

NRI Banking in India

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Since most foreigners struggle with launching business enterprises in India, one may point out that a banking system is the first step that should be handled. With regards to the banking system in India, it would be reasonable to highlight the discrepancies between the Non-Residential Indian (NRI) and Person of Indian Origin (PIO). More precisely, the NRI banking in India stands out as the bank account for non-residents. Considering the structure of NRI banking accounts, it should be noted that either the banking or financial institution which opens the banking account for non-residents is obliged to be authorized by the Reserve Bank of India (RBI) to be engaged in banking services. Notwithstanding, the structure of the NRI banking facilities is exceptionally diverse, ranging from Non-Resident External (NRE) accounts and Non-Resident Ordinary (NRO) accounts to Foreign Currency Non-Resident (FCNR) and Resident Foreign Currency (RFC) accounts, which are different in terms of transfers, deposits, and currency, and hence should be compared based on these features.

#### NRE Account

First and foremost, an NRE account is a specialized type of banking account which provides an individual with transferring possibilities. In particular, a NRE account allows interested business enterprises to transfer foreign earnings directly in India. However, the compulsory characteristic of the NRE account is that it has to be opened with a close relative who is an Indian resident ("What is an NRI Account?", n.d.). Considering the choice of currency, this particular type of account is dominated by the rupee. Therefore, the NRE account may be opened in the form of current, savings, fixed, or even recurring deposits. One of the most noticeable benefits of the NRE account is the possibility to transfer the funds to India without

barriers, yet it is vital to keep in mind that the NRE account contains no tax levitated on the interest earned from the operations on the account ("What is an NRI Account?", n.d.). Thus, the NRE account is easily repatriable, which is closely associated with the easy transferability of the account. Importantly, what is most valued in the operational capacity of NRE accounts is its withdrawal possibilities, which are open both within and outside India. As for the historical discourse of NRE accounts, the RBI lifted the interest cap, eventually leading to the fact that the interest income became tax-free for investors. With regards to the features of the NRE account, the tax advantages seem to be the most prevalent for foreign investors and those who associate India with a prosperous business climate (Dhawan, 2018). It should also be noted that despite the NRE account requiring a close connection with an Indian resident, the benefit is that wealth tax is also excluded from the transaction capacity of the account. Since the repatriation of funds is a critical necessity for individuals who decided to settle overseas, NRE accounts are ideally designed for such purposes because of the general permission to outward the remittances effectively. As for the primary drawback of the NRE account, the rupee seems to be vulnerable to fluctuations in currency rates, eventually making the concentration of funds risky (Dhawan, 2018). Conversely, the flexibility of the account in terms of converting to foreign currency when desired makes both the savings and fixed deposits a perfect choice for either business investors to India or Indian individuals willing to settle down overseas.

#### NRO Account

Secondly, the NRO account is a specific bank account, which is best characterized as an ordinary one due to its commonalities with residential ones. In particular, non-residents of India who are traveling abroad can convert any foreign currency and domestic account to the NRO,

ultimately serving as a tool for depositing Indian rupees. By having a limited number of transfers abroad, it becomes apparent that former resident accounts are normally transformed into the NRO ones. Hence, NRO accounts allow to receive credits from all possible financial sources, yet are typically utilized to receive the local dividends or rental-generated funds. One of the most crucial distinctions between the NRE and NRO accounts is the existence of the tax deduction at sources of 31.2% of NRO accounts, which are utterly absent in the structure of the NRE banking accounts (Dhawan, 2018). Other than that, the former resident accounts of Indian citizens are converted to the NRO accounts automatically by banks, yet it is crucial to inform the bank concerning the intention to depart abroad shortly. NRO accounts are rupee dominated, whereas the forms of opening are savings, current, recurring deposits, and fixed deposits ("What is an NRI Account?", n.d.). Likewise, the most common choices in terms of the account form are either the regular use or the fixed deposit. The second variant is most suitable for Indian citizens, who are willing to lock financial resources for a prolonged time frame to have a generally better rate of return.

#### FCNR and RFC Accounts

The last category of the NRI banking accounts in India is closely related to foreign currency, which is divided into FCNR and RFC. The FCNR account serves to be a fixed deposit, which is fully maintained in foreign currencies, namely the US dollar, pound, euro, and Japanese yen. One of the most peculiar notions of the FCNR account is the interest, which is earned in the foreign currency. More precisely, the interest is obtained only in foreign currency, which is conventionally deposited for periods between one to five years (Dhawan, 2018). Judging from the fact that the funds are stored in foreign currency, the currency risks and fluctuation

uncertainty are easily repatriated. Hence, the FCNR account is beneficial for individuals who are willing to have the entire deposit, including the interest and principal elements, to be tax-free, which is crucial for maintaining an account with foreign currency.

As for RFC accounts, they are usually utilized by returning Indians to park the foreign currency by the time they move back after living somewhere abroad. The money is also held in a foreign currency, which is not exposed to foreign exchange risk (Dhawan, 2018). One of the most noticeable differences between the RFC account and FCNR account is the possibility for any RFC to be converted to either the FCNR or NRE ones, depending on the NRI status of the individual. As for the interest earned, the bank account is wholly repatriable. Having scrutinized the data regarding the minor differences between the RFC and FCNR accounts, one may say that the only commonality between them is the foreign currency, which is utilized for maintaining the account (Dhawan, 2018). Thus, the choice between the RFC and FCNR account relies upon the intentions of the individual to return to India.

#### Final Remarks

Even though the differences between the types of accounts are crucial, the NRI banking system in India is multifaceted, comprehensive, and sophisticated, eventually allowing to satisfy the demands in various categories and interests. The intentions to open saving accounts or fixed deposits with Indian banks may be fulfilled by opening one of the following bank accounts: NRE, NRO, FCNR, and RFC. The possibility to open the bank account online is useful for many Indians who are already abroad. To such an extent, the online forms of converting the accounts are available to non-residents of India ("How to open NRI bank account from overseas", 2016). Reviewing the main features of the NRI banking system in India, the transactions, deposits, and

choice of currency stand out as three distinctive features, which commonly are the crucial determinant of opening one account or another.

Having reviewed the specifications of each NRI banking account, it becomes obvious that the NRE and NRO accounts should be chosen by non-residents who seek for keeping the funds in Indian rupees. The selection of FCNR and RFC is more beneficial for those who have decided to keep financial resources in a foreign currency by similarly having the earned interest in the same currency. With regards to the characterized differences, the NRI banking system in India is exceptionally diversified and varied, which is capable of satisfying the interests of all non-residential Indians and foreign investors in India. Subsequently, the facility of opening an NRI account should be used to keep track of the financial capacity of non-residential citizens in India or overseas.

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