CHAPTER - 7

SUGGESTIONS AND RECOMMENDATIONS
7.1 In this chapter, the Researcher has proposed some changes in the scheme. The changes so contemplated is what precisely, Researcher's contribution to the study on F.C.N.R. scheme. It is therefore felt that against backdrop of critical analysis of F.C.N.R. scheme and Balance of Payment in foregoing chapters, following specific suggestions be made as "modifications" in the scheme. It is further felt that after implementation of these suggestions, the modified FCNR scheme would yield better results to the exchequer, from the viewpoint of contribution of FCNR, towards BOP position.

SUGGESTION NO. 1 :-

At present FCNR accounts can be opened by NRIs and OCBs as per Exchange Control Manual. Non-Resident Indians are those who are of (a) Indian Origin (b) Residing abroad for gainful employment or for any other purpose (c) Indicating indefinite stay abroad i.e. the stay cannot be of definite period. All these persons who stay abroad (out of India) and fulfill above criteria are given status of NRIs and are therefore eligible to open FCNR account. It means those who even partially fail to fulfill above criteria are denied status of Non-Resident Indians and are therefore ineligible to open FCNR accounts. Due to this reason, NRI status is denied to "Indian students abroad" as period of stay of such students is definite upto duration of course undertaken by them. These students are expected to return to their homeland as soon as study is over. These students therefore do not fulfill criterion 'C' above. It is also true, these students when go abroad obtain exchange
from Reserve Bank of India against permits or from ADs of commercial banks against their discretionary power. Hence, in case if students are given NRI status, it means they would be sending same foreign exchange that they initially obtained either from RBI or ADs. As such, net inflow of exchange for country's Balance of Payment would be zero.

In Indian context, Researcher has noticed that good number of students who go abroad for study earn while they learn which enables them to save some amount out of their earnings. This saving according to the Researcher is potential source of FCNR deposits and this source can be tapped if NRI status is granted to such students. Eventhough, it is true that such students when go abroad, initially, obtain foreign exchange from government itself (through RBI/ADs), the quantum of exchange so released, can be easily ascertained from records/book entries at ADs. The "Inward Remittance" or "Foreign Exchange" sent by these students over and above the quantum released to them at the time of their departure should only be considered eligible for investment (direct-Indirect) in India so as to have net positive inflow of exchange. Such investment can be made into FCNR account in the name of student. The task to determine eligibility of Inward remittance be entrusted to ADs. The student be advised to approach same AD for opening FCNR account who initially released him exchange so as to facilitate the work of determining eligibility of Inward remittance.

In view of above, the Researcher suggests to recast Exchange Control definition of NRIs so as to include category of "students" abroad and tap this source of mobilising Foreign Exchange which our economy badly needs today.
Unlike resident depositors, NRI depositors are unable to visit branches i.e. ADs regularly where they have maintained FCNR account to know position of their account. They come to know position of their account with respect to outstanding balances, redemption of receipts, etc. only by way of correspondence between Non-Resident Indian and that of Authorised Dealer. Therefore, as far as NRI depositors are concerned communication plays very important role in the development of banker-customer relationship. The Researcher suggests following steps for communication to be more effective.

a) The correspondence with NRIs from ADs should be made at regular intervals irrespective of any operation in the account and specific querry from NRI account holder.

b) To have personal touch, correspondence should not only be signed by 'Manager" but below his signature, the Manager should write his full name in block letters. This suggestion though appear simple, has considerable impact, since NRI comes to know with whom precisely he is corresponding with and brings that NRI more closer to the banker and further, when NRI addresses letters in the personal name of Manager instead of 'The Manager', then it is felt that such letters will be attended more promptly and thereby increase efficiency of the banker.

c) The correspondence be made in Regional language which helps to develop sort of affinity between NRI and banker.

d) Apart from the operational aspects of NRI account with every
correspondence, 'communique' covering (i) broad report of social/political/economic events in India for particular period (ii) report of all types of investment opportunities in India, be sent to every Non-Resident Indian. Such 'communique' Researcher feels, will keep NRIs in touch with important happenings in India and help to plan their strategies of investment in India.

All these steps suggested towards effective communication, would increase efficiency of ADs and would develop much better image of Indian Banks than today. This would ultimately lead to enhancement in the flow of remittances from NRIs to Indian banks/economy.

SUGGESTION NO. 3 :-

There is every possibility of NRI holding FCNR receipt of same amount and maturity with more than one bank. Also single NRI might be holding more than one receipt of similar amount in one bank. As per current practice, in every correspondence between banker and customer regarding FCNR deposit the reference is made only of FCNR receipt number that runs into 5-6 digits.

It is suggested that every FCNR account holder should be allotted a specific number by a bank which invariably be quoted in all correspondence exchanged between NRI and AD and vice-versa. If NRI depositor maintain various types of accounts with particular AD, relative FCNR account number should be preceded by such specific account number allotted to NRI. This specific number when fed to computer will give complete history of account as and when demanded by NRIs/ADs.
As per existing rules, NRIs can invest into FCNR account for a minimum period of 6 months and for maximum period of 3 years and above. It means FCNRs are basically of "Term Deposit" in nature giving fixed return to the NRI depositor in the form of interest at a stipulated rate for contracted period. This nature of FCNR has more or less remain unchanged since inception of the scheme i.e. year, 1975.

The Researcher feels, it is high time to bring about change in interest terms and tenure of FCNR deposit. Researcher even go further to say that some such changes may appear to be illusive still they are necessary as they serve purpose of redverting attention of NRIs to FCNR scheme. It is just like selling same product but in a new packing so that demand for that product is revived. With this intention Researcher would like to suggest following changes.

a) Abolition of long term investment in FCNR :- By this it is proposed that FCNR receipts be introduced for minimum period of 6 months upto maximum period of 2 years. The statistical conclusion of survey also shows inclination towards investment for short period.

b) Introduction of discounted value concept in FCNR :- The idea behind is synonymous to that of Certificate of Deposits issued by some nationalised banks. Let us consider hypothetical example in which FCNR receipt of US$ 100 bearing interest @ 10% i.e. it fetches US$ 10 as an interest for 12 months and US$ 5 for 6 months the FCNR receipt is to
be offered at discounted value, means, NRI will have to deposit US$ 95 and will be given FCNR receipt of US$ 100 maturing after 6 months.

By issuing FCNR receipt at 'discounted value' NRI has following advantages - (i) The loss to which NRIs are subject to due to constant fluctuations in interest rate can be partly avoided, (atleast on interest portion) by paying interest rate in advance. The present FCNR scheme, no doubt protects the client from the risk in fall of exchange rate, but what about the loss that NRI is subject to if interest rate turns better just after NRI enters into contract with banker and still better during currency of deposit.(ii) The interest received in advance, can be profitably employed elsewhere with a view to maximise returns. The Researcher feels above two suggestions would bring FCNR scheme closer to current investment climate, where care is taken to avoid locking of funds for longer period and there is some sort of incentive like "discounted value" to lure investors.

SUGGESTION NO. 5 :-

In case FCNR account is to be opened by way of fresh remittance from abroad, NRIs adopt certain modes like DD/TT/MT of transferring funds. The usual mode of transfer adopted is 'Demand Drafts' or 'cheques'. Strictly speaking, on receipt of instrument ADs should send it for collection and open FCNR account only when ADs Nastro account is credited. However as a part of incentive to NRIs, RBI has given discretionary powers to ADs whereby ADs are allowed in some cases to open FCNR account from the 'date of receipt' of instrument, irrespective of Nastro Credit. The Researcher feels
that this incentive is not enough. Once it is accepted to open account irrespective of Nostro credit, then question arises about date of FCNR Receipt i.e. date of opening account and for that matter, there can be three possibilities.

a) Date of instrument i.e. the date on which it is actually drawn.
b) Date of despatch i.e. the date on which instrument is mailed.
c) Date of receipt i.e. the date on which it reaches to AD.

NRIs desire, to invest into FCNR account, is from the date of instrument i.e. date of cheque/draft. But it cannot be considered for opening account as long as the instrument drawn is not being despatched or mailed to ADs or released from the hands of the drawer. This is analogous to Section-46 of N.I.Act whereby instrument is deemed to be drawn.

Due to difficulty, in determining the authenticity of despatch date, same cannot be considered as the date of opening account and hence 'date of instrument' and 'date of despatch' are ruled out as an appropriate date to open FCNR account. If 'C' i.e. date of receipt as per RBI guidelines is taken as a date to open FCNR account, then there is going to be 'trasit loss' to account holder in terms of days between 'despatch date' and 'date of receipt' of instrument at ADs end. Moreover, date of receipt may vary as per vagaries of mail and efficiency with which instrument is inwarded at ADs end. Even loss of 2-3 days makes lot of difference when amount involved in big.
To overcome this situation, the Researcher would like to suggest to introduce concept of 'Transit Period' on the lines of determining "Due-Date" of bill in "postshipment finance". Transit period means the normal period taken for transfer of remittance from one country to another country. While fixing date of opening of FCNR account, the 'transit period' be deducted from date of receipt of instrument at AD. The 'transit period' varies from country to country. If remittance is received from U.S.A. at AD on 1st Jan.1992 then transit period fixed for remittance from USA which is say 10 days be deducted from 1st Jan.1992 to arrive at an appropriate date of opening of FCNR account. The 'Transit Period' schedule for FCNR be decided by RBI so as to make it uniformly applicable to all banks. All the arguments are based by the fact that RBI has principally agreed to open account irrespective of NOSTRO credit.

SUGGESTION NO. 6 :-

Its already pointed out in suggestion no.4 about the need to bring about change in FCNR structure. Accordingly two changes are suggested with reference to cancellation of long term nature of FCNR deposit and introduction of discounted value concept in FCNR. The Researcher would like to suggest an additional change in the pattern of offering interest rate to NRI depositors. At present, the interest rate structure of FCNR deposit is periodwise. It means, for a particular period, (upto 3 years) same rate is offered irrespective of amount. After 3 years and above period and amount of deposit, are not given consideration at all. The question is whether would it be
justifiable to treat depositor of big amount 'on par' with that small amount from 'return' point of view. To lure NRIs to deposit big amounts, some sort of incentive is necessary. It is therefore suggested to introduce 'amountwise rate structure'. Again, it should be on slab-basis and uniform to all banks. This pattern would certainly bring about overall rise in FCNR deposits as clients would now be offered higher rates for higher amount of deposit.

Incidently, the Researcher would also like to suggest a change on the basis of imposition of penalty, as regards premature withdrawal of deposit. At present, penalty charged is one and the same for any amount of deposit big or small. This the Researcher feels as improper and unscientific too and hence suggests altogether deletion of penalty clause or otherwise progressive rate of imposition of penalty on the amountwise and slab basis.

SUGGESTION NO. 7 :-

While taking decision to invest into FCNR, NRI weighs in his mind various alternative opportunities before him. The prominent features of FCNR are (1) Full repatriability (2) Fiscal benefits (3) Exchange risk coverage. To lure NRIs, some additional features should be offered to NRI either by way of incentives or by way of introducing structural changes in the scheme. With this objective in mind, the Researcher probed deeper into prominent features of alternative schemes that are available to NRIs and also made study of suggestions sought through the questionnaire. On these basis, the Researcher would like to suggest following additional features which will act as an incentive to NRIs.-

186
a) The tax benefits that are available to NRIs, cease to exist as soon as NRIs status changes. As an incentive to NRIs, the tax concessions be continued to be made available even if NRIs become resident of India.

b) To enjoy strength of the currency in which FCNR deposit is held, same be allowed to be continued in foreign currency till maturity even if status changes.

At present as per Section-29 A 15 of ECM, 87 Edn., Vol.I, NRIs returning to India for permanent settlement are required to convert FCNR accounts into Indian rupees i.e. redesignated as resident accounts. Very recently, RBI has issued circular regarding opening of 'Resident Foreign Currency Accounts' (RFC A/c - in lieu of RIFEE scheme) with banks in India by returning Indians. In accordance to this circular FCNRs accounts which are held in term deposits should be converted into RFC account immediately after the account holders return to India.

This RFC account is allowed to be opened in any convertible currency and can be maintained in the form of saving deposits (without cheque facility) and term deposits. The rate of interest payable on the account is decided by ADs on the basis of market rates. However the rate offered by ADs does not compensate the loss of interest on FCNR incurred by NRIs on account of conversion of FCNR into RFC account. In effect, client is deprived of the benefit of strength of currency on interest lost, due to either conversion into RFC account, or straight conversion into Indian rupees after NRI becomes a resident.
With a view to give benefit of appreciation in value of currency on principal sum as well as interest thereon NRI be allowed to continue FCNR deposits till maturity and then may either transfer maturity proceeds with interest to RFC account or straight away convert into Indian rupees. In either case, NRI is in a position to enjoy the strength of currency and continuation of FCNR even after change of status will be an added incentive to client.

The continuation of FCNR is not going to cause any burden to ADs bank or even to RBI because initial sale to RBI is effected on a contract to buyback at some future date which is date of maturity of FCNR.

c) It is also suggested to make FCNR scheme available alongwith NRIs to "Foreign nationals of Non-Indian Origin" on the basis of 'Swiss-Bank Deposit' accounts where details of account are not disclosed to anybody under any circumstances. The Researcher feels, such confidential nature would woo foreign nationals to deposit into FCNRs and with the result scarce foreign exchange can be made available to the country.

d) While conducting survey, the Researcher had an opportunity to discuss with NRIs on many issues particularly their scope and limitations of investment in India. On going through discussions, it is felt that NRIs are unwilling to disclose their true income even if 'source of income' is not enquired into, while opening FCNR accounts. Hence NRIs potential to invest, cannot be tapped fully. It is therefore suggested to allow some institution who will act in a fiduciary capacity to open FCNR account. Those NRIs who are unwilling to disclose their income will invest into FCNR through such institution.
e) At present splitting of FCNR deposit receipt is not permitted by banks. The splitting of receipt is demanded by NRIs to meet urgency of funds, by seeking before maturity payment of such splitted receipts instead of one receipt of big amount.

In order to meet demand of NRIs it is suggested to allow splitting of FCNR receipts subject to stipulation of minimum amount, provided period and rate of interest remain unchanged.

f) Whenever NRIs approach ADs to open Non-Resident account, ADs place before him various schemes with which NRI can open account. This creates a state of confusion in their mind. The present schemes are - FCNR (Cumulative) FCNR special deposit, Foreign Currency (Ordinary) Non-Repatriable deposit, Non-Resident Non-Repatriable Rupee deposit.

It is suggested to bring all these scheme under one roof which should cover features of each of the scheme. Thus only one (or at the most two) comprehensive scheme be devised so as to make it an ideal instrument of deposit. It is also felt that ADs would be in much better position in convincing NRIs for fewer schemes rather than number of schemes.

SUGGESTION NO. 8 :-

Alongwith above stated features that act as an incentive to 'users of the scheme', (i.e. 'Non-Resident Indians') some such incentives for those who implement FCNR scheme (i.e. Authorised Dealers of banks) are felt necessary, so as to make it possible for them to mobilise more deposits.
With this particular aspect in mind and on the basis of 'Unstructured Interviews' held with bank officials, it is suggested -

a) To reconsider present limit of brokerage paid to NRIs - As per R.B.I. guideline the present amount on which brokerage paid is as high as US$ 25 million. This limit be brought down to certain reasonable level. Then only the purpose with which 'brokerage' is introduced will be fully served, as those NRIs who are desirous of investing reasonably big amount will now be rewarded suitably in the form of brokerage and thus big amounts will be diverted towards FCNR.

b) Out of total D.T.L., banks are required to keep certain amount in the form of S.L.R. and C.R.R. which are statutory requirements imposed as per B.R.Act, Section-24 and RBI Act, Section-42 respectively. The concessional rate of SLR is 30% on NRE/FCNR deposits as against 38.5% (subject to change) on other deposits. The SLR percentage is relatively less on NRE/FCNR supposedly because the low percentage would induce ADs increase the portion of NRE/FCNR in total D.T.L. The Researcher would go still further and suggests to dispense with S.L.R. requirement on NRE/FCNR deposits. In lieu of S.L.R. provision certain devise be thought over to protect the interest of NRI depositors.

SUGGESTION NO. 9 :-

It is needless to state the importance of advertisement, in marketing any product. From this angle, if we look at FCNR scheme, it is found that
very less is done to canvas FCNR scheme in India and abroad. The findings of survey are enough to prove that much more efforts are needed in this direction. To make FCNR scheme well known and popular, following steps are suggested -

a) The initiative for canvassing should come not only from bank level but also from RBI/Government, because ultimately deposits collected by banks will be sold to RBI which in turn help to build countrys foreign exchange reserves.

b) The advantages of FCNR scheme should be imbibed on NRIs mind, right from the day NRI leaves India. Today it so happens that when NRI goes abroad and starts earning money then he has to make enquiries about types of N.R.Account and facilities offered to NRIs etc. Infact, the banks formalities and facilities to NRIs, especially schemes like FCNR where countrys interest is involved should be made known to NRIs well in advance.

c) The vigorous publicity drive should be launched through media like T.V., Radio in India and abroad for 'FCNR' scheme.

d) The regular seminars/conferences of NRIs be held abroad by banks and RBI to canvass FCNR scheme so as to keep NRIs abreast with recent changes/modifications therein. The seminar/conference involve direct interactions with NRIs. The exchange of views therein leads to thought over bringing about some such changes in the scheme that caters to the needs of NRIs to the maximum possible extent.
e) In addition to these (conference/seminars) consultancy centres on permanent basis be opened by institutions like Chamber of Commerce etc. These centres will guide NRIs about investment in Indian banks in the schemes like FCNR. This would save the time otherwise lost in making correspondence with Indian banks for seeking advice on any particular investment like FCNR or general corporate investment that NRI is desirous to make.

f) It is also advised to make special provision towards advertisement expenses incurred by commercial banks for FCNR scheme. The remittance for advertisement abroad should be freely permitted by RBI. There should be some element of compulsion on commercial banks in spending for advertisement on FCNR scheme.

SUGGESTION NO. 10 :-

The suggestions made up till now are modifications in the scheme with respect to its (a) Structure (b) Operational aspect (c) Incentives offered to NRIs and ADs. These modifications are expected to bring about rise in FCNR deposits as they are based upon the response to the survey. Interestingly each sample in the survey is in favour of continuation of FCNR scheme however only with refinement. Not even single NRI disfavoured continuation of the scheme. In the questionnaire response to the Question No.8 about order of preference to the factors that NRIs weigh upper most in their mind in their decision to remit funds, majority of them have given top preference to the 'rate of interest'. It means rate of interest is important factor that
has major influence on flow of funds to FCNR account. So if FCNR deposits are to be attracted, rate of interest should be still more attractive. The question now arises is whether it is possible for RBI to increase interest rates on FCNR deposits.

In this context, attention is drawn to the aspect of 'exchange risk'. In case of N.R.External account 'exchange risk' is borne by depositors. If rupee depreciates depositors loose. To avoid such loss, FCNR came into being, where risk is borne by RBI which is a unique feature of the scheme. It is exactly the phenomenon of bearing exchange risk by RBI is becoming uneconomical day by day and needs second thought. Due to this perhaps, possibility of further hike in rate of interest appears to be remote. R.B.I. bears exchange risk, which presently means, it is ready to sell same amount of foreign currency at same notional rate at which it was originally purchased from ADs. In order to sell foreign exchange to ADs, RBI has to (i) draw on its exchange reserves or (ii) to pay out of new FCNR deposits or may even have to (iii) obtain foreign exchange in the market for onward sale to ADs. In any case, due to downward revision of external value of rupee in relation to major currencies, procurement of foreign currency to meet ADs demand is becoming expensive. Even then, considering country's need of foreign exchange, RBI bears the burden of exchange risk. The hike in rate, apart from arbitrage, would therefore amount to additional burden on RBI which it is afraid, would not be prepared to bear. In this sense possibility of further hike in rate of interest appears to be remote.
The situation emerged now is that in the interest of NRI account holders in particular and economy in general, interest rate needs to be improved but at the same time it should not be additional burden to RBI. The Researcher suggests to examine the possibility of shifting exchange risk to commercial banks totally.

Before making specific suggestion in this regard, it would be pertinent to analyse the effect of hike in rate of interest on risk bearing aspect of commercial banks and RBI.

Effect on RBI :- As has been pointed out above, rise in rates would amount to additional exchange risk for RBI. But exchange risk bearing aspect is accepted by RBI itself when scheme was introduced in 1975. So it is inherent feature of the scheme and would go along with the scheme. This feature is accepted in anticipation of attracting potential NRI depositors who were very much apprehensive about the probable exchange loss. In other words, risk bearing aspect is associated with attracting potential deposits. Logically, if interest rate increase, risk would increase, but deposits would also increase. Thus flow of foreign funds that country needs today would increase and most important thing is, to that extent, exposure to commercial borrowings would be definitely reduced. So the Researcher sees no point in grumbling about rise in burden due to hike in interest rates.

Effect on commercial banks :- Technically speaking, FCNR accounts are maintained by commercial bank, hence they should bear exchange risk and
suppose such risk is now shifted to banks, then one has to analyse the effect of hike in interest rate on risk bearing capacity of commercial banks. The immediate effect of any rise in interest rate would be on Profit/Loss account of commercial banks as obligation of higher rate is met by additional debit to Profit/Loss account only. The commercial banks should not hesitate to bear the loss to Profit/Loss account for following reasons.

1) Due to rise in rates, FCNR deposits would increase but not that all such deposits would be repatriated on maturity. Some of matured FCNRs are bound to be converted into Indian rupees. The conversion gives rise to exchange profit to commercial banks e.g. US$ 1000 would be sold in the market or to needy importer at T.T. Selling rate (Market Selling). The difference between selling and buying gives rise to profit.

2) The rise in interest rate would hopefully increase the flow of FCNR deposits and to that extent its percentage in total DTL of commercial banks would increase, unlike other deposits, commercial banks have been given concession in maintenance of SLR/CRR on FCNR/NRE deposits (which is 30% today). If percentage of FCNR/NRE in total DTL increases, banks would be left with more resources for lending purpose.

3) Unlike local depositors, NRIs do not approach ADs frequently for whatsoever references regarding term deposit. To that extent operational cost is comparatively lower than local term deposit.

4) The comparison of FCNR receipt and NR F.D.R. of equal maturity period
reveals that as it is 'Spread' available to the commercial banks is much larger and effect of rise in rate would be less on 'Spread'. The US$ FCNR receipt offers rate of 8% for 1 year whereas NRFDR offers rate of 14% for 1 year. The spread is 6%. The rise in rate of FCNR would at the most reduce the spread of 5%, still commercial banks could comfortably bear the cost of rise in rate.

Thus foregoing analysis shows that both, i.e. 'RBI' as well as 'commercial banks' for different reasons are in a position to bear the increased risk in case of hike in interest rate. On probing further, the Researcher would like to point out that logically speaking it is the commercial bank who should bear the risk under any circumstances for following obvious reasons.

As stated in point no.4 above, the cost of FCNR deposit in the form of interest is much lesser than that of NRE/FDR deposits i.e. if US$ 1000 @ 8% p.a. are held in FCNR form for 1 year and 30000 @ 14% (i.e. equi. of $ 1000) are held in FDR(NR) for 1 year on same day, the cost in the form of interest which 8% is lesser than 14% in case of NRFDR, leaving the spread of 6%. In both cases bank is going to get same returns, on deployment of funds for commercial lending.

The spread is sufficiently wide to take care of hike in rates of FCNR and corresponding increase in exchange risk in case it is decided to be borne by bank. The rise in rate would attract more deposits also.
The spread stated above is retained by banks today, whereas exchange risk is borne by RBI, leading to inflated profits in the books of bank. It means commercial banks enjoy benefits of interest spread, but they do not have to bear the burden of exchange risk.

The Researcher therefore feels justifiable to shift exchange risk to commercial banks. As interest spread available is sufficiently wide, commercial banks have enough cushion to absorb the rise in risk on account of higher rates and so they have no reason to grumble about it. The shifting will result in correct reflection of profits in P/L account of banks because banks will now have to take into account along with interest, cost of exchange risk which hitherto was borne by RBI.

Once it is accepted to shift burden of exchange risk, banks will have to look for its own funds to meet depositors demand to repay on maturity in foreign currency. Obviously NRI deposit itself is one avenue supplemented by foreign currency retained with ADs in EFEC account, RFC account, under LERMS. The basic principle on which the scheme runs is not that all FCNR deposits are repatriable. Even then some sort of "built in mechanism" should be there for uninterrupted flow of foreign exchange required to meet obligations of NRIs. For that matter, the Researcher suggests to develop 'secondary market' of FCNR. The broad features of which are considered in the illustration given below.

Suppose NRI depositor, has deposited US$ 1000 in the FCNR account at bank 'A', for the period of 1 year and on same day some other bank 'B' has to meet obligation of NRI depositors for US$ 1000 towards maturity of receipt issued sometime 1 year back. In that case,
the position of two banks involved is as under:-

**BANK 'A'**

in having investible surplus of US$ 1000, which it can freely employ elsewhere upto maturity date.

Bank 'A' sells US$ 1000 to Bank 'B' under buyback arrangement.

On buyback date, bank gets back 1000 plus interest at an agreed rate.

The interest earned goes towards Bank 'A's 'reserve funds' and with every buyback transaction such reserve go on accumulating.

**BANK 'B'**

Is looking out for funds to meet obligation of NRI depositor.

Bank 'B' purchases US$ 1000 on Ready forward basis from Bank 'A'.

On R.F. date 'B' sell US$ 1000 to Bank 'A' with interest at an agreed rate.

Bank 'B' while looking out for funds, manages to tap new deposit which it employs to some other bank 'C' and earns interest which goes to its reserve.

The process of 'sale' and 'purchase' of funds among the banks goes unabated creating own stock of reserves for each bank involved. The built in mechanism above results into development of 'secondary market' of FCNR.
The Researcher thus concludes with suggestion of hike in interest rate to lure FCNR deposits and evaluates pros and cons of shifting of exchange risk.

An illustration made above gives vital clue for banks to bear burden of exchange risk hitherto borne by RBI.

7.2 Scope for further research :-

I) In addition to 'F.C.N.R.', there are some other sources in the capital account side of B.O.P., like 'External commercial borrowings', 'External assistance' and 'Other capital' (Primarily comprising short term liabilities of government) with which Current Account of BOP is financed. The focus of attention of research was only on 'FCNR' scheme as one of such sources to finance current account of BOP.

The comparative study of various such sources and its 'cost benefit analysis' from the view point of judging superiority of one above the other will be a matter of further research.

At this juncture, the Researcher is of the opinion that, usefulness or adoption of particular mode of finance much depends firstly upon need of finance, secondly financial as well as social cost involved therein. Hence instead of relying upon or stressing upon 'single mode of finance' it is justified to have 'many mode of finance' i.e. to cater needs of finance by resorting to different mode as is done today.
II) Another area for further research emerges from recommendation No. "10" in which the Researcher has elaborately discussed about the aspect of 'exchange risk'. The Researcher has thoroughly explained pros and cons of 'exchange risk' concept and has suggested shifting of exchange risk to commercial banks, who are in a position to bear same considering available interest spread. During the course of discussion the Researcher with the help of an illustration further suggested to explore the possibility of developing secondary market of FCNR.

However, an illustration given only highlights broad features of mechanism for development of secondary market of FCNR, as a "clue" or possible "solution" for banks to face eventuality of 'exchange risk'. The feasibility of which much depends upon variables like LIBOR rates and whether particular currency is at premium or discount etc.

The detailed study covering all above aspects to arrive at ultimate solution to the problem of exchange risk would be matter of further research.

####################