CHAPTER THREE

NON-RESIDENT INDIAN BANK ACCOUNTS

3.1 Salient features of NRI bank accounts
3.2 Nomination facility
3.3 Foreign Inward Remittances Payment System
NRIs and persons of Indian origin resident abroad can open bank accounts in India freely out of funds remitted from abroad or foreign exchange brought into the country by them or from funds legitimately due to them in India. The RBI has permitted Authorised Dealers in foreign exchange, listed in Appendix I, to open such accounts.

Non-resident bank accounts are of three types:

a) Non-resident (External) Rupee Account (NRE A/c)

b) Foreign Currency (Non-resident) Account (FCNR A/c)

c) Non-resident (Ordinary) Rupee Account (NRO A/c)

3.1 Salient Features of NRI bank accounts

The salient features of the NRI bank accounts are:

a) NRE A/c - As the title itself indicates this is a rupee account for savings, current or fixed deposits. Joint accounts in the names of two or more non-residents are permitted provided

i) all the account holders are persons of Indian nationality or origin and

ii) the account holders are resident either in the same country or in different countries, other than the USSR, Poland, East Germany (GDR), Czechoslovakia and Romania which are classified as Bilateral Group countries. Those NRIs resident in such Communist countries may open NRE accounts in non-convertible rupees.
The account holder shall furnish an undertaking that he will intimate the bank no sooner he returns to India for permanent residence. The NRE A/c may be freely operated by the NRI. Apart from foreign remittances arranged by the NRI, income from the account holder's investments from the funds in this account may also be credited to the account except in cases where the investments have been permitted on non-repatriation basis.

The NRI may grant a power of attorney to any resident in India to operate the account for him. However, in such cases only withdrawals for local payments are allowed.

The NRE account has the following advantages:

i) term deposits for one year and above carry interest at rates above the rates payable on domestic deposits of comparable maturities (thus a deposit for 5 years and above will fetch interest at 13% p.a. as against 10% paid on a domestic deposit for the same term).

ii) the interest on deposits as well as any other income accruing on the balances in the account is free of Indian income tax;

iii) the account is free from Indian Wealth tax;

iv) gifts made to close relatives in India from credits in the account are free of Indian Gift tax;

v) the entire credit balance can be repatriated outside India at any time without reference to the RBI;

vi) local disbursements from the account may be made freely;
vii) Central and State Govt. securities, National Plan/Savings Certificates and Units of the Unit Trust of India (UTI) may be purchased freely from amounts standing to the credit of the account; similarly sale proceeds of all such securities purchased from these funds may also be credited to the account without reference to the RBI.

b) FCNR A/c - This account is maintained only as a fixed deposit in certain specified foreign currencies viz. Pound Sterling, U.S. Dollars, Deutsche Mark and Japanese Yen. Remittances into the account are converted into one of these foreign currencies chosen by the account holder. Funds in the account are freely repatriable under the account holder's instructions without prior reference to the RBI. FCNR deposits may be held for a maximum of 3 years only. The rate of interest payable on these accounts is determined and regulated from time to time by the Reserve Bank of India. These rates are higher than those quoted in the international markets on deposits of comparable maturities. The account holders enjoy all other facilities and tax benefits available to the NRE accounts. They are also fully protected against the risk of any loss arising from fluctuations in the rates of exchange between the Rupee and the specified foreign currency. A specimen form for opening an FCNR A/c is placed at Appendix II.
c) NRO A/c - The bank account of any Indian citizen or person of Indian origin proceeding to any country, other than Nepal and Bhutan, for permanent or indefinite stay abroad is designated as a Non-resident (ordinary) Rupee A/c. The account can also be opened in rupees with funds remitted from abroad and can be in the form of a savings, current or fixed deposit account. The account may be opened by a non-resident jointly with a close resident relative in India and the latter can operate it freely. Funds in this account cannot be remitted abroad to the NRI or transferred to his NRE or FCNR Account without the RBI's prior permission. Interest on the deposits in this account is not exempt from Indian Income tax.

Withdrawals from these accounts can be freely made for local disbursements, except booking of passages, as well as for investments in Units of the UTI and Government Securities and National Plan/Savings certificates. With prior RBI permission the monies may also be used for booking passages of the account holder and his family to and from India as well as within India. Likewise credits to the account, above certain ceilings, require RBI permission. Credits to the account not requiring RBI permission are foreign inward remittances, dividend and interest earned on shares/securities acquired with RBI permission (wherever necessary) and held in India by the account holder.
holder, sale/maturity proceeds of shares/securities and proceeds of cheques for small amounts up to certain limits.

3.2 Nomination Facility

Under the Banking Companies (Nomination) Rules, 1985, banks can accept nominations for existing as well as new accounts from account holders. In the case of FCNR and NRE accounts, the deceased account holder's nominees (who could be Indian residents) will not be automatically entitled to the right of repatriation of funds acquired by them. They will have to apply to the RBI for permission. Ordinarily, utilisation of the funds in India by the nominees will be freely permitted. The forms prescribed under the Nomination Rules are DA1 for nomination, DA2 for cancellation and DA3 for variation.

3.3 Foreign Inward Remittances Payment System (FIRPS)

This is a system under which banks in India convert into rupees the foreign currency remittances received from abroad by TT/MT/Pay orders in favour of resident Indians and/or for credit of the remitter's accounts. Payment of the proceeds of such remittances to the beneficiaries by issue of FIRPS instruments is also arranged without delay or extra cost. The FIRPS instrument is issued up to a maximum amount of Rs.10,000 and is valid for a period of three months. It is encashable at par at all branches of authorised dealers in foreign exchange in India.