India’s Inward Remittances Survey 2016-17

The Reserve Bank released the survey on India’s inward remittances in 2016-17, which is the fourth in the series.

- It captures various aspects relating to remittances – source; destination; purpose of inward remittances; size; prevalent mode of transmission; and receivers’/ senders’ cost of remittances.
- It can also be noted that according to the latest **Migration and Development Brief of the World Bank**, India retained the **top position** as recipient of remittances with its diaspora sending about USD 69 billion back home in 2017.

NOTE: A **remittance** is a transfer of money by a foreign worker to an individual in his or her home country. Workers' remittances are a significant part of international capital flows, especially with regard to labour-exporting countries.

Highlights of the Survey

- The United Arab Emirates (UAE) has emerged as the top source of inward remittances, while Kerala has received the maximum funds sent from abroad
- 82 per cent of the total remittances received by India originated from eight countries, viz., the United Arab Emirates, the United States, Saudi Arabia, Qatar, Kuwait, Oman, the United Kingdom and Malaysia.
- Kerala, Maharashtra, Karnataka and Tamil Nadu together received 58.7 per cent of total remittances.
- More than half of remittances received by Indian residents were used for family maintenance, i.e., consumption (59.2 per cent), followed by deposits in banks (20 per cent) and investments in landed property and shares (8.3 per cent)
- Remittances to India were mostly routed through private sector banks (74.2 per cent), followed by public sector banks (17.3 per cent) and foreign banks (8.5 per cent)
- The **rupee drawing arrangement (RDA)** is the most popular channel of remittances which accounts for 75.2% of remittances, followed by **SWIFT (19.5%)**, direct transfers (3.4%) and cheques and drafts (1.9%).
    - **Rupee Drawing Arrangement (RDA)** is a channel to receive cross-border remittances from overseas jurisdictions. Under this arrangement, the Authorised Category I banks enter into tie-ups with the non-resident Exchange Houses in the **Financial Action Task Force (FATF)** compliant countries to open and maintain their **Vostro Account**.
        - **The Financial Action Task Force (FATF)** is an inter-governmental body established in **1989** by the Ministers of its Member jurisdictions.
        - The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.
        - The FATF is therefore a **“policy-making body”** which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.
- A **Vostro Account** is established to enable a foreign correspondent bank to act as an agent or provide services as an intermediary for a domestic bank to execute wire transfers, withdrawals and deposits for customers in countries where the domestic bank does not have a physical presence.

    - The term vostro translated from **Latin means "yours," as in your account**. From the correspondent bank's point of view, the funds held on behalf of other banks are referred to as vostro accounts and are denominated in the local currency.
    - From the perspective of domestic banks, the funds deposited at correspondent banks are referred as **nostro accounts.** Nostro translated from **Latin means "ours," as in our accounts**. Nostro accounts are denominated in the foreign currency of the correspondent bank.
- **The Society for Worldwide Interbank Financial Telecommunication (SWIFT)** provides a network that enables financial institutions worldwide to send and receive information about financial transactions in a secure, standardized and reliable environment.

Importance of Remittances

- Remittances are crucial as they ensure permanent foreign currency inflows and help finance current account deficit.
- Unlike NRI deposits that can be repatriated and FDI that can be withdrawn instantly, remittances are more stable.
- Experts suggest that the government should work towards safeguarding remittance inflows and find ways to secure overseas markets through its policies to further facilitate migration of workers.