set by the Bangladesh Bank, but are duly authorized by their respective central banks.

ISSUE 3: ESTABLISHMENT OF INTER-BANK DRAWING ARRANGEMENT

3.1 Inter-Bank Drawing Arrangement

Most of the private banks do not have branches in remote areas of Bangladesh. In order to send remittances quickly to these areas, they are interested to develop inter-bank drawing arrangements with those banks which have many branches. However, the public commercial banks are either not interested or demand excessive charge for such arrangements (Prime Bank 13.10.10, Trust Bank 20.10.10)

Problem: At present banks issue Pay Orders / Cashier Orders for processing IRMs for customers who do not have accounts with those banks and are posting those to the customers' banks. The POs / COs need to get cleared / collected before being credited to the customer's account. This delays crediting of IRMs to the customer's account. A system of direct and straight processing of IRMs between banks is essential for service improvement (HSBC 12.10.10).

Recommendations: In order to facilitate inter-bank remittance transfer a national integrated distribution system may be introduced under the auspices of the Bangladesh Bank (Janata Bank 13.10.10).

In order to help the beneficiary to receive his or her remittance within the shortest possible time Bangladesh



Bank may create an inter-bank settlement system especially for foreign remittance payment whereby one bank honours another bank's instrument before inter-bank settlement. Already the

NCBs follow this system. Again government and non-online private banks can make arrangements for faster credit to beneficiary accounts by processing remittance through TT or similar faster mode through a suitable branch of beneficiary bank. Law should be passed aiming at cooperation of all government and private banks with each other for the sake of smooth and easy transfer of remittance (Bank Asia: 12.10.10).

3.2 Interbank exchange rate

Problem: Unhealthy competition among the banks on exchange rate allowed exchange houses to offer different rates to the migrants (Prime Bank 13.10.10)

Recommendation: Ensure same exchange rate in case of remittance collection (Janata Bank 13.10.10)



Strict implementation is needed of BAFEDA's directive circulated vide BAFEDA/FX Market 2/09 dated 06.05.09 that banks' conversion rate to the exchange houses should be the inter-

bank buying and selling average rate less by 20 paisa per US dollar (National Bank 14.10.10).

ISSUE 4: DIVERSIFICATION OF INVESTMENT PRODUCTS

4.1 Reintroduction of Renewal / Reinvestment of Wage Earners' Development (WED) Bond

Problem: Until the financial year (2009-10) the Non-Resident Bangladeshis (NRBs) could renew / reinvest the Wage Earners' Development Bonds. The renewal and reinvestment system of the WED Bonds has been terminated from the financial year (2010-11).

This has resulted in many NRBs being forced to encash their WED Bonds once they mature. The NRBs are losing interest to purchase the Bonds. This may contribute in the reduction of flow of remittances. Recommendation: In order to keep the interest of the NRBs in the bonds, the previous system of renewal / reinvestment of bonds need to be reintroduced (Agrani Bank, 13.10.10) 4.2 Allowing banks to provide mortgage facilities to NRB customers

Problem: Presently NRBs can only be offered secured loans against bonds. They cannot be given home loans, home equity loans or car loans.

Recommendation: Allowing mortgage loans would enable NRBs to bring in more IRMS to the country to invest more in these areas (HSBC 12.10.10)

4.3 NRB Participation in Capital Market

At present, NRBs are allocated 10% of all IPOs. NRBs should



also be allowed to participate in the placement shares. HSBC provides one stop service to NRBs for participating in IPOs through NITA accounts. HSBC is looking forward

to offering these services for secondary market investments as well.

Recommendation: NITA reporting regulations need to be relaxed to encourage more customers for investing in Bangladesh capital markets through bringing in more IRMS (HSBC 12.10.10).

Bangladesh Bank may encourage utilisation of proceeds of remittance to productive sector like capital market through Mutual Fund or other similar products (National Bank 14.10.10).

4.4 Opening the NRTA

NRTA are important for receiving remittance. On occasions



the NRBs face problem in opening accounts due to complex account opening processes. NRBs who have foreign passports cannot open NRTA. For some NRBs, finding an

introducer may prove to be difficult. Only account payee cheques can be issued against NRTA. However, some NRBs would like to issue cash cheques in some circumstances. Submitting the passport size photo of a nominee is compulsory. Often, NRBs do not have such photos of their

preferred nominees (Prime Bank 13.10.10). The current guideline on transactions permitted in NRT accounts are very cumbersome, confusing and encroaches upon basic rights of non residents to meet financial obligations in the country.

Recommendation: The NRTA chapters in the guideline for



foreign exchange transactions need to be rationalised and made conducive to the requirements of Bangladeshis who need to stay abroad so that they can meet their

financial obligations (Standard Chartered: 18.10.10)

ISSUE 5: IMPROVEMENT OF SERVICES

5.1 Sending representatives to the destination point

Problem: It is evident from the information received from different sources that exchange houses run by private and Bangladeshi owned private banks harness remittance from all over the concerned country by employing representatives in an alternative way. The exchange houses of state owned banks cannot employ agents due to restrictions of the Bangladesh Bank.

Recommendation: In order to secure more remittance from distant places in the destination countries Bangladesh Bank should change its policy and allow employment of representative by the banks (Janata Bank 13.10.10).

In order to increase awareness about formal remittance channels and to effectively run business banks must be allowed to send representatives in the important destination countries. Due to complexities of outward remittance and the need to pay representatives' salaries, banks are facing difficulties in this regard (Prime Bank 13.10.10).

Bangladesh Bank may acknowledge the importance of employing representatives in destination countries and allow public commercial and private banks to engage them. Accordingly it may ease foreign exchange transfer as salaries of bank representatives.

5.2 Standard ID for Cash payment

Types of ID requirements for cash payment may be standardised by Bangladesh Bank for all banks.

5.3 Embassy attestation:

Problem: According to the Bangladesh Bank policy guideline, a bank has to submit clearance paper from the

embassy of Bangladesh of the concerned country to apply for developing drawing relationship with an exchange



unnecessarily (Prime Bank 13.10.10).

Recommendation: Certain time limit needs to be set for attestation. If the attestation is not done by the stipulated time then the application should be considered automatically attested.

5.4 ATM and Point of Sales placement

Problem: An obstacle of inward remittance is unavailability of cash at non-bank /NGOs in rural areas. Now, there is a rule for branch placement (one rural branch for two urban branches). There is no such rule for ATM placement.

Recommendation: The central bank can impose some rules for ATM and POS placement like branches. In that way the rural people can enjoy the benefits of modern technology (BRAC Bank 12.10.10).

5.5 Mandatory account opening for the job seekers

Problem: Most of our wage earners are unskilled. In many cases they use hundi for not having accounts.

Recommendation: We request for a notification from the Finance Ministry / Central Bank to the Ministry of Expatriates' Welfare and Overseas Employment (MEWOE) for installing mandatory account opening of the job seekers. This will reduce hundi operations in a major way (BRAC Bank 12.10.10).



We request to make opening of Bank Account mandatory to the emigrants as a pre-requisite of BMET clearance (National Bank 14.10.10).

ISSUE 6: SECURING RIGHTS AND HONOURING MIGRANTS

6.1 Customer Protection Law

Problem: Currently there is no law to protect the customers' interest in remittance transfer business.

Recommendation: To protect the rights of remittance receivers and senders, RMMRU suggests that a customer protection law be framed. Once the remitter and provider agree to undertake a transaction the provider should give the remitter a reference number to track the transaction as well as information on all charges including the exchange rate (RMMRU: 2010).



6.2 Bank Loan

Since the late 1990s RMMRU has been articulating the demand to Bangladesh Bank and other public and private banks for developing loan programme to finance migration. Such programme will help migrants not to part with their important family assets; banks will also get the opportunity to catch migrants early for receiving their remittances. In 2008, four banks had introduced migration loan programme. These are Agrani Bank, Pubali Bank, Mercantile Bank and Uttara Bank. RMMRU research shows that Uttara Bank has already abandoned the loan programme. Since July 2008, Agrani Bank disbursed Tk.5,70,000 as loan only to 3 persons at 10% interest. Since January 2008, Mercantile Bank disbursed Tk. 1,500,000 to 15 persons at 14% interest. Among these four, Pubali Bank performed the best. From February 2008 it has disbursed Tk. 13,000,000 to 79 migrants at 13% interest. The performance of the three banks is quite insignificant considering the annual flow of migrants.

Problem: RMMRU research suggests that comparatively high interest rate, lack of motivation among grassroots level bankers and lack of communication between bankers and loan seeking migrants are major hindrances for public and



private commercial banks to disburse loan among the migrants.

Recommendation: As the public and private commercial banks started their loan programmes as part of their Corporate Social Responsibility then interest rate should be



lowered. The head offices of loan disbursing banks should set migration loan disbursement target for local branches. The gap between potential migrants and the loan providing banks can be overcome through development of institutional arrangements with grassroots NGOs and banks. NGOs will be able to help banks identify potential clients, in exchange of sharing of certain percentage of their profit (RMMRU, 20.10.10).

Financing migration should be treated an important programme of the Probashi Kallyan Bank. It is understood that at the initial stage Probashi Bank will not have many branches. Following the Griho Reen Prokolpo of the Bangladesh Bank, the Probashi Bank may allocate resource for supporting finance of migration and then channel the resource to the potential migrants through other interested public and private banks which have branches at the locations from where people migrate.

6.3 Honoring the small but frequent remitters

Currently the Government of Bangladesh bestows awards



at frequent intervals. CIP award cannot capture them.

on commercially important person (CIP) to those who remit more than Taka one million in a year. Unskilled migrant workers are usually small remitters. They remit almost all of their hard earned income

In order to recognize the contribution of unskilled and semi skilled migrants to the economy of Bangladesh, RMMRU has started awarding them as "Shonar Manush". After the 2009



award giving ceremony the Governor of Bangladesh Bank has issued circular to all banks to provide similar awards. The next "Shonar Manush Shommanona" of RMMRU is taking place in October 2011. We encourage all the banks to honour their best semi and unskilled

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remitters in the next Shonar Manush Shommanona festival in October 2011.

COMMITMENT OF DR. ATIUR RAHMAN, GOVERNOR OF BANGLADESH BANK

After listening to all these policy recommendations the Governor of Bangladesh Bank expressed his commitments towards the broader goal of expanding ambit of formal remittance delivery channels. He commented that from the perspective of national interest, the pay-cash exclusivity



clause is not desirable and it can be removed through discussion with all parties. He also committed to look into the issue of security deposit for drawing arrangements. He encouraged public

commercial banks to look into the issue of establishment of interbank drawing arrangements from business perspective, and not to create enclaves. The Governor encouraged all the banks to rapidly transform their services into EFT system. Common software may be required for EFT using banks. Not only as part of Corporate Social Responsibility but also from their long term business perspective, the banks should target migration finance loan towards the potential migrants. They can play a proactive role in increasing skilled migration through starting scholarship schemes for the migrants. The banks should develop SME investment packages particularly targeting the returnee migrants from Middle East and South East Asia.

ACHIEVEMENTS OF RMMRU

RMMRU has been working with the Bangladesh Bank for one and half years for withdrawal of the exclusivity clause. Within three months of the October 2010 dialogue the Bangladesh Bank sat with all concerned parties and



ensured withdrawal of the exclusivity clause. A circular issued by the LDA branch of Bangladesh Bank advised all public and private banks to repeal the exclusivity clause from the existing bank

and exchange house agreements through a process of cooperation. It further instructed the banks not to sign any agreement with any exchange houses in future which contains such exclusivity clauses (Bangladesh Bank,

12.12.10). Progress has also been made in the area of inter-bank drawing arrangements.

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SOURCES

- The written suggestions for reforms have been attributed to specific banks.

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- Press Clippings of the dialogue held on the 20 October 2010; www.rmmru.org
- RMMRU 2010, Proceeding of Dialogue on Institutional and Regulatory Reforms for Remittance Management on 20 October 2010 at the Senate Bhaban of University of Dhaka
- Bangladesh Bank 2010, About signing of pay cash exclusivity clause, Source: FEPD (LDA)149.1/2010-2099, 12.12.10



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