



## Non-Resident Deposits in India: A conceptual study

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### **Abstract**

Non-Resident Deposits are an important source of foreign currency since they are unconditional and hence a confirmed and reliable supply of foreign currencies. FCNR Deposit Accounts (Foreign Currency Non-Resident Account) are a significant part of non-resident deposits since they are not affected by currency changes.

Unique to India, a Foreign Currency Non-Resident (FCNR) Deposit is designed for non-resident “Indians (NRIs) and people of Indian origin (PIOs) to save funds in their preferred foreign currency. Most often used currencies are the US dollar, British pound, Euro, Japanese yen, Australian dollar, and Canadian dollar. An FCNR deposit's main benefit is that the depositor may choose any period from 1 to 5 years without worrying about currency conversion rates. This kind of deposit is crucial to the development of a courtier's financial standing. In order to raise interest in expanding these deposits among NRIs, the researchers have investigated this issue in depth with regard to its idea and significance.

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

### **1. Introduction**

Non-Resident Deposits as a source of foreign money and its contribution toward financing Capital Account Deficit against the backdrop of India's persistent trade deficit. Increasing these deposits in India is crucial, since they will contribute to our long-term capital gain. This study's Macro Economic relevance stems directly from its overarching theme: a critical investigation of the role that Non-Resident Deposits play in both adding to and resolving the Balance of Payment deficit. Nonetheless, the research digs further by focusing on the micro level from the perspectives of NRDs and the bankers who mobilize NRD deposits. Non-Resident Deposits are an important source of foreign currency since they are unconditional and hence a confirmed and reliable supply of foreign currencies. FCNR Deposit Accounts (Foreign Currency Non-Resident Account) are a significant part of non-resident deposits since they are not affected by currency changes. According to the available data, despite the importance of such deposits and incentive measures offered from time to time, the very component of 'Non-Resident Deposits' as one of the items in the 'Capital Account' in financing the 'Current Account' of the Balance of Payment is relatively low as compared to other items in the Capital account”.

#### **NRI account**

NRI Account Meaning:

Bank or financial institution authorized by the Reserve Bank of India (RBI) to offer different services to Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs) are referred to as NRI Accounts. The acronym NRI has been previously defined. First, let's get down to the nitty-gritty of what an NRI account really is. There are three different kinds of accounts that Non-Resident Indians (NRIs) may establish in India: NRE Accounts, NRO Accounts, and FCNR (B) Accounts. NRI accounts may be opened by those who have spent fewer than 365 days in India over the previous four years and who have been permanently residing outside of India for at least 120 of the previous year. This is because their residence status would change to that of a non resident alien (NRI) under the Income Tax Act of 1961. A person is immediately classified as a non-resident Indian (NRI) if they leave India with the



intention of taking a job elsewhere. An NRI's understanding of the variations between the three types of bank accounts in India is crucial. In doing so, they are better able to achieve their investment objectives, fulfill their financial commitments, and arrange for a comfortable residence. NRIs may fund their accounts with money earned in India or the country where they now live, depending on the kind of account they choose.

### **The Non Resident Deposits**

Since many NRIs have deep roots in India via family and friendship, they play a crucial role for the country. People will continue to trust the Indian banking system and retain their cold, hard cash in India if measures are taken to improve the quality of service they get. India may use these savings for a wide range of infrastructure projects. A factor in lowering the overall deficit is the fact that non-resident deposits are recorded in the Capital Account of the Balance of Payments under the heading "Net Non-Resident Deposits," as mentioned above. The researcher has used data (secondary source) from Reserve Bank of India websites to examine the impact of this net Non-Resident Deposit flow on the country's balance of payments. The acquired information is then displayed in graphical form.

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

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

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

Below are the researcher's most salient findings:

- Spread everywhere around the world, Non-Resident Depositors provide a massive opportunity to raise international funds.
- Non-Resident Depositors are eager to increase their flows to deposit accounts provided with additional facilities, and they are also cognizant of the opportunity cost associated with other possible investments.
- Depositors who do not live in the country where the bank is located may want to wait for greater liberalization of the current incentives before taking advantage of them.

### **Foreign Currency Non Resident Deposit Foreign Currency Non Resident Deposit Meaning**

Unique to India, a Foreign Currency Non-Resident (FCNR) Deposit is designed for non-resident Indians (NRIs) and people of Indian origin (PIOs) to save funds in their preferred foreign currency. Most often used currencies are the US dollar, British pound, Euro, Japanese yen, Australian dollar, and Canadian dollar. An FCNR deposit's main benefit is that the depositor may choose any period from 1 to 5 years without worrying about currency conversion rates.

### **Foreign Currency Non Resident Deposit Example**

FCNR deposits may be established either by receiving a remittance from India or by transferring funds from an existing FCNR account. The bare minimum required to open an FCNR account varies per bank. Only an NRI or PIO may establish an FCNR account jointly. FCNR deposits may be used as collateral for loans granted to the depositor or the depositor's chosen third party. A monthly adjustment is made to the interest rate paid on FCNR deposits. The majority of FCNR holdings are held in major foreign



currencies. To help Indian company owners better manage their foreign profits, several multinational banks with operations in India offer FCNR deposits at competitive interest rates.

This is the primary advantage of NRE accounts and the best argument in favor of creating one. In India, nonresident aliens (NREs) do not have to pay tax on interest on NRE savings accounts or NRE fixed deposits. We can raise deposits by properly promoting the fact that they are not included in your taxable income.

### **The Rules of Opening Non-Resident Accounts in India**

These are the rules for opening an NRI account in India that were just announced on the RBI website.

Definitions Below are definitions for a few of the most important words found in the rules:

- 'Authorized Bank' refers to a bank, including a co-operative bank, that has been granted permission by the Reserve Bank to hold the funds of a person who resides outside of India; 'Authorized Dealer' refers to a person who has been granted permission to act as an authorized dealer in accordance with subsection (1) of section 10 of FEMA.
- Money deposited with a bank, business, proprietary concern, partnership firm, partnership firm, corporate body, trust, or other entity is also considered a "deposit."
- A "non-resident Indian" (NRI) is an Indian national who resides outside of India.
- A "Person of Indian Origin" (PIO) is a non-Indian citizen who has Indian ancestry and who resides outside of India.

“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)

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

A Non-Resident Alien's Access to His or Her Own Bank and Fixed Deposit Non-Resident Indians may maintain their money in Indian rupees at a special bank account called an NRE (Non-Resident External) account. A few of the many advantages of this account are listed below.

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

For this reason alone, having an NRE account is a crucial financial decision. In India, nonresident aliens (NREs) do not have to pay tax on interest on NRE savings accounts or NRE fixed deposits. Even if you make money in India, the earnings are not subject to taxation there. Because of this, NRE fixed deposits are among the safest and highest-yielding investment options accessible to non-resident aliens.

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

Increased rivalry between government and commercial banks has led to lower interest rates for consumers. Minimum balance requirements have reduced dramatically at SBI, ICICI, HDFC, Axis bank, and YESBANK. The minimum balance at numerous banks, including as ICIC, HDFC, and Kotak, is now just Rs 10,000. As a result, account holders may create an account and do business with very little money.



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

The ability to withdraw funds in a foreign currency is another major feature of NRE accounts. You may easily transfer money across countries thanks to the flexibility of an NRE savings account, since both interest and principal can be taken out of the country. It is completely legal to withdraw money from an NRE account anywhere in the world. It allows for more flexibility in account administration”.

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

High interest rates are available for both NRE savings accounts and NRE fixed deposits, albeit the exact amount varies per bank. When you deposit a particular amount of money into a savings account with select banks, such as YESBANK, you'll get an interest rate of roughly 6% each year. However, most banks, such as ICICI and HDFC, only provide 4% interest per year. Interest is paid semiannually in June and December, and is determined on the basis of the daily closing balance. Investors need to give careful consideration to the deposit strategy. The interest rate you get may be affected by changes to the regulations that apply from time to time.

### **Convenience Benefits for NRE**

NRE accounts also have the benefit of being easy to access. An NRE account may be opened quickly and easily. A non-resident alien (NRE) account may be opened at most institutions nowadays entirely online. Simply complete an online form, print it off, and then courier a self-attested copy of the necessary papers to the bank in India. Depending on the nation in which you reside, you may be able to take advantage of a free document pick-up service from your bank, or you may be able to use a free post office box service. In general, banks in India are a superior option.

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

One of the best features of an NRE account is that it may be opened jointly with another NRI, such as a spouse or dependents living in the same country. As your spouse can run the business with you, it's one of the greatest strategies to handle your finances. The added appeal of a shared holding option for NRE accounts is obvious. For information on setting up a combined NRE account, go here.

### **Mandate Holder Benefits**

The ability to choose a mandate to manage your account on your behalf is a distinct benefit of NRE savings accounts. A mandate is simply permission provided to another party to handle a customer's bank account. Mandate holders may get a free cheque book and ATM card from banks like ICICI and HDFC. In order to ensure that their children always have access to their money, many NRIs name their parents as mandate holders. Find below instructions for designating a mandate holder for your NRE account.

### **Investment Benefits in Certain Banks**

NRIs may invest in mutual funds with the help of several financial institutions, like HDFC and Axis bank, by connecting their NRE savings account to an Investment savings account. The finest investment strategies are offered by several banks.

### **NRI Global Offering Advantage**

When you create an NRI account with one of the numerous Indian banks that now provide services across the world, you'll have access to exclusive deals and services tailored to your specific requirements both in India and overseas. This allows for a worldwide presence.

### **Accessibility Advantage Through World**

At least the banks I'm familiar with, HDFC, Kotak Mahindra, and ICICI, provide international debit cards to NRE account holders in addition to the domestic ones. You can now purchase anything from anywhere in the world, book a flight anywhere in the world, get health and life insurance anywhere in the world, and withdraw money from any ATM in the world. Be wary, however, that overseas transactions, particularly cash withdrawals, come with fees and poor exchange rates. A number of things



influence the currency exchange rates.

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

Until the following obstacles are removed, it would be impossible to see a rise in the amount of money being deposited by non-Indian citizens in India's banks. Listed here are some of the most substantial obstacles:

1. The Core Infrastructure of the Internet and the Financial System.
2. Account Holders have greater starting financial requirements.
3. All of these services are accessible to NRIs thanks to central government funding and assistance.
4. Establishing and maintaining new websites catering to these customers on a sector-by-sector basis.
5. Funding available to pay Interest on these accounts.
6. Experts in Network and Computer Security, as well as Programmers, are needed to effectively administer these systems.

### **Future of Non Resident Deposits in India''**

Since a growing number of non-resident Indians (NRIs) have come to see India's banking system as one of the world's most trustworthy, NRI deposits in India are expected to rise in the years ahead, a trend that will likely be accompanied by a rise in the overall NRI population. Use of these deposits for the country's financial growth and increased foreign exchange owing to this would need focused efforts from the Government and, as important, the awareness of NRI and the people.

### **Conclusion**

The article provides a concise overview of the topic of non-resident deposits, including its definition, applications, advantages, and disadvantages. NRI depositors are crucial to the country's economic growth, and the country's progress is impossible without cutting-edge technologies and methods. Expect a ratcheting up of NRI pursuits in the not-too-distant future. To compete with more advanced nations, it is essential to have access to the Internet. The primary problem with NRI is that people at the grassroots level don't know how to utilize English or modern technologies. Local, state, and federal governments all need to do more to inform and accommodate non-resident aliens. The authors have made a respectable effort by raising the profile and illuminating the advantages of Non Resident Deposits in India. The rise of non-resident deposits is a hopeful indicator for the economy of the nation as a whole.

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