



Module-A Unit-3

CAIIB PAPER-2

BANK Financial Management(BFM)



CAIIB BFM Module A Unit 3: Correspondent Banking and NRI Accounts

Correspondent Banking - Accounts and Other Services

Correspondent banking in its true sense, is the relationship between two banks which have mutual accounts with each other, or one of them has account with the other. However, in a larger sense, this means a relationship and servicing of banking needs, as agents, without having account relationship also. This was due to a large number of banks offering correspondent banking services and it was not possible to have and maintain accounts with a large number of them, but the growing needs of the international business, required help and services from a large number of banks, across the globe.

Functions Handled by Correspondent Banks

Account Services

- These services require having account relationship with the foreign bank.
- Clearing House Functions
- Collections: Correspondent banks provides services as agents for collection of export/import bills as well as cheques, in their country.
- Payments
- Overdrafts and loan facility
- Investment Services

Other Services

- Letter of Credit advising
- LC Confirmations
- Bankers Acceptances
- Issuances of Guarantees-bid-bond, performance etc.
- Foreign Exchange Services, including derivation products
- Custodial services
- Trade referrals and credit reports on foreign parties
- Services related to investment of overnight surplus funds, short-term deposits, as also securities etc.
- Other fund raising services, like placement of shares, bonds ADR/GDR etc.
- Training and seminars on various topics/on latest developments.

Banks Accounts

- **NOSTRO Account:** A nostro account refers to an account that a bank holds in a foreign currency in another bank.
- **VOSTRO Account:** A vostro account is an account a correspondent bank holds on behalf of another bank. These accounts are an essential aspect of

correspondent banking in which the bank holding the funds acts as custodian for or manages the account of a foreign counterpart.

- **LORO Account:** Loro Account is a Current Account Maintained by one Domestic Bank on behalf of other domestic bank in foreign bank in foreign currency. In other word Loro Account is a Nostro Account for one bank who opened the bank and Loro Account for other bank who refers first one account.
- **Mirror Account:** Mirror Account is the reflection of NOSTRO Account in the books of the principal bank. This is maintained for reconciliation purpose and is maintained in both foreign currency and rupees.

Electronic Modes of Transmission/ Payment Gateways

SWIFT: The Society for Worldwide Interbank Financial Telecommunication, legally S.W.I.F.T. SCRL, provides a network that enables financial institutions worldwide to send and receive information about financial transactions in a secure, standardized and reliable environment.

CHIPS

- **The Clearing House Interbank Payments System (CHIPS)** allows large interbank transactions in the U.S. to clear.
- CHIPS is slower but less expensive than the other major interbank clearing house known as Fedwire, making it more amenable to larger transactions that can take longer to clear.
- CHIPS works by netting debits and credits across transactions, providing both clearing and settlement services to its customer banks.

Fedwire

- **Fedwire (formerly known as the Federal Reserve Wire Network)** is a real-time gross settlement funds transfer system operated by the United States Federal Reserve Banks that allows financial institutions to electronically transfer funds between its more than 9,289 participants (as of March 19, 2009).

Chaps

- The Clearing House Automated Payments System (CHAPS) is a U.K.-based system that facilitates large British pound-denominated money transfers.
- Multinational banks principally use CHAPS.
- CHAPS allows funds to be transferred almost instantaneously, minimizing the risk of loss or theft.

Target (Trans-European Automated Real-time Gross Settlement Express Transfer)

- TARGET has a decentralised structure (see diagram), linking together 16 national real-time gross settlement (RTGS) systems and the ECB payment

mechanism (EPM). It is owned by the Eurosystem, which consists of the ECB and the 12 national central banks (NCBs) of the euro area.

- TARGET2 is the real-time gross settlement system for the Eurozone, and is available to non-Eurozone countries. It was developed by and is owned by the Eurosystem. TARGET2 is based on an integrated central technical infrastructure, called the Single Shared Platform.

RTGS

- The acronym '**RTGS**' stands for **Real-Time Gross Settlement**. Simply put, it is the process of continuous (real-time) settlement of funds, which occurs individually, on an order by order basis, without netting. In other words, your request to transfer or settle funds is carried out immediately, instead of the same happening in batches (as is the case in NEFT).
- 'Real Time' indicates that the processing of instructions happens at the time they are received rather than at some later time. 'Gross Settlement' indicates that the settlement of fund transfer instructions occurs individually (on an instruction-by-instruction basis). Considering that the settlement of funds takes place in the books of the Reserve Bank of India, the payments made through RTGS are final and irrevocable.
- **RTGS is available 24x7x365** with effect from December 14, 2020.
- The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through **RTGS is ₹ 2,00,000/- with no upper or maximum ceiling.**

NEFT

- **National Electronic Fund Transfer (NEFT)** is a nation-wide payments system that allows the transfer of funds from one bank's account to another. With an increased focus on online banking, NEFT has become one of the most popular ways of transferring funds. Since it can electronically transfer funds from any bank branch to any individual, it has eliminated the need to visit a bank branch for transfer of funds.
- W.e.f. December, 14th 2020, the transfer of funds through RTGS is available for customers **24/7 x/365 days with the minimum amount of Rs. 2,00,000** with no upper or maximum ceiling. Under the normal circumstances, the beneficiary Bank branches are expected to receive the funds in real time as soon as funds are transferred by the remitting Bank. The beneficiary bank must credit the beneficiary's account within 30 minutes of receiving the funds transfer message.

NRI Banking

If you are a **Non-Residential Indian (NRI)** or a **Person of Indian Origin (PIO)**, you will have different banking and investment needs. Since you are residing abroad, most of your income and savings will be in foreign denominations, e.g. **US dollar, Euro, etc.** As such, you might need an account that would suit your requirements.

Many major banks and financial institutions in India offer the facility of opening an NRI Account. These accounts provide numerous facilities with respect to the currency denomination, transferability of the amount, tax, etc. But do you know everything about NRI Accounts? Let's learn in detail what is an NRI Account and the different types of NRI Accounts.

Resident

- If an individual is in India for at least 182 days in the preceding Financial Year (say, for example 2019-20)
- If an individual is in India for at least 365 days in the last 4 Financial Years (for example 2015-16, 2016-17, 2017-18, 2018-19) and at least 60 days in the preceding Financial Year 2019-20, is treated as a Resident.

Non-resident

Individuals not satisfying the conditions (a) or (b) above will be treated as NRIs.

Amendment effective from 1st April 2020.

If an individual is in India for at least 120 days (as compared to the previous threshold of 182 days) in the previous Financial Year (say 2019-20) AND stayed in India for at least 365 days or more in the last 4 Financial years i.e. 2015-16, 2016-17, 2017-18, 2018-19) and the taxable income in India exceeds Rs. 15 lakhs, THEN the Non-Resident Indian will be treated as Resident for the taxation purposes and the income will be taxed accordingly.

Resident but Not Ordinarily Resident – RNOR (for the purposes of Income Tax)

Should have stayed outside India for 9 years out of the last 10 preceding Financial Years

OR

Should have stayed in India for less than 730 days in the last 7 Financial Years

OR

PIO/Indian Citizen with more than Rs. 15 lacs income earned from Indian sources, stayed in India for 120 days or more in the previous FY plus 365 days or more in the preceding last 4 FYs

OR

Deemed resident with more than Rs. 15 lacs income earned from Indian sources.

Deemed Resident (for the purposes of Income Tax)

- An NRI who is not a tax resident of any country and has more than Rs. 15 lacs income in India earned from Indian Sources.
- The status of deemed residency is applicable only for NRIs who hold Indian Citizenship and not applicable to PIOs.

Impact of the amendments to the Finance Act 2020

- A deemed resident in India with more than Rs. 15 lacs income from India and who is not a tax resident of any other country.
- A PIO or an Indian Citizen with more than Rs. 15 lacs income from Indian sources.

As per the FEMA 1999, Non-Resident Indian is:

(a) A person resident outside India who is a citizen of India, i.e.

- Indian citizens who proceed abroad for employment or for carrying on any business or vocation or for any other purpose in circumstances indicating indefinite period of stay outside India.
- Indian citizens working abroad on assignments with Foreign governments, government agencies or International/Multinational Agencies like United Nations Organizations (UN), International Monetary Fund (IMF), and World Bank, etc.
- Officials of Central and State Governments and Public Sector Undertaking deputed abroad on assignments with Foreign Govt. Agencies/Organizations or posted to their own offices including Indian Diplomatic Missions abroad.

(b) A person of Indian origin (PIO) is one who is a citizen of any other country (other than Bangladesh or Pakistan or such other country as may be specified by the Central Government), satisfying the following conditions:

- Who was a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955 (57 of 1955); or,
- Who belonged to a territory that became part of India after the 15th day of August, 1947; or,
- 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,
- 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).

Types of NRI Accounts

- Non-Resident External (NRE) Accounts
- Non-Resident Ordinary (NRO) Accounts
- Foreign Currency Non-Resident (FCNR) Accounts
- Special Non-Resident Rupee Account-SNRR account

Non-Resident External (NRE) Accounts

- **The Non-Resident External (NRE) Account allows you to transfer your foreign earnings easily to India.** However, this type of account is rupee dominated and can be opened in the form of Current, Savings, Fixed or Recurring Deposits.

- It is vital to know that there is no tax levied on the interest earned from these accounts, i.e. they are tax exempt, and they are also easily repatriable, i.e. transferable. These accounts can be jointly opened with close relative Resident Indian on Former or Survivor basis.

Non- Resident Ordinary (NRO) Accounts

- **The Non-Resident Ordinary (NRO) Account are primarily opened for depositing rupees earned in India. Foreign earnings can also be deposited in this account.** When an Indian citizen goes abroad for a job with an intention to stay there, his resident accounts should be converted into an NRO Account by the bank. Therefore, it is essential to inform the bank about the individual's departure abroad.
- Also, it is vital to know that NRO Accounts are rupee dominated and can be opened in the form of Savings, Current, Recurring Deposits or Fixed Deposits. These accounts can be jointly opened with any Resident Indian on Former or Survivor basis.

Foreign Currency Non-Resident (FCNR) Accounts

The Foreign Currency Non-Resident (FCNR) Account can be opened in different currencies such as US Dollars, Canadian Dollars, Australian Dollars, Sterling Pounds, Euro, Japanese Yen, etc. These FCNR Accounts can be opened in the form of term deposits for the following maturity periods:

- 1 year and above but less than 2 years
- 2 years and above but less than 3 years
- 3 years and above but less than 4 years
- 4 years and above but less than 5 years
- 5 years.

Special Non-Resident Rupee Account-SNRR account

- **SNRR account has been allowed to be used for specified transactions in trade, foreign investments, External Commercial Borrowings, etc.,** in lieu of sending inward/outward remittances by a person resident outside India in a convertible foreign currency for each transaction with a resident or vice-versa, all precautions need to be taken by Authorized Dealer (AD) banks to ensure identification of the counterparty of such transactions.
- Some of such precautions are listed out in FAQs below. The onus of ensuring the use and identification of SNRR transactions as per guidelines falls on the AD banks.

Facilities To NRIs

NRIs can freely invest in shares and securities of Indian companies. On repatriation basis or non-repatriation basis as direct investment in shares/debentures (Debts) offered by companies or under Portfolio Investment

Scheme i.e. investment in secondary market/through a recognized stock exchange. NRIs can also invest in securities other than shares and convertible debentures.

Investments in Shares/Securities

Investments by NRIs have been broadly categorized into two segments:

- On Repatriation basis.
- On Non-repatriation basis,

Investment in shares/convertible debentures on repatriation basis:

Non Resident Indian [NRI] being an Indian citizen as also a foreign citizen of Indian origin is permitted to freely invest in shares and/or convertible debentures of Indian company carrying on almost every kind of business in India barring a few cases wherein prior approval of the Reserve Bank of India is necessary These investment may be made on repatriation basis or non-repatriation basis. Repatriation is governed by various Investment caps/ceilings.

As the company is required to comply with the procedural aspects such as submission of necessary details, reports, certificates of Chartered Accountant etc., the NRI is not required to undertake any procedural aspect whatsoever.

The investment on repatriable basis can be made in shares, bonds, securities, from the funds brought from abroad in freely convertible currencies or by debit to NRE/FCNR account of the investor.

General permission has been granted under the regulations, to any person, resident outside India, to purchase equity or preference shares or convertible debentures of an Indian company, subject to conditions and industry company investment caps, as stipulated.

However, investment in shares and securities by NRIs have been further classified under following categories:

- Investment under Foreign Direct Investments
- Investment under Portfolio Investment Scheme
- Purchase and sale of shares on non-repatriable basis
- Purchase and sale of securities other than shares and convertible debentures of an Indian company

Other Investment Avenues

Units of UTI, mutual funds

- NRIs are permitted to invest in units of UTI or other mutual funds on repatriable as well as non-repatriable basis.

Company deposits

- NRIs are permitted to invest in company deposits on repatriable basis, provided the deposits are for a minimum period of 3 years, are within the ceiling prescribed by RBI for the company to accept deposits and are made out of fresh remittances or from balances held in NRE/FCNRB deposits.

Investment in partnership firm or proprietorship concern

- An NRI is permitted to invest in a partnership firm or a proprietorship concern, by way of capital contribution, provided (i) the concern is not engaged in agricultural/plantation activity or real estate business or dealing in immovable property, with a view to earning profit from it, and (ii) the contribution should be by way of fresh inward remittances into India or out of balances held in NRE/FCNRB deposits accounts. The amount so invested shall be permitted to be repatriable out of India, subject to payment of taxes.

Investment in Immovable Property

- A person resident outside India, who is a citizen of India, is permitted to acquire any property in India other than agricultural/plantation/farm house, and transfer the same to any person resident in India or to a person resident outside India, who is an Indian citizen.
- NRI can acquire such a property, out of funds received in India by way of inward remittance from any place outside India, or from the balances held in any non-resident rupee account or foreign currency account maintained in India.
- NRI can also acquire such a property by way of gift by a person resident in India, or from a person resident outside India, who is a citizen of India or from a person of Indian origin, resident outside India.
- NRI can also acquire any immovable property in India by way of inheritance from a person resident outside India, who had acquired such property in accordance with the foreign exchange law, prevailing at the time of such acquisition by him.

Repatriation of sale proceeds of immovable property: Banks are allowed to permit repatriation of sale proceeds of immovable property, other than agricultural land/plantation/farm house, by an NRI, provided:

- The property so acquired was in accordance with the foreign exchange laws in force at the time of acquisition by him.
- The sale proceeds required to be repatriated does not exceed the foreign exchange brought in to acquire the property
- In case of residential property, the repatriation of sale proceeds is restricted to not more than two properties
- Banks are now permitted to allow repatriation of funds out of balances held by NRIs in their Non. resident accounts up to USD 1 million per financial year,

representing sale proceeds of immovable property held by them, without any lock in period, subject to payment of applicable taxes.

Further, a non-resident Indian is also permitted to acquire any commercial or other property, which is incidental or necessary to his business interests in India, like, branch offices, etc., and which is permitted under the law of the land.

(a) Citizens of Pakistan, Bangladesh, Sri Lanka, Afghanistan, China, Iran, Nepal, Bhutan, Macau or Hong Kong, irrespective of their residential status, cannot, without prior permission of the Reserve Bank, acquire or transfer immovable property in India, other than on lease, not exceeding five years.

(b) Foreign nationals of non-Indian origin who is resident in India (except 10 countries listed at (a) above) can acquire immovable property in India.

Other investments

A Non-resident Indian can purchase without limit:

On repatriation basis

- Dated Government securities (other than bearer securities) or treasury bills or units of domestic mutual funds;
- Bonds issued by a public sector undertaking (PSU) in India, and
- Shares in Public Sector Enterprises being disinvested by the Government of India.

On non-repatriation basis

- Dated Government securities (other than bearer securities) or treasury bills or units of domestic mutual funds;
- Units of Money Market Mutual Funds in India; and
- National Plan/Savings Certificates.

Advances To Non-Residents and Third Party Advances Against NRI Deposits/Guarantees, Other Loans

Loans against the Non-Resident deposits can be granted in India to the account holder or third party subject to usual norms and margin requirement. The loan amount shall not be used for re-lending, carrying on agricultural/plantation activities or investment in real estate. ADs can sanction loans in India to the account holder/third parties without any limit, subject to usual margin requirements. These loans cannot be repatriated outside India and can be used in India only for the purposes specified in the regulations.

In case of loans sanctioned to a third party, there should be no direct or indirect foreign exchange consideration for the non-resident depositor agreeing to pledge his deposits to enable the resident individual/firm/company to obtain such facilities

Housing Loan in Rupees to Non-resident Indians

Banks may grant housing loan to non-resident Indians, for acquisition of a residential accommodation in India, subject to following conditions:

- The quantum of loan, margin money and the period of repayment shall be same as applicable for resident Indians.
- The loan amount shall not be credited to NRE/FCNR (B) account.
- The loan shall be fully secured by equitable mortgage of the property proposed to be acquired and if necessary, also by lien on the borrower's other assets in India,
- Repayment shall be by remittance from abroad or by debit to his NRE/FCNR (B)/NRO account or rental income derived from renting out the property acquired by utilization of the loan.

Prohibited transactions for NRIs

The following transactions are prohibited for NRIs

- Purchase of Agricultural Property, Plantations and Farm Houses.
- Dealing in Real Estate Activities, commercial properties, etc.
- Trading in Transferable Development Rights (TDRs).
- Opening PPF accounts., (however, if opened earlier as a resident, such accounts may be continued to be operated).
- Contributions towards government linked schemes viz., NSCs, etc.
- Intra-day trading in securities, short selling, etc.

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