

Dynamics of Remittance in Bangladesh: A Case Study on United Commercial Bank (UCB)

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Abstract

The aim of this paper is to evaluate the inward as well as outward remittance performance of United Commercial Bank (UCB), Bangladesh. The study exposes that the inward and outward remittance of UCB has been increasing over the years i.e. from 2007 to 2013. In 2013, the highest inward remittances come through Xpress money among the leading five products (Xpress money, Western Union, NEC Italy, Money gram and Modern Exchange). In 2013, the remittance inflow has decreased compared to 2012 from Soudi Arabia, Libya and United States of America while remittance in flow has increased from Malaysia, United Kingdom, Italy, Kuwait and Qatar. The rate of growth of inward remittance of UCB has dropped after 2010, although in 2013, it increased a little bit compared to 2011 and 2012. While growth rate of outward remittance showed an erratic trend form 2010 to 2013. Based on the findings it can be said that UCB should introduce new inward remittance product as well as it should arrange seminar and symposium to introduce the cost and benefits of their remittance products in home and abroad which may increase the remittance flow from different countries and this will ultimately benefit the county?s economy.

Index terms— UCB, inward remittance, outward remittance, growth rate, erratic trend, and cost and benefits.

1. Introduction emittances in Bangladesh have been growing steadily over the last decade. It is just not a part of the income of nations; it is a power on which developments run smoothly. Now-a-days remittance has kept the economy of Bangladesh more dynamic. The main sources of the national income are foreign direct investment, foreign loans and grants and foreign remittance which are earned by working labors in abroad and exporting goods in foreign countries. Bangladesh receives remittance from different countries that play an important role in smoothening household consumption as well as socio-economic development of our country.

In the present world, a bank performs several general banking activities in order with its different internal departments. All the departments which are providing Foreign Remittance services are very much important while dealing with customers. Bank earns its operating profit through functional activities of Foreign Remittance. That is why; Foreign Remittance activities mean a lot for a bank. If a bank can figure out its outstanding performance in foreign remittance banking through satisfying its customer then it is possible for that particular bank to gain competitive advantage from the market.

Remittance is extremely important towards the economic regeneration of the country by helping drive the economic engine through cash circulation and large transfers that are used for goods importation, investment and reconstruction, on the one hand, and through small amounts of remittance for families and individuals sent by refugees and migrant relatives from developed and rich countries for livelihood security and maintenance, on the other. Both of these types of transfer services provided by various remittance companies have been indispensable for family survival or household maintenance, acquisition of basic social services and small businesses that all depend on speedy and reliable transfers in and out of the country for import/export payments.

44 The sources of remittance can be classified as: 1) Inward Remittance (Local and Foreign), 2) Outward
45 Remittance (Local and Foreign). Inward Foreign Remittance means Remittance received from abroad. In other
46 words remittance coming into the country from other countries by the remitter by way of permissible banking
47 channel through freely convertible Foreign Currencies is called 'Inward Foreign Remittance' from the beneficiary
48 country's point of view. From the remitter's point of view it is called outward Foreign Remittance. Receipt of
49 local currencies constitutes inward local remittance. For different use bank can accept local currency such as
50 endorsement. In case of Foreign Inward Remittance, The bank receives the money that has been sent from the
51 sending person in the country in which the money has been earned. Banks in Bangladesh, for example, UCBL
52 (United Commercial Bank Ltd.) has established remittance arrangements with a number of exchange houses to
53 facilitate wage earners to remit their money to Bangladesh. This bank has already been in operation with UAE
54 Exchange Centre LLC, Wall Street Exchange LLC, Trust Exchange, Route Asia Exchange, Instant Cash and
55 Bangladesh Money Transfer. On the other hand, Outward remittance of funds can be made by means of T.T,
56 D.D. etc. The remitter has to deposit money along with the application contains name and address of the payee
57 name of the currency etc. All outward remittances must cover the transactions approved by the Bangladesh
58 Bank.

59 Transfer of local currencies constitutes of outward local currency. When bank transfer the local currency to
60 its customers or clients then it called outward remittance, such as FDD, TT etc. In case of Foreign Outward
61 Remittance, The sender uses a bank or foreign exchange company to send money to foreign country. Many of
62 the receiving banks have established remittance relationships with currency houses and banks in other countries
63 to better facilitate the flow of remittances into the country.

64 As a developing country, remittance is most favorable to change our present condition and economic welfare.
65 So, it is very important to emphasize on the remittance management to ensure the smooth flow of remittance
66 which will ultimately benefit the economy.

67 1 II. Literature Review

68 Siriwardhane (2007) says, "Though the market is served by different categories of remittance service providers
69 (RSPs), banks can play a prominent role as RSPs to make the remittance market contestable, transparent,
70 accessible, competitive and reliable". He also says, "Banks are not expected to simply follow the practices of non-
71 bank RSPs and charge typically high fees, commissions and excessive margins to cover exchange rate movements.
72 The role of banks should be to compete with non-bank RSPs with more price transparency. Banks who participate
73 in payment and settlement systems can play a major role in increasing efficiency of the remittance market by
74 facilitating safe and convenient fund transfers at a reasonable cost. There is also an opportunity for banks to
75 leverage migrants' remittance services into a broader banking relationship, and that will be profitable for banks,
76 immigrants and their beneficiaries. If the market becomes more competitive, it is inevitable that prices will fall
77 and the community will benefit.

78 The World Bank website states, "A remittance is a transfer of money by a foreign worker to an individual in
79 his or her home country. Money sent home by migrants competes with international aid as one of the largest
80 financial inflows to developing countries. Remittances are playing an increasingly large role in the economies
81 of many countries, contributing to economic growth and to the livelihoods of less prosperous people (though
82 generally not the poorest of the poor)".

83 Bangladesh earns a lot of remittance from migration. Siddiqui (2003) states, "Bangladesh has a long history
84 of migration. Migration has shaped and still shaping Bangladesh society".

85 Transfer of remittances takes place through different methods. Forty six percent (46%) of the total volume
86 of remittance has been channeled through official sources, around forty (40%) through hundi 1 Remittance
87 constitutes an important source of foreign exchange for the developing countries like Bangladesh, which have
88 substantial development impact as can be understood from micro and macro point of view. Orrenius et al.,
89 (2010) say, "From a macroeconomic perspective, remittances can boost aggregate demand and thereby GDP
90 as well as spur economic growth. However, some research indicates that remittances may also have adverse
91 macroeconomic impacts by increasing income inequality and reducing labor supply among recipients". From
92 macro frontier, remittances are used to make import payments and are used for productive investment by the
93 government (Salim, 1992). If one takes into account the unofficial flow of remittances, its contribution to GDP
94 would certainly be much higher. Murshed et al., (2000) finds that an increase in remittance by Taka 1 would
95 result in an increase in national income by Tk 3.33. But Ahmed et al., (2009) finds that limited support in
96 favor of export-led growth hypothesis for Bangladesh as exports, imports and remittance cause GDP growth only
97 in the short run. Catrinescu et al., say that "Remittances will be more , four point six one per cent (4.61%)
98 through friends and relatives, and about eight percent (8%) of the total was cash carried by the migrant workers
99 themselves when they visited home. (Siddiqui & Abrar 2001) Orozco (2002) says, "The high costs of remitting
100 raise questions about both government policy and business competition. Governments are important agents
101 of economic change and through policies and regulations can attract migrant capital and decrease the price of
102 remitting money. Governments need to consider what policies they might adopt to achieve these goals. These may
103 include increasing migrant understanding of alternative sending methods, encouraging or requiring the market
104 to offer cheaper methods to transmit remittances, and developing policy initiatives that enable and encourage an
105 environment that attracts more worker remittances or investment". O'neill (2001) says, "Developing countries,

106 ready to explore every option available to increase their citizens' welfare, should focus on developing policies that
107 maximize and channel this increasing flow of remittances".

108 The World Bank (2007) suggests about General Principles for International Remittance Services. They are: i)
109 transparency and consumer protection; ii) payment system infrastructure; iii) legal and regulatory environment;
110 iv) market structure and competition; and v) governance and risk management.

111 **2 Global Journal of Management and Business Research**

112 Volume XV Issue I Version I Year () receiving countries' political and economic policies and institutions create
113 the incentives for financial and business investment and savings from remittances. Policies must favor savings and
114 investment so that, at the margin, household income that exceeds the needs of basic subsistence can be saved or
115 invested (including in human capital)". There is a debate over the extent to which remittances actually boost the
116 economy of the source country, since more of the income has been used for consumption purposes and not saved or
117 invested (see Drinkwater et. al, 2002)). Recent strands of literature, however, indicate that remittances can lead
118 to economic growth simply by increasing the migrant's household income, regardless of whether this additional
119 income is spent on consumption or savings. For example, Ratha (2004) indicated that if remittances are invested,
120 they contribute to output growth, and generate positive multiplier effect even if they are consumed. Pant (2011)
121 says, "Remittances contribute largely to the national economy. The remittances sent home by the migrants
122 affect development at both the household and national levels. At the household level, remittances help to reduce
123 poverty, improve standard of living and attain higher educational levels. At the macro level, remittances could
124 be used for entrepreneurship and productive investment which in turn increases job opportunities and income
125 of the people. At the same time, remittance inflows help to augment foreign exchange reserves and improve the
126 current account position".

127 **3 III. Methodology of the Study**

128 This paper is based on secondary data which were collected from the various annual reports of United Commerce
129 Bank (UCB) from 2007 to 2013. Seven years data of UCB have been presented in an easy and understandable
130 form. Tabular and graphical analyses were done with the collected data to achieve the objectives of the study.
131 Microsoft Office and Microsoft Excel package have been used in tabular and graphical representation of data.
132 In 2013, the rate of growth was 8.68 percent, which was 6.02 percent more than that of 2012. In 2012, the rate
133 of growth was 2.66 percent, which was 18.59 and 1.34 percent less than those of 2010 and 2011 respectively.
134 However the highest inward remittance was 21.25 percent in 2009. The rate of growth of outward remittance flow
135 was 11.46 percent in 2013 and in 2012 it was negative (-5.26 percent). In 2012, the rates of growth of outward
136 remittance was negative that was -5.26 percent, which were -3.67 percent and 27.84 percent less than those
137 of 2010 and 2011 respectively. However, the highest outward remittance flow was 22.58 percent in 2011. The
138 trend of monthly inward remittance was in increasing trend till April and after that month there was decreasing
139 trend. In April 2010, inward remittance flow was Tk. 982.52 million which was Tk. 52.52 million more than in
140 November. The trend of monthly inward remittance flow was in decreasing trend till July and after that month
141 there was increasing trend. In September 2012, inward remittance flow was Tk. 1,030 million which was Tk.
142 23 million more than in December. The trend of monthly inward remittance flow was in decreasing trend till
143 September and after that month there was increasing trend. In December 2013, inward remittance flow was Tk.
144 1,092 million which was Tk. 9 million more than in November.

145 **4 IV. Result and Discussion**

146 **5 V. Conclusion and Recommendations**

147 Foreign remittance sent by the wage earners and other expatriate Bangladeshi to their families and relatives at
148 home are growing rapidly and now contributing a major portion of income earned by Bangladesh from abroad.
149 The volume of remittance receipts by Bangladesh usually coming through official channels. But the unofficial
150 channels are still playing a major part in transferring the remittance, thereby depriving the government of a
151 huge sum of foreign currencies every year. In this situation, the government needs to give a closer look at
152 the performance of the formal vehicles of money transfer including the banks already in operation. Most of
153 the families use the remittances in their household consumptions as well in savings. But some families already
154 invested in some particular sectors. And they are very much interested to invest our selected preferable and
155 profitable sectors in country by using their remittance properly.

156 The secure and well organized flow of remittance is very much important for the development of the economy.
157 The commercial banks are playing the major role of managing such flow of remittance in Bangladesh. After
158 analyzing the UCBL's remittance management and performance it can be said that to increase the inward
159 remittance flow, UCBL should introduce new inward remittance product as well as it should arrange seminar and
160 symposium to introduce the cost and benefits of their remittance product in home and abroad. There is an urgent
161 need to create awareness about the inward remittance product named NEC Italy because with this product UCBL
162 earned lowest remittance among the five products. Since technology is a preferable need in managing anything
163 smoothly and speedily, UCBL can introduce full automation which will reduce the time and cost related to the

164 remittance processing and disbursement. One important thing which UCBL can consider is that an own money
165 transfer organization or products may make faster remittance receiving, processing and payments. At last it
166 is recommended that UCBL should emphasize on transparent remittance services and should adopt adequate
167 consumer protection to increase their performance in the inward and outward flows of remittance.

168 **6 VI. Future Directions**

169 There can be a study on those who are receiving the remittance services to find out their problems they face and
170 also to find out their expectation and that study may suggest how an efficient flow of remittance can be ensured.
1 2 3 4



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Figure 1: Figure 1 :



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Figure 2: Figure 2 :

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¹Hundi, is an informal value transfer system based on the performance and honour of a huge network of money brokers, primarily located in the Middle East, North Africa, the Horn of Africa, and the Indian subcontinent, operating outside of, or parallel to, traditional banking, financial channels, and remittance systems.

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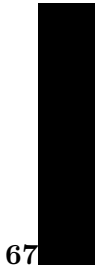
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Figure 3: Figure 3 :



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Figure 4: Figure 5 :



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Figure 5: Figure 6 :Figure 7



Figure 6:



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Figure 7: Figure 8 :



Figure 8: Figure 9 :

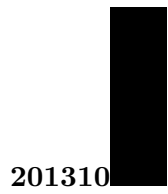


Figure 9: Source: Annual report of UCBL- 2013 Figure 10 :



Figure 10: Figure 12 :



Figure 11:

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