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

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## I. INTRODUCTION

Remittances 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.

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

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

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

## II. LITERATURE REVIEW

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

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

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

Transfer of remittances takes place through different methods. Forty six percent (46%) of the total volume of remittance has been channeled through official sources, around forty (40%) through *hundi*<sup>1</sup>, four point six one per cent (4.61%) through friends and

relatives, and about eight percent (8%) of the total was cash carried by the migrant workers themselves when they visited home. (Siddiqui & Abrar 2001)

Orozco (2002) says, "The high costs of remitting raise questions about both government policy and business competition. Governments are important agents of economic change and through policies and regulations can attract migrant capital and decrease the price of remitting money. Governments need to consider what policies they might adopt to achieve these goals. These may include increasing migrant understanding of alternative sending methods, encouraging or requiring the market to offer cheaper methods to transmit remittances, and developing policy initiatives that enable and encourage an environment that attracts more worker remittances or investment". O'Neill (2001) says, "Developing countries, ready to explore every option available to increase their citizens' welfare, should focus on developing policies that maximize and channel this increasing flow of remittances".

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

Remittance constitutes an important source of foreign exchange for the developing countries like Bangladesh, which have substantial development impact as can be understood from micro and macro point of view. Orrenius et al., (2010) say, "From a macroeconomic perspective, remittances can boost aggregate demand and thereby GDP as well as spur economic growth. However, some research indicates that remittances may also have adverse macroeconomic impacts by increasing income inequality and reducing labor supply among recipients". From macro frontier, remittances are used to make import payments and are used for productive investment by the government (Salim, 1992). If one takes into account the unofficial flow of remittances, its contribution to GDP would certainly be much higher. Murshed et al., (2000) finds that an increase in remittance by Taka 1 would result in an increase in national income by Tk 3.33. But Ahmed et al., (2009) finds that limited support in favor of export-led growth hypothesis for Bangladesh as exports, imports and remittance cause GDP growth only in the short run. Catrinescu et al., say that "Remittances will be more likely to contribute to long term growth when the

<sup>1</sup> Hundi, 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.

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

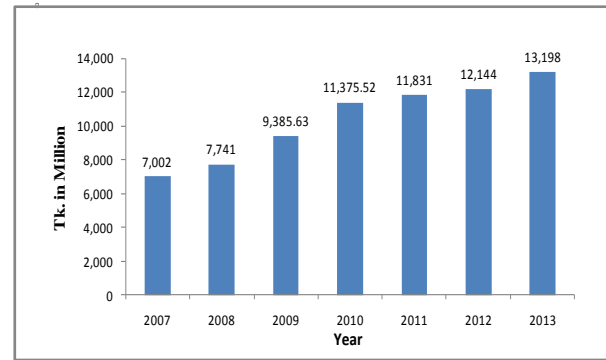
### III. METHODOLOGY OF THE STUDY

This paper is based on secondary data which were collected from the various annual reports of United Commerce Bank (UCB) from 2007 to 2013. Seven years data of UCB have been presented in an easy and understandable form. Tabular and graphical analyses were done with the collected data to achieve the objectives of the study. Microsoft Office and Microsoft Excel package have been used in tabular and graphical representation of data.

### IV. RESULT AND DISCUSSION

#### a) Inward Remittance of UCB

There was an increasing trend in the inward remittance flow in UCBL and the highest inward remittance flow was Tk. 13,198 million in 2013 and the lowest remittance flow was Tk. 7,002 million in 2007.

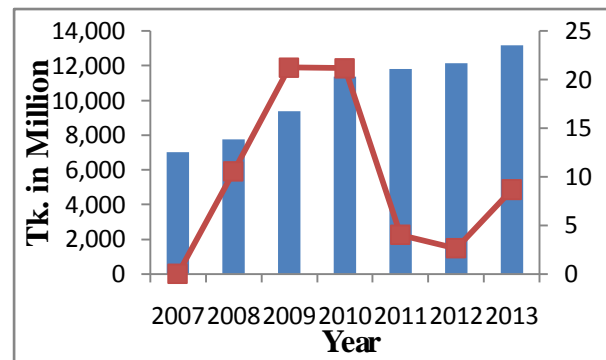


Source: Annual report of UCB (2007-2013)

Figure 1 : Inward Remittance of UCB

#### b) Growth Rate of Inward Remittance (UCBL)

Over the years, the flow of inward remittance in UCBL increased in volume, but the rate of growth in remittance decreased since 2010 except in the last year. In 2013, the rate of growth was 8.68 percent, which was 6.02 percent more than that of 2012. In 2012, the rate of growth was 2.66 percent, which was 18.59 and 1.34 percent less than those of 2010 and 2011 respectively. However the highest inward remittance was 21.25 percent in 2009.

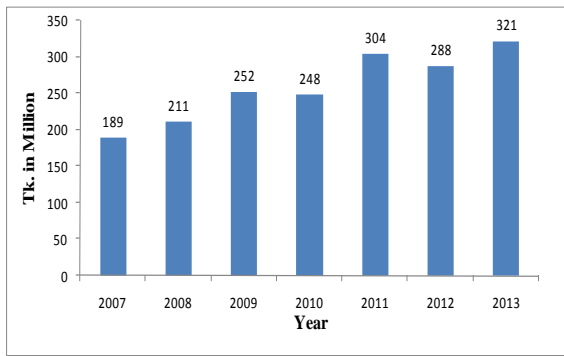


Source: Annual report of UCBL (2007-2013)

Figure 2 : Growth rate of inward remittance

#### c) Outward Remittance of UCBL

The outward remittance flow of UCBL was in erratic trend from 2010 to 2013. The highest outward remittance flow was Tk. 321 million in 2013 and lowest was Tk. 189 million in 2007. In 2013, outward remittance flow was Tk. 321 million which was Tk.33 million more than 2012. In 2011, outward remittance flow was Tk. 304 million which was Tk. 56 million more than 2010.

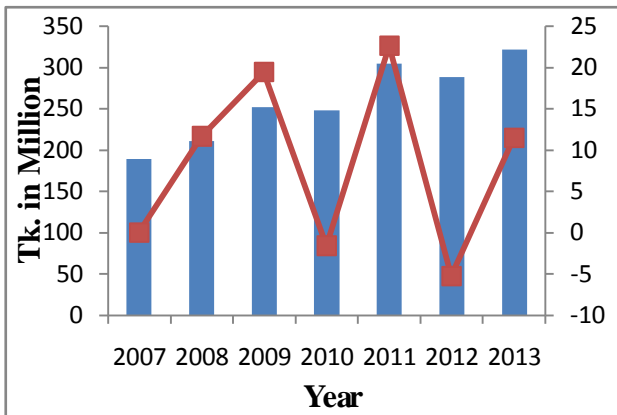


Source: Annual report of UCBL (2007-2013)

Figure 3 : Outward Remittance of UCBL

d) Growth Rate of Outward Remittance (UCBL)

The rate of growth of outward remittance flow was 11.46 percent in 2013 and in 2012 it was negative (-5.26 percent). In 2012, the rates of growth of outward remittance was negative that was -5.26 percent, which were -3.67 percent and 27.84 percent less than those of 2010 and 2011 respectively. However, the highest outward remittance flow was 22.58 percent in 2011.

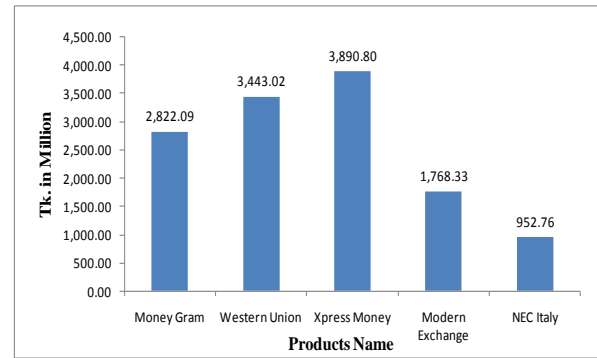


Source: Annual report of UCBL (2007-2013)

Figure 4 : Growth rate of outward remittance

e) Leading Five Inward Remittance products & their amount of UCBL in 2013

In 2013, the highest inward remittances come through Xpress Money and the amount was Tk. 3,890.80 million. Second highest remittances come through Western Union and the amount was Tk. 3,443.09 million and lowest inward remittances come through NEC Italy which was Tk. 952.76 million. In 2013, remittance inflow through Xpress Money is Tk. 3,890.80 million which was Tk. 447.78 and 2,122.47 million more than Western Union and Modern Exchange.



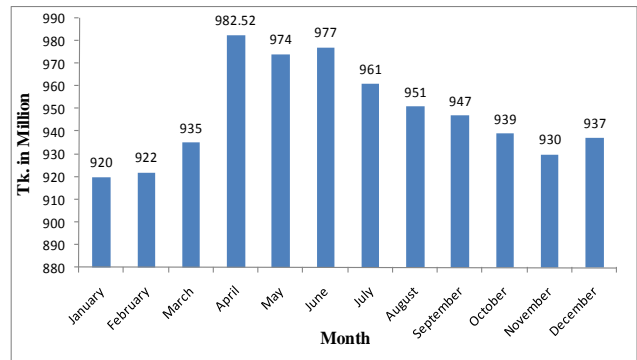
Source: Annual report of UCBL-2013

Figure 5 : Leading Five Inward Remittance products & their amount

f) Data Analysis of Remittance Flows in UCBL

i. Monthly Inward Remittance flow of UCBL in 2010

The trend of monthly inward remittance was in increasing trend till April and after that month there was decreasing trend. In April 2010, inward remittance flow was Tk. 982.52 million which was Tk. 52.52 million more than in November.

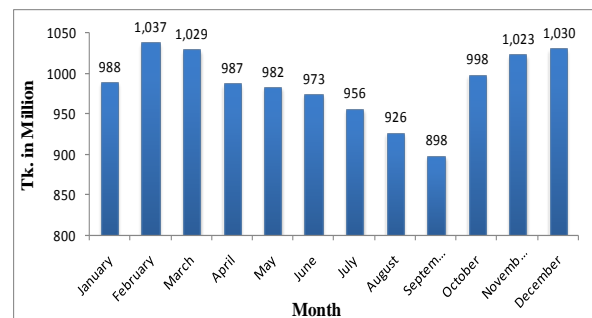


Source: Annual report of UCBL-2010

Figure 6 : Monthly Inward Remittance flow

ii. Monthly Inward Remittance flow of UCBL in 2011

The trend of monthly inward remittance flow was in decreasing trend till September and after that month there was increasing trend. In December 2011, inward remittance flow was Tk. 1,030 million which was Tk. 132 million more than in September.

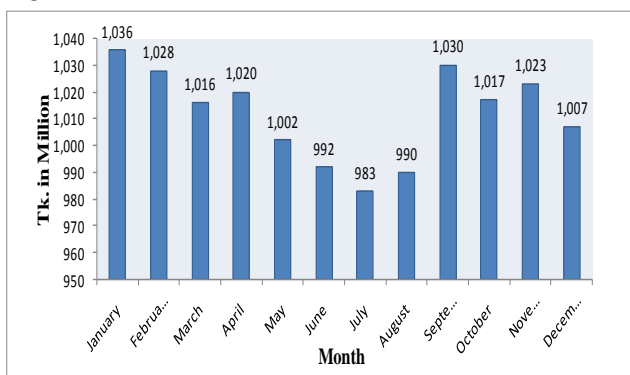


Source: Annual report of UCBL-2011

Figure 7 : Monthly Inward Remittance flow

iii. *Monthly Inward Remittance flow of UCBL in 2012*

The trend of monthly inward remittance flow was in decreasing trend till July and after that month there was increasing trend. In September 2012, inward remittance flow was Tk. 1,030 million which was Tk. 23 million more than in December.

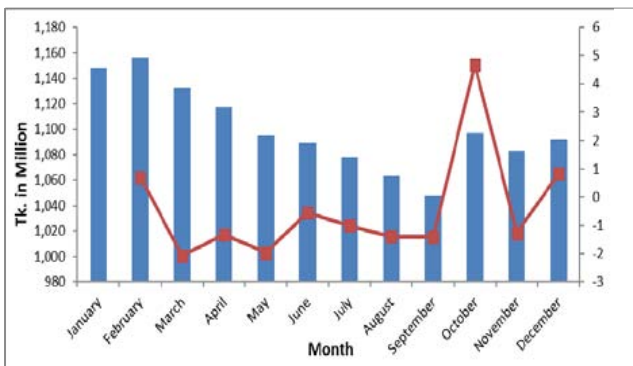


Source: Annual report of UCBL-2012

Figure 8 : Monthly Inward Remittance flow

iv. *Monthly Inward Remittance Growth Rate of UCBL in 2012*

In 2012, the inflow of remittance in the months of September, October, November and December were Tk. 4.04 million, Tk.-1.26 million, Tk.0.59 million, and Tk. -1.56 million respectively. In September 2012, the rate of growth on remittance was 4.04 percent which was 5.30 percent more than in October. In the month of September 2012, the highest inward remittance flow was Tk. 4.04 million.

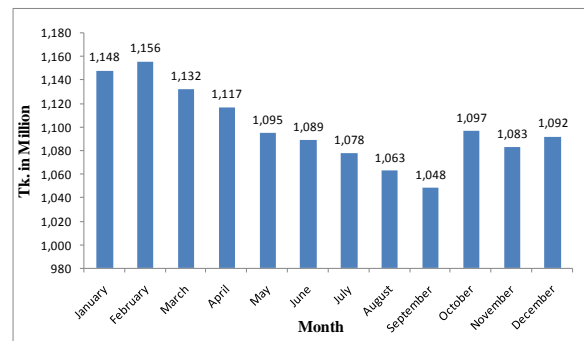


Source: Annual report of UCBL-2012

Figure 9 : Growth Rate of Inward Remittance (monthly)

v. *Monthly Inward Remittance flow of UCBL in 2013*

The trend of monthly inward remittance flow was in decreasing trend till September and after that month there was increasing trend. In December 2013, inward remittance flow was Tk. 1,092 million which was Tk. 9 million more than in November.

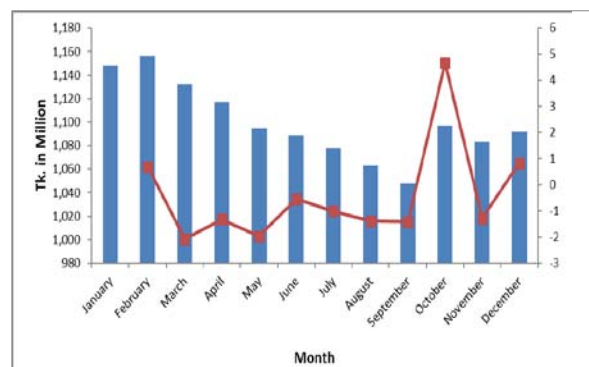


Source: Annual report of UCBL-2013

Figure 10 : Inward Remittance Flow (monthly)

vi. *Monthly Growth Rate of Inward Remittance in 2013 (UCBL)*

Inflow of monthly remittance in the year of 2013 exhibits an up and down. The inflow of remittance in the months of September, October, November and December in 2013 were Tk. -1.41 million, 4.68 million, -1.28 million, and 0.83 million respectively. In year 2013, during October, the rate of growth on remittance was 4.68 percent which was 5.96 percent more than in November. The highest inward remittance flow was Tk. 4.68 million in October, 2013.

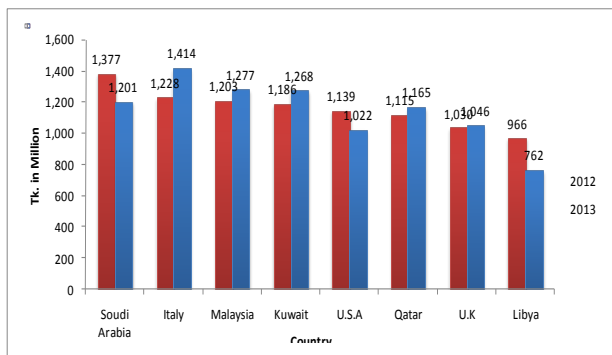


Source: Annual report of UCBL -2013

Figure-11: Growth Rate of Inward Remittance (monthly)

vii. *Country wise Remittance inflow in UCBL in 2012 & 2013*

The remittance inflow from Soudi Arabia decreased to Tk. 1,201 million in 2013 from Tk. 1,377 million in 2012. The remittance inflow from U.S.A decreased to Tk. 1,022 million in 2013 from Tk. 1,139 million in 2012. The remittance inflow from Libya decreased to Tk. 762 million in 2013 from Tk. 966 million in 2012. The remittance inflow from Italy increased to Tk. 1,414 million in 2013 from Tk. 1,228 million in 2012. The remittance inflow from Malaysia increased to Tk. 1,277million in 2013 from Tk. 1,203 million in 2012. The remittance inflow from U.K increased to Tk. 1,046 million in 2013 from Tk. 1,030 million in 2012. In 2013, it is seen that the highest remittance inflow come from Italy which was Tk. 1,414 million and the lowest amount Tk. 762 million come from Libya in 2013.

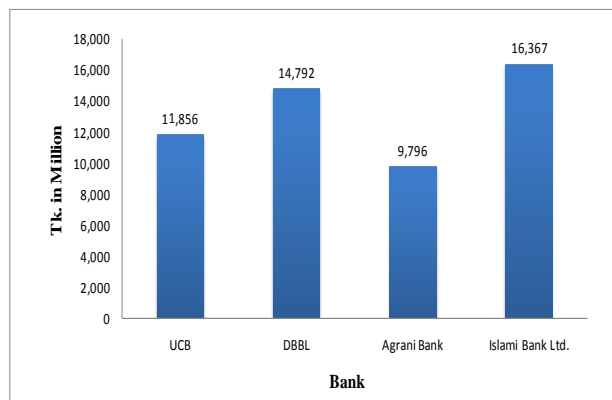


Source: Annual report of UCBL (2012-2013)

Figure 12 : Country wise Remittance inflow

#### viii. Comparison of Inward Remittance Flows among UCBL, Dutch-Bangla Bank, Agrani Bank & Islami Bank Bangladesh Ltd. in 2013

Among the four banks, the highest inward remittance flow received by Islami Bank Ltd and the amount was Tk. 16,367 million which was Tk. 6, 571 million more than Agrani Bank Ltd in 2013. In the above figure, inward remittance flow of DBBL was Tk. 14,792 million which was Tk. 2,936 million more than in UCBL in 2013.



Source: Annual report of UCBL -2013

Figure 13 : Comparison of inward Remittance flows with other banks

## V. CONCLUSION AND RECOMMENDATIONS

Foreign remittance sent by the wage earners and other expatriate Bangladeshi to their families and relatives at home are growing rapidly and now contributing a major portion of income earned by Bangladesh from abroad. The volume of remittance receipts by Bangladesh usually coming through official channels. But the unofficial channels are still playing a major part in transferring the remittance, thereby depriving the government of a huge sum of foreign currencies every year. In this situation, the government needs to give a closer look at the performance of the formal vehicles of money transfer including the banks already in operation. Most of the families use the

remittances in their household consumptions as well as in savings. But some families already invested in some particular sectors. And they are very much interested to invest our selected preferable and profitable sectors in country by using their remittance properly.

The secure and well organized flow of remittance is very much important for the development of the economy. The commercial banks are playing the major role of managing such flow of remittance in Bangladesh. After analyzing the UCBL's remittance management and performance it can be said that to increase the inward remittance flow, UCBL should introduce new inward remittance product as well as it should arrange seminar and symposium to introduce the cost and benefits of their remittance product in home and abroad. There is an urgent need to create awareness about the inward remittance product named NEC Italy because with this product UCBL earned lowest remittance among the five products. Since technology is a preferable need in managing anything smoothly and speedily, UCBL can introduce full automation which will reduce the time and cost related to the remittance processing and disbursement. One important thing which UCBL can consider is that an own money transfer organization or products may make faster remittance receiving, processing and payments. At last it is recommended that UCBL should emphasize on transparent remittance services and should adopt adequate consumer protection to increase their performance in the inward and outward flows of remittance.

## VI. FUTURE DIRECTIONS

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

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