

CORRESPONDENT BANKING AND NRI ACCOUNTS

CH – 3 BFM MODULE A By Ashish Sir PART -1

International Trade and Finance: Role of International & Correspondent Banks

International trade and finance  depend heavily on a network of **international banks**  and the support services provided by foreign banks .

The relationship between foreign banks for handling:

 **Trade documents #1**

 **Receipts and payments #2**

 **Cross-border transactions #3**

...has significantly evolved. In today's **globalized era**, international trade cannot function without **Correspondent Banks**.

 **Example:** Imagine an exporter in India  selling goods to a buyer in the USA .

The payment flows through the Indian bank's *correspondent bank* in the US that handles the dollar transaction smoothly.

Meanwhile, **NRIs (Non-Resident Indians)** contribute significantly to the nation's **FOREX reserves**  by sending:

 **Remittances for family**

 **Savings & investments**

To serve the NRI segment, banks offer:

 Facility	 Details
Account Types	NRE, NRO, FCNR Accounts
Investment	Mutual Funds, Bonds, Shares (Repatriable/Non-Repatriable)
Options	
Currency Options	INR, USD, GBP, EURO, etc.



Correspondent Banking – Accounts and Other Services

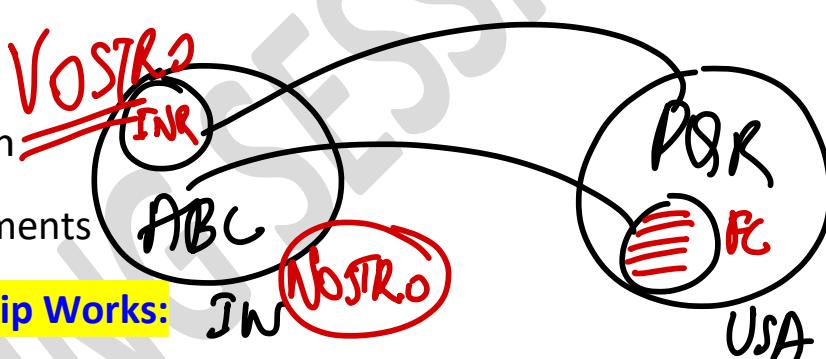
A **Correspondent Bank** is a financial institution that provides banking services on behalf of another financial institution in a different country. It acts as a **facilitator, agent, or intermediary** for:

 Wire Transfers

 Document Collection

 Cross-border settlements

 **How the Relationship Works:**



 Type	 Relationship
Traditional	Mutual Accounts held by both banks
Correspondence	
Modern Correspondence	No account relationship but service arrangement

 **Example:** An Indian bank doesn't have a branch in Japan . It partners with a Japanese bank as a *correspondent bank*. If an Indian customer needs to send Yen (¥) to Japan, the correspondent bank facilitates the transfer.

⌚ Purpose:

- ✓ Access foreign markets without setting up a branch
- ✓ Minimize operating costs
- ✓ Overcome legal/regulatory barriers on foreign branches

🛠 Functions of a Correspondent Bank

Function	Details
Fund Transfers	Routing international wires
Trade Finance	Handling LCs, bills, guarantees
Account Services	Holding nostro/vostro accounts
Documentation	Collecting shipping and trade documents
Advisory	Providing FX advice and compliance inputs

📌 The Need for Correspondent Banking

🌐 Global Reach Without Physical Presence #1

Given the vast international trade  and growing NRI base abroad, it's **impractical for every bank to have branches everywhere.**

🔍 Why It's Needed:

🔍 Reason	📌 Explanation
Limited Branch Presence	Regulatory or cost barriers for foreign branches
Client Retention Abroad	Serve clients globally via local banks
Low-Cost Expansion	No infrastructure setup needed



Example: A UAE-based NRI wants to invest in Indian mutual funds.

The Indian bank partners with a UAE correspondent bank to verify KYC, handle currency conversion, and remit funds seamlessly.



Challenges: De-risking & Compliance

Correspondent banking has faced setbacks due to **de-risking**, where institutions cut off relationships to avoid **compliance risk**.

🚫 This threatens:

- 🌐 Cross-border fund flows
- 💳 Access to financial services
- 🤝 Trade and remittance continuity

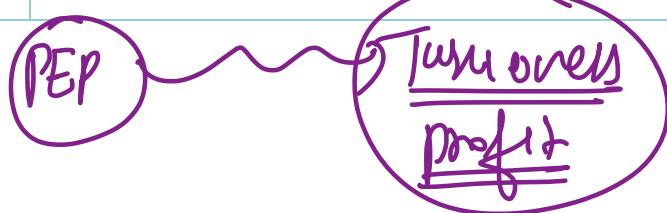


FATF Recommendation 13 Compliance

The **Financial Action Task Force (FATF)** mandates extra precautions in cross-border correspondent banking:

✓ Requirement	📋 Details
CDD (Customer Due Diligence)	Basic checks for all clients
EDD (Enhanced Due Diligence)	Additional scrutiny for high-risk customers
No Simplified CDD Allowed	In cross-border cases, never permitted
Transaction Reporting	Threshold-based reporting to authorities
Mandated	

⚠



⚠ Banks must avoid relationships with foreign institutions that:

- ✗ Fail to report large transactions **#1**
- ✗ Do not have a control agency **#2**
- ✗ Lack data sharing safeguards **#3**

✓ Summary Table

 Aspect	 Key Points
Importance of Correspondent Banking #1	Enables cross-border transactions, supports NRIs, facilitates trade, and provides global access without a branch network
Key Functions #2	<u>Wire transfers, trade finance, documentation, account holding, foreign market access</u>
Modern Trends #3	Relationship without direct account opening, service-based collaborations
Need & Benefits #4	<u>Cost-effective expansion, global client servicing, legal compliance flexibility</u>
Real-Time Examples	India–USA remittances, India–Japan trade, UAE–India NRI investments
Risks & FATF Compliance #5	High-risk nature of cross-border banking mandates strict CDD/EDD, transaction reporting, and rejection of non-compliant entities



Functions of Correspondent Banks

Correspondent banking is fundamentally service-driven—where one bank provides financial services on behalf of another, especially in international business operations . These services can be classified based on **account relationships**.

Respondent
ABC

POR

A. Account-Based Services

These functions require the **respondent bank** to maintain an account with the **correspondent bank**.

 Function	 Description
 Clearing House Functions #1	Handles outward/inward payments, LC reimbursements, cheque/draft collections, account statements, intra-day credit
 Collections #2	Collection of trade documents, bills, cheques; follow-ups, protests, lockbox facility, cash letters
 Payments #3	Execution of all payment instructions (FX deals, interbank payments, imports/exports settlements)
 Overdrafts/Loans #4	Temporary overdrafts (e.g., overnight) or short-term loans, subject to credit assessment and agreements
 Investment Services #5	Deployment of surplus funds in short-term deposits or call markets, cash management, yield maximization



Examples:

 Scenario	 Correspondent Bank Function
#1 <u>SBI Mumbai needs to settle a USD import payment to New York</u>	Citibank NY executes the transaction via SBI's NOSTRO account
#2 <u>HDFC receives a cheque in GBP from the UK</u>	HSBC UK collects the cheque and credits HDFC's account after clearance
#3 <u>A sudden fund gap in Yes Bank's USD account in London</u>	Barclays UK provides intra-day overdraft facility
#4 <u>ICICI holds surplus funds in EUR in Frankfurt</u>	Deutsche Bank invests in a short-term EUR call deposit



Other Services (Without Account Relationship)

These services can be extended without a direct account relationship and are usually based on mutual understanding and credit evaluations.

	Service	Explanation
#1	Letter of Credit (LC) Advising	Advising of import LCs issued by respondent bank
#2	LC Confirmation	Confirming LCs to ensure payment to exporters
#3	Buyer's/Supplier's Credit	Structured finance options for importers via foreign lenders
#4	Banker's Acceptances	Facilitating trade bills with future payment promises
#5	Guarantees	Bid bond, performance, and other contractual guarantees
#6	Forex & Derivatives	Currency trades, hedging tools, swaps, forwards, etc.
#7	Custodial Services	Safekeeping of securities and instruments
#8	Trade Referrals & Credit Reports	Reports on counterparties in foreign countries
#9	Investment in Securities & Funds	Handling surplus investments, T-bills, notes, securities
#10	Capital Market Support (ADRs/GDRs)	Facilitating fund-raising through global instruments
#11	Training & Seminars	Knowledge support on international trade & finance



NOSTRO, VOSTRO & LORO ACCOUNTS

Maintaining accounts with correspondent banks is a **core component** of international banking . These accounts help in processing cross-border receipts, payments, reimbursements, and collections.



Key Definitions:

Term	Meaning	Example
NOSTRO #1	“Our account with You”	<u>SBI Mumbai holds a USD account with Citi NY</u> → NOSTRO for SBI
VOSTRO #2	“Your account with Us”	American Express holds a ₹ account with SBI Mumbai → VOSTRO for SBI
LORO #3	“Their account with Them”	Citi refers to AmEx’s ₹ account with SBI Mumbai → LORO from Citi’s perspective
Mirror A/c #4	Reflects NOSTRO in home bank's books (dual currency)	SBI mirrors the USD balance in INR in its internal systems for reconciliation



Examples:

Scenario	Account Type
<u>Indian exporter receives USD in a U.S.-based account</u> #1	NOSTRO (USD account with foreign bank)
<u>U.S. bank holds INR account with an Indian bank</u> #2	VOSTRO (foreign bank's account in INR)
<u>A third bank referring to this relationship</u> #3	LORO (third-party view)
<u>Internal book tracking of currency balance</u> #4	Mirror Account (used for reconciliation)



Revenue Generation in Correspondent Banking

Correspondent banking isn't just operational—it's profitable .

These accounts generate income through:

- Surplus balance interest
- Fees on transactions (debits/credits)

- Payment processing commissions
- FX margin spreads
- Documentary handling charges



Summary Table: Correspondent Banking at a Glance

Component	Details
Core Functions #1	Clearing, Collections, Payments, Overdrafts, Investments
Account Types #2	NOSTRO, VOSTRO, LORO, Mirror Accounts
Account vs Non-Account Services #3	LC advising, guarantees, forex services, custodial, trade reports
Revenue Opportunities #4	<u>Interest on balances, processing fees, investment margins</u>
Compliance Focus #5	FATF Recommendation 13, CDD, EDD, reporting of transactions <i>Simplified CDD not allowed</i>
Real-Time Use Cases	FX settlements, LC handling, cheque collections, short-term funding, capital market fundraising



Electronic Modes of Transmission / Payment Gateways



SWIFT – Society for Worldwide Interbank Financial

Telecommunications

#1 Secured #2 Standard format

SWIFT is a global member-owned co-operative that provides secure financial messaging services to over 11,000 financial institutions across 200+ countries.

SWIFT Features	Details
Global Coverage	Over 11,000 institutions in 200+ countries

 In-Built Security	<u>Bilateral Key Exchange (BKE), 24x7x365</u>
#2	availability
 Cost-Effective	#3 ~25% cost of conventional telex systems
 Authentication via	Uses Relationship Management Application for
RMA/BIC	#4 validation
 Annual Volume	Over 5 billion financial messages

Core Values:

 *Excellence*,  *Community*,  *Innovation*

Services Offered:

Category	 SWIFT Use Cases
 Banking & Payments	Interbank transfers, corporate cash management, compliance messaging
 Trade Finance	LCs, Bills, Supply Chain Finance – standardized and secure messaging
 FX & Treasury	Foreign exchange settlement, CLS access, deal confirmations
 Securities	Confirmations, clearing, and settlement support across trade life-cycle

CHIPS – Clearing House Interbank Payments

System (USA)

CHIPS is the **major USD payment settlement system** operating in the U.S. since 1970.

 Aspect	 Details
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 Operator	New York Clearing House
 Nature	Automated net settlement system
 Members	49 participating banks
 Focus	USD interbank settlements, Euro Dollar deals
 Account Mapping	UID-based identification; Straight Through Processing (STP) enabled

Settlement Mechanism:

Interbank USD based Transactions

CHIPS settles payments at the **end of the day** through **netting**, and adjusts member accounts via the **Federal Reserve**.

Fedwire – U.S. Real-Time Gross Settlement System

 **Operated by:** Federal Reserve Bank

 **Since:** 1918

 Feature	 Details
 Type	Real-Time Gross Settlement (RTGS) #1
 Coverage	Over 9,000 U.S. banks #2
 Identification	<u>ABA numbers assigned to member banks</u> #3
 Use Cases	Interbank transfers, securities transactions, loans, commercial payments #4

Comparison with CHIPS:

While **CHIPS** settles in net, **Fedwire** is a **real-time** system, and is more **extensive across the U.S.** for domestic transactions.

9mps

CHAPS – Clearing House Automated Payment System (UK)

Region: United Kingdom

CHIPS → USD

CHAPS is the UK equivalent of CHIPS and operates on a **net**

settlement basis.

Feature	Details
 Members	~20 direct banks, ~4500 indirect users
 Type	Same-day value large payments in GBP
 Currency	GBP (British Pounds)
 Focus	
 Application	Used for high-value business & financial institution payments in the UK

TARGET – Trans-European Automated Real-Time

Gross Settlement System

TARGET (currently TARGET2) is the **primary Euro payment system**  for the **Eurosystem**.

Region	European Union (Eurozone members)
 Function	Mandatory for euro settlement across ECB & national central banks
 Use	Cross-border euro transfers, ECB operations, high-value transactions

TARGET2

	Central and commercial banks across Eurozone
Participants	

RTGSplus & EBA – Other Eurozone Payment Systems

◆ RTGSplus (Germany):

A **hybrid real-time** gross settlement system with over **90** participants.

◆ EBA (Euro Banking Association) operates:

System		 Details
	Net settlement system for cross-border Euro payments with 53 shareholder banks	
	Handles 20,000 daily retail transactions (€1 billion)	
	Pan-European ACH for STP retail euro payments	

RTGS & NEFT in India

RTGS – Real-Time Gross Settlement

 Details	 Description
 Operated by	RBI via IDBRT, Hyderabad
 Timings	Available 24/7/365 since Dec 14, 2020
 Minimum Transfer	₹2,00,000
 Account Monitoring	Each bank maintains a pool account with RBI
 Settlement Type	Real-time, order-wise, no netting

✓ Beneficiary banks must **credit the recipient's account within 30 minutes.**



NEFT – National Electronic Funds Transfer

Feature	Details
Settlement Mode	Hourly (earlier), now half-hourly , batch-based
Availability	24x7 across 365 days
Use Case	Low-value customer remittances
Clearing Mechanism	Uses RBI-maintained pool accounts
STP Enabled	Straight Through Processing post banking hours

Impact: RTGS and NEFT have **revolutionized digital payments in India**, replacing cheques/drafts with **instant fund transfers**.



Summary Table: Electronic Payment Systems

System	Region	Type	Key Use Cases
SWIFT	Global	Messaging + Connectivity	Financial messages, FX, securities, trade finance
CHIPS	USA	Net settlement	USD interbank/Euro Dollar transactions
Fedwire	USA	Real-time gross settlement	Domestic transfers, securities, commercial payments
CHAPS	UK	Net settlement	GBP high-value settlements
TARGET2	Eurozone	RTGS	Euro payments among ECB and national banks
RTGSplus	Germany	Hybrid RTGS	High-value Euro settlements
EBA / STEP1 & 2	EU	Net + ACH	Retail & cross-border Euro payments

RTGS (India)	India	Real-time gross settlement	₹2L+ funds transfer, 24/7 real-time processing
NEFT (India)	India	Batch-based	Small retail transfers, STP after-hours



NRI Banking

Countries with a significant number of citizens working or residing abroad, like India 🇮🇳, require robust **NRI banking frameworks** to facilitate:

₹₹ Foreign exchange inflows

💼 Investment channels

🏦 Smooth banking access for expatriates

India has established specific rules under **FEMA, 1999** for NRI banking, governed by **Reserve Bank of India (RBI)** and the **Government of India**.

Inward Remittance

👤 Who is an NRI?

Understanding the term "Non-Resident Indian (NRI)" requires examining two key perspectives:

1. As per Income Tax Act, 1961 (Section 6)

Criteria	Status
Stayed in India ≥ 182 days in preceding FY	#1 <input checked="" type="checkbox"/> Resident
OR stayed ≥ 60 days in preceding FY AND ≥ 365 days in last 4 FYS	#2 <input checked="" type="checkbox"/> Resident

📌 **Example:** If someone stayed in India for 185 days during FY 2023-24, they're classified as a **Resident**.

✖ Non-Resident (NRI)

If none of the above conditions are satisfied, the person is treated as an **NRI**.



Amendment Effective from April 2020:

If a person stays in India for ≥ 120 days and their income from Indian sources exceeds ₹15 lakhs, they are considered **Resident for Tax Purposes**.



⟳ RNOR – Resident but Not Ordinarily Resident

	Condition	Qualifies as RNOR
#1	Stayed outside India for 9 out of the last 10 FYs	<input checked="" type="checkbox"/>
#2	Stayed in India < 730 days during last 7 FYs	<input checked="" type="checkbox"/>
	Indian citizen/PIO with Indian income $> ₹15$ lakhs and stay ≥ 120 days + 365 days in past 4 FYs	<input checked="" type="checkbox"/>
	Deemed resident earning $> ₹15$ lakhs in India	<input checked="" type="checkbox"/>

⚠ Deemed Resident (Post Finance Act, 2020)

An individual is considered a Deemed Resident if:

- Income in India $> ₹15$ lakhs #1
- Not a tax resident in any other country #2
- Holds Indian citizenship (PIOs excluded) #3

FEMA Definition of NRI (1999)

According to **FEMA**, an NRI is:

	 Category	 Details
#1	Indian citizens staying abroad	For employment, business, vocation, or indefinite period of stay
#2	Deputed by Govt./Public Sector	On international postings (e.g., IMF, UN, Indian Missions abroad)
#3	Students	Considered NRIs as per RBI guidelines

A PIO is someone who:

 Qualifies If
Was a citizen of India by Constitution/Citizenship Act, 1955
Belonged to a territory that became part of India post-1947
Is a child/grandchild/great-grandchild of an Indian citizen
Is a foreign-origin spouse of an Indian citizen or of a person of Indian origin

 **OCI Cardholders** (Overseas Citizens of India) are considered PIOs

under **Section 7A** of Citizenship Act, 1955.

 Scenario - Examples	 Classification
Indian engineer working in Dubai for 3 years	<input checked="" type="checkbox"/> NRI under FEMA & Income Tax
Student going abroad for a 2-year master's degree	<input checked="" type="checkbox"/> NRI (as per RBI guidelines)
Indian-origin woman married to a U.S. citizen, living in the USA	<input checked="" type="checkbox"/> PIO
Govt. official posted to Indian Embassy in France	<input checked="" type="checkbox"/> NRI

Tourist visiting Australia for 2 weeks

✗ Not an NRI



Overseas Corporate Bodies (OCBs)

These are entities (trusts/firms/companies) owned primarily by NRIs
($\geq 60\%$ ownership).

! Past

✓ OCBs allowed similar investment benefits as NRIs

✗ Now (Post 16.09.2003) OCBs are **de-recognized** as investors by RBI

✓ Exception Old OCBs can invest if:

1. Not in RBI's caution list

2. RBI approval is obtained |



Summary Table: NRI Banking Essentials



Concept



Key Information

Definition (Income Tax Act)	Based on days of stay in India and income thresholds
RNOR Status	Based on duration abroad and Indian income levels
Deemed Resident	Indian citizens earning $> ₹15L$ from Indian sources, not tax residents elsewhere
FEMA Definition	Indian citizens residing abroad for employment/business/vocation
Who is a PIO	Foreign national with Indian roots or marital links
Students Abroad	Treated as NRIs as per RBI, even if not for indefinite stay
OCBs	Entities with $\geq 60\%$ NRI ownership; investments need RBI approval post-2003



NRI Accounts – Rupee & Foreign Currency

Accounts

NRIs are offered various **banking and investment schemes** in India to ensure smooth management of their funds, both in Indian Rupees (₹) and in foreign currency. The accounts allowed under current RBI guidelines are:



Types of NRI Accounts

Account Type	Currency
1 NRE – Non-Resident (External) Rupee Account	Indian Rupees (INR) <i>Inward remittance</i>
2 NRO – Non-Resident Ordinary Rupee Account	Indian Rupees (INR) <i>Local credits</i>
3 FCNR (B) – Foreign Currency Non-Resident Account	Foreign Currency (USD, GBP, EUR, etc.) <i>Convertible currency</i>
4 SNRR – Special Non-Resident Rupee Account	Indian Rupees (INR)

 Note: Only FCNR (B) is held in foreign currency. Others are INR accounts.



NRE Account – Non-Resident (External) Rupee Account

An NRE account is used by NRIs to park **foreign earnings in India** in Indian Rupees.

Eligibility	NRIs and PIOs with foreign earnings
 Sources of Deposit <i>NRO</i> Implied NRE	Remittances from abroad, foreign currency notes/cheques, transfer from another NRE/FCNR account
 Account Types Available	Savings, Current, Recurring Deposit, Term Deposit <i>Important</i>

 Minimum Term Deposit	1 Year
Period	
 Joint Holding <i>Joint holding</i>	Allowed with other NRIs/PIOs or resident relatives (on former or survivor basis)

Permissible Credits:

- ✓ Inward remittances from abroad
- ✓ Interest income from account or investments
- ✓ Transfer from other NRE/FCNR(B) accounts
- ✓ Maturity proceeds of eligible investments
- ✓ Rent, pension, dividend, interest, etc. (if tax paid/provided for)

Permissible Debits:

- ✓ Local payments in India
- ✓ Remittances abroad
- ✓ Transfers to other NRE/FCNR accounts
- ✓ Investments in India

Other Features:

 Feature	 Details
 Repatriation <i>(100%)</i>	Full principal + interest freely repatriable
 Nomination	Available – nominee can be resident or non-resident
 Taxation <i>(No taxation)</i>	Interest income is exempt from Income Tax, Gift Tax, Wealth Tax

NRI → FD

NRE → Resident A/c

RFC(D)

 POA Access	Power of Attorney holder (resident) can only operate for local payments/remittance to NRI
 Overdraft	Temporary OD allowed up to ₹50,000 (to be cleared within 2 weeks)
 Conversion on return	Converted to Resident Account or RFC account upon returning permanently

 **Exchange Risk:** Since held in INR, the **depositor bears currency fluctuation risk.**

Case Study – "X", NRI on Visit to India

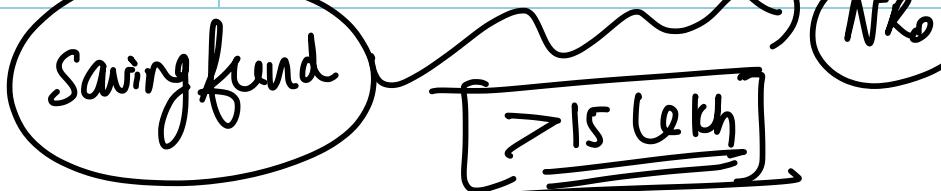
 Transaction	 Permissible?	 To Which Account?
Property sold (inherited in India) – ₹45 Lakhs	<input checked="" type="checkbox"/> Yes	NRO Account
Monthly rent ₹75,000 from Indian property	<input checked="" type="checkbox"/> Yes	NRO Account
FD (opened in 2015) matured – ₹4 Lakhs	<input checked="" type="checkbox"/> Yes	NRO Account
PF dues received – ₹28 Lakhs	<input checked="" type="checkbox"/> Yes	NRO Account
Loan repayment to relative (in cash)	<input checked="" type="checkbox"/> Yes	NRO Account (if already funded)

Rupee

NRO Account – Non-Resident Ordinary Rupee Account

An NRO account is for managing **income earned in India** (like rent, dividends, pension, etc.) by NRIs.

 Eligibility	NRIs, PIOs, and even Foreign Tourists (on short visits)
 Conversion	Resident A/c to be re-designated as NRO upon change in status
 Declaration Needed	Confirmation of residential status, tax compliance, purpose





Savings, Current, RD, Term Deposit (INR)

✓ Permissible Credits:

- ✓ Inward remittances from abroad
- ✓ Local income: rent, pension, dividends
- ✓ Transfers from other NRO accounts
- ✓ Gifts/loans from resident relatives (within LRS limits)

✗ Permissible Debits:

- ✓ Local payments
- ✓ Remittance of income abroad (within USD 1 Million per FY)
- ✓ Transfers to other NRO/NRE accounts (subject to tax clearance)

Taxation: Interest is **taxable** at source (TDS applicable). Forms

15CA/15CB needed for repatriation.



Other Features:

Feature	Details
Joint Holding	With resident relatives or other NRIs/PIOs (Former or Survivor)
Repatriation Limit	Up to USD 1 Million per FY , with IT clearance
POA Access	Local use only; not for repatriation or gifting on behalf of NRI
Tourists A/c	May be converted to FX and paid back, if valid for ≤ 6 months <i>Temp. A/c</i>
Special Cases	Bangladesh/Pakistan nationals/entities need prior RBI approval



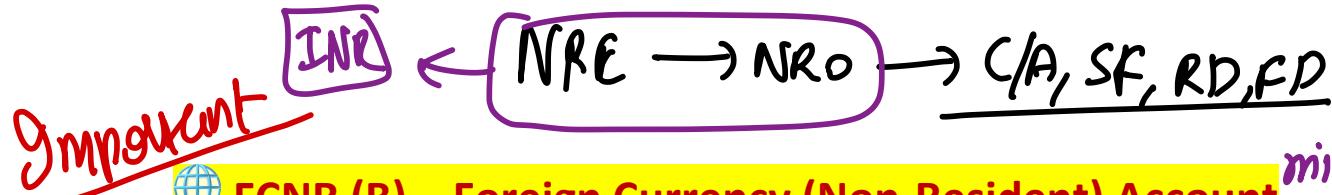
Case Study – "Z", NRI on Visit to India

Asset/Transaction	Bank's Action
Resident SB A/c (₹0.50 lakh) [NRO]	Re-designate to NRO
Resident Joint A/c with Wife (₹0.80 lakh)	Re-designate as NRO – Jointly held on 'Former or Survivor' basis
Housing Loan (2017) – ₹32 lakhs due	Tag as NRO loan; credit rental income to NRO
RD A/c (opened 2017)	Re-designate as RD – NRO
Demat A/c (ESOPs – 1000 shares)	Tag as NRI Demat Account



Summary Table – NRE vs NRO Account

Feature	NRE Account	NRO Account
Currency Type	Indian Rupees (funded from foreign earnings) INR	Indian Rupees (Indian income) <u>INR</u>
Repatriation	Fully repatriable (principal + interest) 100%	Up to USD 1 Million/year (with tax clearance) <u>intt (100%)</u>
Taxation	Interest – Tax-free [No tax]	Interest – Taxable (TDS applicable)
Joint Holding	With NRI/PIO or resident relative (FoS)	With NRI/PIO or resident relative (FoS)
POA Rights	Local payments only; no gifting/transfer [NRI]	Local use only; no repatriation by POA
Conversion on Return	Can be converted to Resident or RFC	Can be converted to Resident Account
Exchange Risk	On depositor (as held in INR)	On depositor (as held in INR)



FCNR (B) – Foreign Currency (Non-Resident) Account min 1 year max 5 years.

[Banks] Term deposit (FD) Foreign currency

FCNR (B) accounts are foreign currency term deposits for NRIs/PIOs, offering safety from exchange rate fluctuations and tax-free interest.

	Feature	Details
Eligibility	#1	NRIs / PIOs (with AD Category-I banks)
Currency	#2	USD, GBP, EUR, JPY, AUD, CAD, etc. (permissible currencies)
Account Type	#3	Term Deposit only <u>fixed deposit</u>
Tenor	#4	Minimum 1 year; Maximum 5 years
Repatriation	#5	<u>Freely repatriable (Principal + Interest in same foreign currency)</u>
Taxation	#6	Interest is tax-free in India
Exchange Risk	#7	None for depositor (held in FCY)
Joint Holding	#8	With NRI/PIO or Resident Relative (FoS; <u>POA operations only</u>)
Interest Basis	#9	<u>360 days/year; compounded half-yearly (180 days)</u>
Premature Withdrawal		Allowed as per bank policy (no interest if <1 year) <i>if less than 1 year / swap cost / penalty</i>

✓ Permitted Credits & Debits

Permitted Credits	Permitted Debits
Foreign inward remittance #1	Premature closure or maturity payout only
Transfers from NRE/FCNR #2	No local withdrawals or POA usage for local disbursal

Note: Similar credits/debits as NRE accounts, but FCNR being a term deposit, regular credits/debits don't apply.

💡 Additional Facilities:

- Nomination allowed
- Forward cover available to hedge FCNR balances
- No POA use for local withdrawals
- Interest rate ceiling linked to **ARR / SWAP rates**
- Floating rate reset: every 6 months
- Rate decided based on last working day's ARR/SWAP rate

↗ Book a forward contract
max. 1 year

max. Amount
1,00,000 USD



Case Study – Returning NRI with FCNR

📋 Account Holding (as of 31st Dec 2021)	🏦 Recommended Action
FCNR (USD 150,000)	On maturity, convert to RFC account (fully or partially), based on NRI's preference
NRE SB (₹72 Lakh)	Convert fully/partially to RFC SB or FD account
NRE FD (₹72 Lakh)	On maturity, convert to RFC FD
NRO SB (₹12 Lakh)	Redesignate as Resident SB account

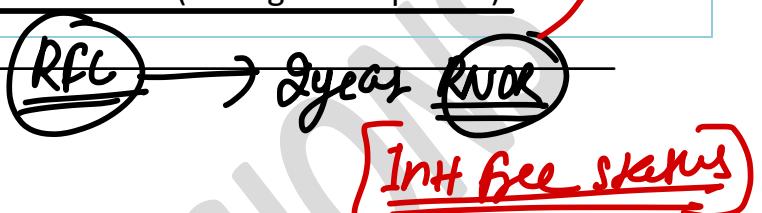


RFC – Resident Foreign Currency Account

RFC accounts are designed for NRIs who have returned to India for permanent settlement, allowing them to **retain foreign currency** without repatriation limits.

🔍 Feature	💡 Details
eligibility	Returning NRIs (for permanent settlement)
Currency	Any permitted foreign currency

 Account Types	SB or Term Deposit
 Joint Holding	With Resident Relative (FoS)
 Repatriation	Full repatriation allowed without restrictions or taxes
 Taxation	Interest is tax-free for 2 years (RNOR status) Important
 17 RNOR Status Validity	<u>2 years post return</u> ↑
 Usage	<u>Free for any permitted use (during RNOR period)</u>



✓ Permitted RFC Credits:

- ✓ NRE/FCNR balance transfer
- ✓ Pension/superannuation benefits in foreign currency
- ✓ Insurance maturity proceeds in FCY

🧠 Real-Time Example: "A" – Returning NRI

 Holding	 Bank Action
FCNR (USD 150,000) #1	On maturity – convert to RFC FD/SB (based on NRI's choice)
NRE SB ₹72 Lakhs #2	Convert fully/partially into RFC SB account
NRE FD ₹72 Lakhs #3	On maturity – convert to RFC FD
NRO SB ₹12 Lakhs #4	Redesignate as Resident SB account
Joint SB (with wife – ₹22 Lakhs)	May continue as is or ownership changed to NRI if desired
Mutual Fund (₹36 Lakhs – redemption due)	<u>Credit to Resident SB or RFC account (as per option on maturity date)</u>



Summary Table – FCNR (B) vs RFC Accounts

🔍 Feature	🌐 FCNR (B)	🇮🇳 RFC Account
💼 Account Holder #1	<u>NRIs / PIOs</u>	<u>Returning NRIs (for permanent settlement)</u>
฿฿฿ Currency	Foreign currency	Foreign currency
🏦 Account Type	Term Deposit only	SB / Term Deposit
🔄 Repatriation	Fully repatriable (P + I)	Fully repatriable (no tax) <i>(RNOR)</i>
RECEIPT	<u>Interest exempt in India</u>	<u>Interest exempt for 2 years (RNOR)</u>
📅 Tenor	<u>1 to 5 years</u>	<u>No fixed tenure</u>
🎰 Interest	<u>Half-yearly compounding,</u> <u>360-day year</u>	<u>Bank-specific, as applicable</u>
⚖️ Exchange Risk	<u>None (held in FCY)</u>	<u>None (held in FCY)</u>
👥 Joint Holding	<u>With NRI/PIO or resident</u> <u>(FoS, POA only)</u>	With Resident Relative (FoS)

Part - 3



Special Non-Resident Rupee Account (SNRR)

The **SNRR account** is a special-purpose rupee account that can be opened by **non-residents** who have a **business interest in India**. It facilitates **bona fide rupee transactions** without violating FEMA rules.

💡 Feature	📋 Details
🌐 Eligibility	Non-residents with legitimate business interest in India
📦 Nomenclature	Must reflect specific purpose of the account (e.g., escrow, trade settlement)
💰 Interest	✗ No interest is payable



	Transactions	Only transactions incidental to the business activity allowed
	Tenure	Linked to contract/business duration; max 7 years
	Post 7 Years	No operations permitted after 7 years
	NRO → SNRR Transfers	Not permitted
	Repatriability	Balances can be repatriated
	Tax Compliance	Subject to applicable Indian taxes
	On Becoming Resident	SNRR should be re-designated as a resident rupee account
	FX Risk	Account cannot be used to create forex exposures for residents

Additional Notes:

- **International Credit Cards** can be issued to NRIs/PIOs without RBI approval. Settlements may be made from **FCNR/NRE/NRO accounts or inward remittance.**
- **Taxation Compliance:** All outward remittances must be net of taxes and backed by **forms prescribed by CBDT.**
- **Deceased NRI Account Holder:** Balance can be credited to the nominee's NRO account.
- **Accounts by Pakistan/Bangladesh Nationals:** Prior **RBI approval mandatory.**

Facilities Available to NRIs

India has liberalized investment opportunities for NRIs to attract **foreign capital** and to enable **NRIs to participate in national growth.**

India Investment Opportunities for NRIs:

Mode of Investment	Details
#1  Primary Market (Direct Investment)	Purchase of shares/debentures via IPOs/FPOs
#2  Secondary Market (PIS Route)	Investments through Portfolio Investment Scheme (via recognized stock exchanges)
 Other Securities	Units of mutual funds, government securities, non-convertible debentures, etc.

✓ Repatriation Basis Options:

Type	Investment Characteristics
Repatriable	Can be taken outside India; must be made using NRE/FCNR
Non-Repatriable	Retains funds in India; may be made via NRO accounts

⚖️ Regulatory Framework:

All NRI investments in India are governed by:

 **Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000 (FEMA**

Regulations), amended from time to time.

These include:

✓ Issue of shares/securities to NRIs by Indian companies

Primary market

✓ Purchase/sale of securities by NRIs on recognized stock exchanges

Secondary market

✓ Limits on portfolio and sectoral caps

💡 Real-Time Example:

👤 Investor	💹 Investment Mode	💰 Funds	🔄 Repatriation Allowed?
Mr. A (NRI in UAE)	Buys IPO shares of SBI	NRE Account	<input checked="" type="checkbox"/> Yes
Ms. B (NRI in USA)	Invests in Indian MF (Debt)	NRO Account <i>local credits</i>	<input checked="" type="checkbox"/> No (Non-Repatriable)



Summary Table – SNRR & NRI Investment Facilities

🏛️ Aspect	📌 SNRR Account	📈 NRI Investment Facilities
👤 Who Can Open? <i>#1</i>	Non-residents with business interest	NRIs/PIOs
💼 Purpose <i>#2</i>	Conduct INR transactions related to business	Invest in India's capital markets
⏳ Tenure <i>#3</i>	Max 7 years	Investment-based; tenure as per asset class
🔄 Repatriation <i>#4</i>	<input checked="" type="checkbox"/> Yes	<input checked="" type="checkbox"/> Yes (if through NRE/FCNR); <input checked="" type="checkbox"/> No (if via NRO)
💰 Interest on Balances	<input checked="" type="checkbox"/> No	Depends on asset (e.g., bonds, MFs)
💰 Tax Applicability	<input checked="" type="checkbox"/> Indian taxes apply	<input checked="" type="checkbox"/> TDS as per Indian laws
RBI/Regulatory Compliance	FEMA + CBDT	FEMA (2000) + SEBI/RBI

#1

Investments in Shares & Securities

NRIs/PIOs are allowed to invest in shares and securities of Indian companies under two categories:

₹ Investment Type	Repatriation Allowed?
<input checked="" type="checkbox"/> Repatriable Basis	Yes (from NRE/FCNR accounts or inward remittance)
<input type="checkbox"/> Non-Repatriable Basis	No (credit to NRO only)

✓ General Guidelines:

🔍 Criteria	📋 Explanation
👤 Who Can Invest?	NRIs & PIOs (Indian Citizens or Foreign Citizens of Indian Origin)
📘 Compliance	As per FEMA 2000 + sectoral caps/industry restrictions
📝 Procedural Requirements	All compliance managed by company — NRI has no procedural burden
₹ Source of Funds	Inward remittance or debit to NRE/FCNR accounts
💼 Account Credit	Repatriable sale proceeds → NRE/NRO; Non-repatriable → NRO only
GST Tax Deduction	TDS as per Income Tax rules

📊 Investment Routes for NRIs

🧠 Category	📋 Details
1 FDI (Direct)	Fresh capital investment in company shares
2 Portfolio Investment Scheme (PIS)	Buying/selling shares via stock exchange route through designated bank branch
3 Non-Repatriable Investment	From NRO account; credit to NRO only

4 Other Securities

Bonds, Treasury Bills, Non-Convertible Debentures, etc.

~~Important~~ PIS Scheme – Conditions & Limits

 Condition	 Limit/Requirement
 Designated Branch Required	Must route all PIS transactions through one branch
 Max holding per NRI in a company	5% of paid-up capital
 Total holding by all NRIs/PIOs in a company	10% (can go up to 24% with company board approval)
 Repatriable Sale Proceeds	Credited to NRE/NRO (tax deducted at source)
 Non-Repatriable Sale Proceeds	Credited only to NRO account

 NRI investments under PIS are monitored by RBI through AD

Category-I Banks.

Repatriation of Sale Proceeds

 Investment Type	 Repatriation Eligibility
From NRE/FCNRB/inward remittance	 Allowed after tax deduction
From NRO account	 Not allowed (except within USD 1 million/year under FEMA)

 **NRIs are also allowed to invest in Exchange-Traded Derivatives (non-repatriable, via INR funds).**

Other Investment Avenues for NRIs

Mutual Funds (UTI & Others)

 **Repatriation Basis**  **Permitted**

Repatriable basis	Yes
Non-repatriable basis	Yes



2. Company Fixed Deposits

long term investment

- Permitted on non-repatriable basis only
-  Maturity proceeds → Credited to **NRO account**



3. Partnership Firms / Proprietorship Concerns

Conditions
 No investment in agricultural/plantation/real estate businesses
 Investment via inward remittance or NRE/FCNRB balance
 Repatriation allowed post-tax



4. Investment in Immovable Property (Real Estate)

Permitted for NRIs/PIOs	Not Permitted
<input checked="" type="checkbox"/> Residential or commercial property	 Agricultural land
<input checked="" type="checkbox"/> Gift/inheritance of property	 Plantation or farm house
	property



Repatriation of Sale Proceeds:

Condition	Repatriation Allowed?
Property bought while being NRI (FCY/NRE)	<input checked="" type="checkbox"/> Yes, up to 2 residential units
Property bought as resident, now NRI	<input checked="" type="checkbox"/> After 10 years from purchase
Proceeds credited to NRO account	<input checked="" type="checkbox"/> Up to USD 1 Million/financial year
 Taxes must be paid on capital gains	<input checked="" type="checkbox"/> Mandatory

📌 Banks can process these remittances under delegated authority.

5. Other Investments

Asset Class	Repatriation	Permitted?
Basis		
Govt. Securities, Treasury Bills <i>#1</i>	✓ Repatriable	✓ Yes
Units of Mutual Funds, including MMDs	✓/✗ Both	✓ Yes
PSU Bonds & Disinvestment Shares	✓ Repatriable	✓ Yes
National Plan/Savings Certificates	✗ Non-repatriable	✓ Yes <i>Gmp</i>

⚠ Restrictions on Certain Nationalities

Country	Restriction
Pakistan, Bangladesh, Sri Lanka, China,	✗ Cannot acquire property without RBI approval
Afghanistan, Iran, etc.	
Foreign nationals (non-Indian origin, resident in India)	✓ Can acquire property (except those listed above)

📚 Example – Repatriation of Property Proceeds

Mr. K, a PIO residing in Canada, inherited a commercial property in India from his father. He sells the property in 2024 for ₹80 lakhs.

Situation	Action
Inherited under valid FEMA guidelines	✓ Sale is permissible
Proceeds post-sale	✓ Credited to NRO account

Repatriation allowed?	<input checked="" type="checkbox"/> Yes, up to USD 1 million/year (subject to tax & forms 15CA/15CB)
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Summary Table – NRI Investment Options

Investment Type	Repatriation	Key Notes
Equity/Preference Shares	<input checked="" type="checkbox"/> (if via NRE/FCNR)	Under PIS or FDI route <i>51. 157. 21.</i>
Mutual Funds	<input checked="" type="checkbox"/> Both	UTI, SEBI-registered MFs allowed
Company FDs	<input checked="" type="checkbox"/> Non-repatriable	Proceeds credited to NRO
Real Estate	<input checked="" type="checkbox"/> Conditional	Up to 2 properties; 10-year lock-in for resident-acquired property
Derivatives (Exchange-traded)	<input checked="" type="checkbox"/> Non-repatriable	Allowed under SEBI limits using INR funds
Govt. Securities, PSU Bonds	<input checked="" type="checkbox"/> Repatriable	No limit on purchases

Advances to Non-Residents Against Non-Resident

Deposits

NRIs can avail loans in India against their **NRE/FCNR(B) deposits**, either for themselves or a third party, subject to compliance with FEMA and RBI guidelines.

Loan Eligibility & Purpose

<input checked="" type="checkbox"/> Permitted	<input checked="" type="checkbox"/> Prohibited
Loans to NRI account holder	Re-lending or on-lending

(A) → (B)

Loans to resident third parties (with no forex consideration)	Investment in real estate
Loans for personal/business use in India	Agricultural or plantation activities

🔍 Key Loan Guidelines

💼 Parameter	📝 Details
👤 Who Can Avail	NRI depositor or third party (resident)
💰 Loan Type	Fund-based & Non-fund based facilities
🏦 Security	Lien on NRE/FCNR(B) deposits
🚫 Premature Withdrawal	Not allowed if loan is availed against the deposit
\$ Margin Requirements	As per bank's lending norms
🚫 NRO Accounts	No loans can be granted against NRO balances
🔄 Repatriation of Loan Funds	✗ Not permitted (Loan usage restricted within India)
📅 Loan Repayment Methods	
– Adjusting deposit balance	
– Inward remittance	
– From NRO account	

🌐 Loans Outside India (Via Overseas Branches)

Authorised Dealer (AD) banks may allow their

branches/ correspondents abroad to:

- Grant loans to NRI depositor or third party abroad
- Use security of funds in NRE/FCNR(B) deposits in India
- Allow liquidation of NRE deposits in India to repay foreign loan

NRI

Overseas Branch



Housing Loans to NRIs

Indian banks can extend **housing loans to NRIs** to help them buy residential property in India, under the same norms applicable to residents—with a few NRI-specific provisions.



Housing Loan Guidelines for NRIs

Loan Criteria	Condition
Loan Amount, Margin, Tenor	Same as for resident Indians
Credit of Loan Proceeds	✗ Not permitted to NRE/FCNR(B) account
Collateral	Equitable mortgage of the property (plus lien on other Indian assets, if needed)
Repayment Methods	
— Inward remittance	
— Debit to NRE/FCNR(B)/NRO	
— Rental income from the property	

✗ Prohibited Transactions for NRIs

NRIs/PIOs are restricted from undertaking the following transactions under FEMA regulations:

Prohibited Activity	Remarks
✗ Purchase of Agricultural/Plantation/Farm land	Not permitted for NRIs
✗ Dealing in Real Estate Business (except development/infra)	Includes buying/selling plots for profit

✖ Trading in TDRs (Transferable Development Rights)	Not allowed
✖ Opening new PPF accounts	Existing ones can be continued (opened while resident)
✖ Investing in government-linked small savings (e.g., NSCS)	Not permitted
✖ Intra-day trading / short selling in equity markets	NRIs must comply with PIS regulations only



Summary Table – Loans & Housing for NRIs

Aspect	NRI Advances	Housing Loan for NRIs
Who can avail?	NRI depositor or third party	NRI borrower
Security	Lien on NRE/FCNR(B) deposits	Mortgage of property
Repatriation of loan	✖ Not allowed	Not applicable (property remains in India)
Loan usage	India-specific purpose only	Buying residential accommodation
Repayment options	Deposit adjustment, remittance, or NRO funds	Remittance, NRE/ FCNR/ NRO debit, or rental income
Loan against NRO deposit	✖ Not allowed	Not applicable
Premature withdrawal of deposit	✖ Not allowed when loan availed	Not applicable
Prohibited sectors	Agri/Plantation, Real Estate trading, TDRs, PPF, NSCS, etc.	N/A