e-rupee likely to bring down cost of cross-border payments

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REMITTANCE WATCH

$87 billion
remittances to India in 2021, the largest in the world that year, according to the World Bank

20%
of these funds were from the US — the biggest source for inward remittances to India

$22 million
cross-border transactions involving four Asian central banks in BIS pilot

The introduction of a central bank digital currency (CBDC) in cross-border remittances is likely to bring down significantly the cost of transaction for customers. At present, customers have to pay a fee to the bank. This is a percentage or a fixed amount of money transferred. The fee is applicable to both inward and outward remittances.

Last week, the Reserve Bank of India (RBI) had published a concept note on CBDC.

The central bank is in the process of launching a pilot for its CBDC, christened eRe.

The RBI has defined CBDC as a legal tender issued by a central bank in a digital format. It is the same as a sovereign currency and is exchangeable one-to-one on a par (1:1) with fiat currency. Importantly, the CBDC would be a liability of the central bank, and not of a commercial one.

Along with several benefits of using a digital currency, the note talked about how CBDCs could reduce the cost of sending remittances, particularly for a country like India which was the largest recipient of remittances ($87 billion 2021), according to World Bank. Being the biggest source for inward remittances to India, the US accounted for over 20 per cent of these funds.

"The present state-of-the-art payment systems of India are affordable, accessible, convenient, efficient, safe, and secure and are a matter of pride for the nation. However, cross-border payment is an area especially ripe for change and could benefit from new technologies," the note said.

"The cost of sending remittances to India, therefore, assumes critical relevance, especially in view of the large Indian diaspora spread across the world and from the point of view of potential (mis)use of informal/illegal channels," it observed.

According to bankers, the cost of sending money overseas ranges between ₹500 and ₹750 for ₹1 lakh. For inward remittances, the cost of sending $100 is around $5-7.

The introduction of CBDC for cross-border remittances can bring down costs substantially. Some nations are already testing CBDC for such purposes.

The Bank for International Settlements (BIS) recently concluded a pilot project called mBridge (also known as Multiple CBDC or mCBDC) to facilitate $22 million real-value cross-border transactions involving the central banks of Hong Kong, Thailand, China, the United Arab Emirates, the BIS, along with 20 commercial banks from those regions.

The Group of 20 nations has also made enhancing cross-border payments a priority and endorsed a comprehensive programme to address key challenges to cross-border payment. These are high costs, low speed, limited access, insufficient transparency, and friction.

"Faster, cheaper, more transparent, and more inclusive cross-border payment services would deliver widespread benefits for citizens and economies worldwide, supporting economic growth, international trade, global development, and financial inclusion," the concept note said.

BIS had published the results from a survey of central banks in June 2021, which noted that CBDCs could ease current friction in cross-border payments — more so if central banks factored in an international dimension into the CBDC design at the very outset.