



## The research paper on non-resident deposits in India: A conceptual study

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### Abstract

The significance of Non-Resident Deposits lies in the fact that these deposits are 'confirmed' and 'reliable' source of foreign exchange as they are unconditional in nature. In fact one of the major components of Non-Resident Deposits is in the form of FCNR Deposit Accounts (Foreign Currency Non-Resident Account) which is immune to currency fluctuations.

**Foreign Currency Non Resident Deposit Meaning:** A Foreign Currency Non-Resident (FCNR) Deposit is unique to India and is primarily meant for non-resident Indians (NRIs) and persons of Indian origin (PIOs), who want to hold monetary deposits in their chosen foreign currency. Currency options available are usually the USD, GBP, EUR, JPY, AUD and CAD. A major advantage of holding an FCNR deposit is that the depositor need not worry about exchange rate fluctuations and can choose a term between 1 to 5 years. These deposits play a important role in courtiers financial wealth creation. The Researchers have studied this important topic with respect to its concept and meaning to create awareness amongst NRI's and readers will be benefited by this by creating interest in increasing these deposits.

**Keywords:** non-resident deposit, bank transactions, indian banking system, NPA, debit, credit, e-cash, online, server

### 1. Introduction

Against the background of chronic deficit in Balance of Payment of India the potential of Non-Resident Deposits as a source of foreign exchange and its contribution towards financing Capital Account Deficit. It is very important to increase these deposits in India which will add to our capital gain in long run.

The very theme of the research revolves around critical analysis of the role played by Non-Resident Deposits in contributing and correcting Balance of Payment deficit and therefore the study has Macro Economic significance. However, to gain more insight the study looks into Micro aspects from the perspective of Non-Resident Depositors and Bankers who mobilizes Non-Resident Deposit Accounts.

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It is observed from the available data that the very component of 'Non-Resident Deposits' as one of the items in the 'Capital Account' in financing 'Current Account' of Balance of Payment is relatively low as compared to other items in the Capital account, in spite of significance of such deposits and

incentive measures offered from time to time.

### The Role of Non Resident Deposits

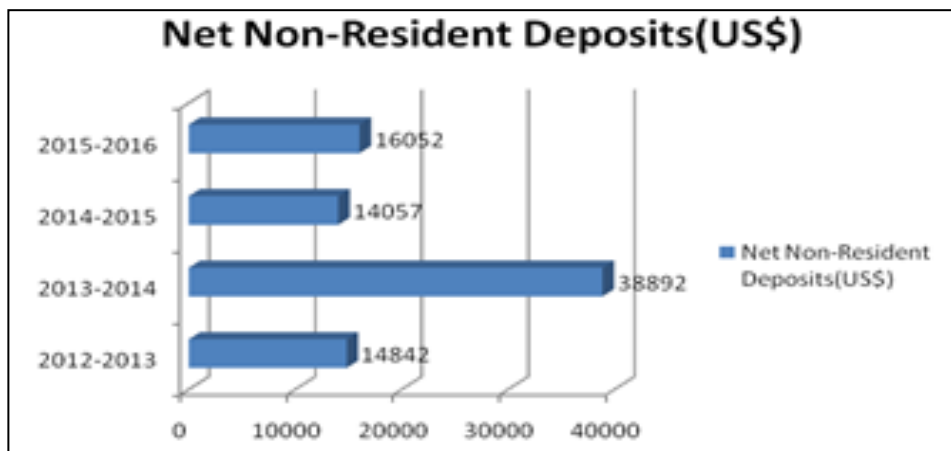
NRI's are the important for India since they have emotional and family bonding here. If planned properly to serve them better they will keep faith in Indian banking system and will save their hard and fast money in India. These deposits can be mobilized for various development activities in India.

As stated above Non-Resident Deposits figure as one of the items in Capital Account side of Balance of Payment under head 'Net Non-Resident Deposits' and is one of the factors contributing in reducing overall deficit. In order to analyze contribution of such net Non-Resident Deposit flow to the Balance of Payment the researcher has gone through the data (secondary source) available on Reserve Bank of India sites. The data so obtained is converted into graphical form and same is presented below.

**Table 1:** Table showing Non Resident Deposits from 2012-2016.

Year	Net Non-Resident Deposits(US\$)
2012-2013	14842
2013-2014	38892
2014-2015	14057
2015-2016	16052

**Source:** Data Extracted from <https://www.rbi.org.in/>



Source: Table No.1.0 Above

Fig 1

The graph clearly depicts swings in Non-Resident Deposits from the period 2012 to 2016 and clearly exhibits inconsistency in the flow of Non-Resident Deposits.

The major observations of the researcher are as given below-

- Non-Resident Depositors that are spread across the globe throw open huge potential to mobilize foreign currency.
- Non-Resident Depositors are keen to enhance their flows to deposit accounts subject to more facilities and consider opportunity cost involved in alternative investment opportunities.
- Non-Resident Depositors expect incentives offered today require further liberalization.

## 2. The Means of Non Resident Deposits

### 2.1 Foreign Currency Non Resident Deposit

#### Foreign Currency Non Resident Deposit Meaning

A Foreign Currency Non-Resident (FCNR) Deposit is unique to India and is primarily meant for non-resident Indians (NRIs) and persons of Indian origin (PIOs), who want to hold monetary deposits in their chosen foreign currency. Currency options available are usually the USD, GBP, EUR, JPY, AUD and CAD. A major advantage of holding an FCNR deposit is that the depositor need not worry about exchange rate fluctuations and can choose a term between 1 to 5 years.

#### Foreign Currency Non Resident Deposit Example

The FCNR deposit is created via remittance from India or from an existing FCNR account. The minimum amount that is necessary for a FCNR deposit may differ in banks. A FCNR deposit may be opened jointly with an NRI or PIO only. Loans against FCNR deposits may also be made available to the depositor or to a third party at the behest of the depositor. FCNR deposits interest rates are modified every month. FCNR deposits are generally dominated by major foreign currencies. Many international financial institutions with Indian branches offer FCNR deposits at attractive interest rates to local residents with Indian businesses to effectively manage their overseas earnings.

This most important reason and benefit of opening NRE accounts. Interest earned on NRE saving account as well on NRE fixed deposit is tax-free in India. They are not counted even in your taxable income, so we can make the proper

marketing of this plus point and increase the deposits.

## 3. The Rules of Opening Non-Resident Accounts in India

The Following are the Rules recently posted on RBI website through notification to open the NRI Account in India.

### Definitions

Some key terms used in the regulations are given below:

- 3.1 'Authorized Bank' is a bank including a co-operative bank authorized by the Reserve Bank to maintain an account of a person resident outside India.
- 3.2 'Authorized Dealer' is a person authorized as an authorized dealer under sub-section (1) of section 10 of FEMA.
- 3.3 'Deposit' includes deposit of money with a bank, company, proprietary concern, partnership firm, corporate body, trust or any other person.
- 3.4 A 'Non-resident Indian' (NRI) is a person resident outside India who is a citizen of India.
- 3.5 A 'Person of Indian Origin (PIO)' is a person resident outside India who is a citizen of any country other than Bangladesh or Pakistan or such other country as may be specified by the Central Government, satisfying the following conditions:
  - a. Who was a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955 (57 of 1955); or
  - b. Who belonged to a territory that became part of India after the 15th day of August, 1947; or
  - c. Who is a child or a grandchild or a great grandchild of a citizen of India or of a person referred to in clause (a) or (b); or
  - d. Who is a spouse of foreign origin of a citizen of India or spouse of foreign origin of a person referred to in clause (a) or (b) or (c)

Explanation: PIO will include an 'Overseas Citizen of India' cardholder within the meaning of Section 7(A) of the Citizenship Act, 1955.

- 3.6 'Permissible currency' is a foreign currency which is freely convertible.
- 3.7 'Relative' means relative as defined in section 2(77) of the Companies Act, 2013.
- 3.8 As FEM (Deposit) Regulations, 2000 have been repealed and replaced by FEM (Deposit) Regulations, 2016 with

effect from April 1, 2016 (FEMA 5(R)), the term NRI, wherever it appeared, has been replaced by NRI and/or PIO. Prior to this, PIOs were covered within the definition of NRI.

#### **4. Advantages of Non Resident Deposits in India**

NRE Bank Account and Fixed Deposits If you are an NRI (Non-Resident Indian) then you have access to a unique bank account called NRE (Non-Resident external) account which allows you to keep your money in Indian rupees. This account then further allows you one of the best returns some of the benefits are as give below.

##### **1. Tax Benefits for the Depositors Who are Holding NRE Accounts**

This is the single most important reason and benefit of opening NRE accounts. Interest earned on NRE saving account as well on NRE fixed deposit is tax-free in India. They are not counted even in your taxable income, in case you have some income in India. Due to this feature, NRE fixed deposits are one of the most secure and high yield investment option only available to NRIs.

##### **2. Low Balance required for certain banks**

Due to increased competition among public and private sector banks e.g. SBI, ICICI, HDFC, Axis bank and YESBANK, the minimum balance required has dropped significantly. Nowadays many banks including ICIC, HDFC and Kotak requires just Rs 10,000 as a minimum balance. Due to this depositors can open the account and operate with minimum funds in account during the course of the time.

##### **3. Repatriation Benefits for NRE in Their Accounts**

Another key advantage of NRE account is repatriation benefits. NRE saving account allows easy movement of funds because both you can repatriate both interest and principle abroad. Funds in NRE accounts are fully and freely repatriable. It gives flexibility in account management.

##### **4. High-Interest Rate for the Depositors**

Both NRE saving account and NRE fixed deposit offer high-interest-rate though this varies between bank to bank. Some banks like YESBANK offers around 6% interest rate for a certain amount in your saving account but most of the bank like ICICI and HDFC gives 4% per annum. The good part is that interest rate is calculated on daily closing balance and interest is paid half-yearly in June and December. The deposit scheme are to studied properly by the depositors. Time to time the rules may vary which may affect the rate of interest.

##### **5. Convenience Benefits for NRE**

One more advantage of NRE accounts is convenience. It's easy to open an NRE account. Most of the banks allow you to open NRE account online. You just need to fill a form online, take a printout, attach the self-attested copy of required documents and courier to the bank in India. Some bank even provides free pick up of documents and some other has Free PO Box Service to send your documents depending upon which country you live. Usually, Indian banks have better.

##### **6. NRE Account Gets Joint Holding Benefit**

Another key benefit of NRE account is that you can jointly open it with another NRI e.g. your wife or your children. It's one of the best ways to manage your funds as your partner can operate along with you. Having joint holding facility for NRE account just makes it more attractive. See here for more details of how to open joint NRE accounts.

##### **7. Mandate Holder Benefits**

This is one more unique advantage of NRE saving accounts which allows you to appoint a mandate to operate your account for your behalf. The mandate is nothing but an authorization is given to a person to operate the customer's bank account on his behalf. Banks like ICICI and HDFC issues free cheque book and ATM card for mandate holder. Many NRIs make their parents as mandate holder so that they can access the fund when they need. Here is a guide to tell you how to appoint a mandate holder in NRE account.

##### **8. Investment Benefits in Certain Banks**

Many banks like HDFC and Axis bank allows NRIs to invest in Mutual funds by linking their NRE saving account to Investment savings account. Some banks provide best plans of investment.

##### **9. NRI Global Offering Advantage**

Since many Indian banks now have a global offering, opening an NRI account allows them to handpick exclusive offers catering to your needs both in India and abroad. The global presence due to this possible.

##### **10. Accessibility Advantage Through World**

NRI saving account usually comes with International Debit card, at least, I know that HDFC bank, Kotak Mahindra and ICICI does provide an International debit card to NRE account holder. This gives you the unique accessibility advantage of shopping worldwide, booking air tickets online, buying health and life insurance, and withdrawing cash at abroad. Though, beware, exchange rates are not best and there are charges associated with international transactions especially cash withdrawal. The exchange rates depend on various factors.

##### **5. Barriers in Non Resident Deposits in India**

The Non Resident Deposits in India have following barriers the increase in these is possible only when all the barriers are overcome. Some of the major hurdles are as given below-

1. Infrastructural Facilities for Internet Backbone and Banking system.
2. Financial requirements in the initial stage are more for Account Holders.
3. Financial Provisions and support from Central Government to make these facilities available to NRIs.
4. Opening New Websites for Such users Sector wise and maintain them properly.
5. Availability of funds to provide Interest on these accounts.
6. Network and Computer Security Experts and Programmers to manage these system properly.

##### **6. Future of Non Resident Deposits in India**

The future of Non-resident Deposits in India is very bright and

many NRIs are now believing the Banking system in India and one of the reliable banking system in world, the growth in coming years in NRI deposits is possible due to government policies and policies of RBI also the number of NRI in future will be seen as increasing. he dedicated efforts from Government will be required and awareness of NRI and people will also make good effect on use of these deposits for the development of the country financially and gaining the foreign exchange increased due to this.

## 7. Conclusion

The paper cover in brief about Non Resident Deposits its concept, meaning, use, benefits and barriers. The country cannot be developed with out using such new tools and techniques for NRI depositors. The NRI activities are going to increase in near future. The use of Internet is must to get benefit from other developed countries. The main drawback is awareness of English and use of technology at the grass root level regarding NRI. The Government Local, State and at Central have to take serious efforts to create awareness among NRIs and provide facilities for the same. The Authors have done decent contribution by creating the awareness and has discussed benefits of Non Resident Deposits in India. In future the growth in Non-resident deposits is expected and it is good sign for the country as whole.

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