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A Study of RBI Master Directions for Investments by NRIs and PIOs in India

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Abstract

The Indian diaspora, comprising Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs), plays a pivotal role in India's economic growth through remittances, deposits, and diverse investment activities. Over the years, their investment avenues have expanded beyond traditional bank deposits to include equity markets, mutual funds, real estate, portfolio management services, and alternative investment funds. These opportunities, however, are governed by a complex set of regulatory frameworks under the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), and taxation laws. This study critically examines the regulatory landscape for NRI and PIO investments with a particular focus on RBI Master Directions, which consolidate evolving guidelines under the Foreign Exchange Management Act (FEMA). Drawing on secondary data sources and prior research, the study identifies regulatory gaps, highlights compliance challenges, and explores the implications of digital transformation and fintech adoption for overseas investors. The findings emphasize the need for greater regulatory clarity, simplified compliance, and alignment with global financial standards to encourage sustainable diaspora investment in India.

Keywords: RBI Master Directions, NRI and PIO Investments, Foreign Exchange Management Act (FEMA), Regulatory Frameworks, Fintech Adoption

Introduction:

As a country we The global economic landscape has seen a significant influence from the Indian diaspora, comprising Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs). Their investments have not only bolstered the economies of their host countries but also played a crucial role in India's financial markets and economic development

There are 3.5 Crore Non-Resident Indians (NRI's) and Persons of Indian Origin (PIOs) spread over 209 countries (MEA, 2024).

These Overseas Indians contribute approx. 6% of the total deposits held by Banks in India amounting to Rs.11,41,817 Crore (RBI:Database on Indian Economy, 2024) out of Rs.1,90,30,776 Crore total deposits with Schedule Commercial Banks (RBI Press Release, n.d.)

Out of Rs.39.42 Lakh Crore (AMFI India, n.d.) of Asset Under Management (AUM) held by MFs in India on 30th June, as of March 2023, Rs. 1.53 Lakh Crore (Survey of Foreign Liabilities and Assets of Mutual Fund Companies – 2022-23, n.d.) are from NRI's & PIOs. This constitutes about 4% of the total AUM.

Besides this, there have been situations in India when the NRI community has stepped in for the Indian Economy. The recent example was in 2013. The scheme was launched by RBI to reduce the sudden volatility in INR and roped in 34 billion USD with major contributions by NRIs. As "Prof. Ananth Narayan" mentions in his article "The 2013 RBI FCNR(B) Swap Window – Review & Takeaways" (The 2013 RBI FCNR(B) Swap Window – Review & Takeaways, 2022), "the scheme changed the narrative around our currency at a time when India was counted amongst the fragile five countries in the world."

Problem Statement:

The list of investment options for NRIs and PIOs has expanded over the years. Today an NRI can not only look at Bank deposits but also invest directly in the growing capital market in India through instruments like direct equity, Mutual Funds (MF) and Portfolio Management Services (PMS), Alternative Investment Funds (AIFs). National Pension System (NPS) and Public Provident Fund are also open to NRI's & PIO's with various restrictions

They can also invest in physical assets such as real estate directly through the purchase of residential or commercial property or Real Estate Investment Trusts (REITs). They can also invest in Gold by directly buying physical Gold or gold ETFs, or sovereign gold bonds.

An NRI can be a proprietor or a partner in a business in India or invest in an Infrastructure Investment Trust (InvITs) and the list goes on.

Each of these investment options adheres to different regulations, regulators, and restrictions. For example, when an NRI/PIO sends funds to India and makes an investment, a relationship is established between a person resident outside India (NRI/PIO) and a person resident in India (Banks, Mutual Fund Companies etc.). This is the domain of Foreign Exchange Management Act (FEMA) where the regulation is laid down by the Reserve Bank of India (RBI). If the investment is in the capital market the regulator is the Securities and Exchange Board of India (SEBI). Then, in case they are making profits on these investments they may be subject to taxes in India and their country of residence. In India, the income tax guidelines come under the Income Tax Act, 1961.

The definition of NRI's and PIO's may be different for different acts. For example, the definition of an NRI/PIO to open a Bank account in India is different from the definition for filing your income tax.

This results in genuine confusion for an NRI/PIO to invest in India.

Research Objective:

1. To critically analyze the limitations and gaps in the current literature concerning the investments by NRI and PIO.
2. To study relevant regulations by RBI for NRI/ PIO to invest in India
3. To create a framework for future research in regulation for investments by NRIs and PIOs.

Research Methodology:

The methodology is designed to systematically gather, analyse, and synthesize existing research to identify trends, gaps, and emerging areas of interest in regulations around NRI and PIOs

This is an exploratory research. The research methodology seeks to gain empirical knowledge and an understanding of the regulations. This is based on secondary sources of data.

Scope and limitations:

The study is restricted to RBI regulations as of the date of the study. These regulations are subject to changes and their study is an ongoing exercise. Time constraints and limited resources restrict the depth of analysis and the breadth of literature reviewed for this study.

Literature Review:

An extensive literature review has been conducted for this paper.

Research Papers/ articles and thesis:

Sravanthi S. (2013) (S, 2013) studied, "Investment Schemes for NRI in India and Guidelines for them". provides a comprehensive overview of investment opportunities for NRIs in India, detailing various schemes such as mutual funds, real estate, and government securities. It also outlines guidelines and regulatory requirements, ensuring NRIs understand the legal framework and compliance necessary for investing in India, thereby facilitating informed and secure investment decisions. Since 2013, several investment products have been added. There is a higher financialization of assets in India as a whole. Also, several regulations starting with definitions of an NRI and PIO to the merger of PIO and OCI scheme have happened. Though the current study takes inspiration from the work it goes deeper and wider.

Praveen M V (2018) (Praveen, 2018) studied the behavior of NRIs in Kerala, particularly the Malabar region, and found significant differences due to religious and educational backgrounds. The study, based on 300 NRIs, identified a strong association between employment status and investment timing. Investment options were categorized into traditional venues (residential properties, Kuris, chits, insurance) and modern venues (corporate securities, government securities, mutual funds).

Kiran Kumar T N & Deepika Krishnan (2023) (Kiran & Deepika, 2023) analyzed perceptions of NRIs in Karnataka on real estate investment, surveying 312 NRIs. Most held a favorable view of returns on investment, with no significant gender differences in beliefs. Those without formal degrees were less involved in investment decisions.

Bhavik U. Swadia (2017) (Swadia, 201 7) examined the perceptions of NRIs towards returns on investment in Gujarat with 512 respondents. The majority expected satisfactory returns, with females and married respondents showing more confidence. Interestingly, lower-educated respondents were more confident about returns compared to their educated counterparts.

Nidhi Shah & Dr. Jayendrasinh Jadav (Feb 2024) (Shah & Jadav, A Study Of Nri's Investment Behaviour Towards Mutual Funds In India, 2024) focused on NRIs' investment behavior towards mutual funds in Gujarat, surveying 500 NRIs from Kheda and Anand. Lower-educated respondents were more optimistic about returns, while government stability and policies, along with service quality, were key influences.

Pooja V. Mehta (2016) (Mehta, 2016)studied NRIs in Bhavnagar City, dividing investments into physical and financial assets. Bank deposits were the top preference across all educational levels, with shares and insurance policies ranked second and third respectively. Professionals prioritized shares, while postgraduates and those with lower education preferred insurance policies and government bonds.

Nidhi Shah & Dr. Jayendrasinh Jadav (March 2023) (Shah & Jadav, Investment behaviour of NRI of selected districts of Gujarat state, India, 2023)analyzed investor perceptions towards different investment avenues, noting that "Land" and "Real Estate" were the most popular among certain NRIs, followed by "Fixed Deposit" and "Government Schemes." Females and less educated individuals were more optimistic about financial gains in Gujarat.

Rupal Desai (Feb 2020) (Desai, 2020) examined NRIs' investment behavior based on their country of residence, finding a significant association between residence and savings remitted to India. Preferences varied, with NRIs from the UK and Dubai favoring the FCNR scheme and financial products, while NRIs from Dubai preferred investing locally.

Nisha Sharma (March 2023) (Sharma, 2023) studied factors influencing NRI investment decisions in Punjab, noting that tax exemptions, low exchange rate risk, bank concessions, and high-interest rates were key factors.

James Gordon and Poonam Gupta (2004) (Gordon & Gupta, 2004) from the IMF found that NRI deposits in India are influenced by risk and return variables, responding positively to changes in interest rates and negatively to political/geopolitical uncertainties.

Babasaheb Jadhav, Rucha Tandulwadkar, and Vidya (2021) (Jadhav, Tandulwadkar, & Vidya, 2021) studied foreign exchange remittance among NRIs in Maharashtra, identifying operational risk as the main concern.

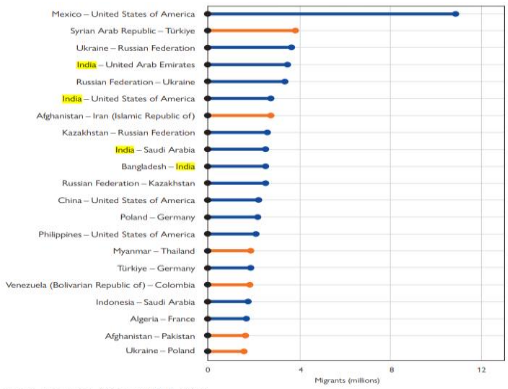
NEETU (September 2023) (NEETU, 2023) found that age, gender, education, savings abroad, and remittance frequency directly correlate with NRIs' awareness of investment options in Punjab.

Punam Chand (2019) analysed NRI investments in India, focusing on company shares, mutual funds, property, government securities, and firms, based on a sample of 300 NRIs and PIOs.

Reports:

World Migration Report 2024 published by United Nations : The report studies the migrant population globally. It states that India had a net outflow of 3.5 million migrants and received $111 billion in remittances in 2022.

Figure 1: Top international country-to-country migration corridors, 2024



Source: UN DESA, 2021a; UNHCR, 2023a.

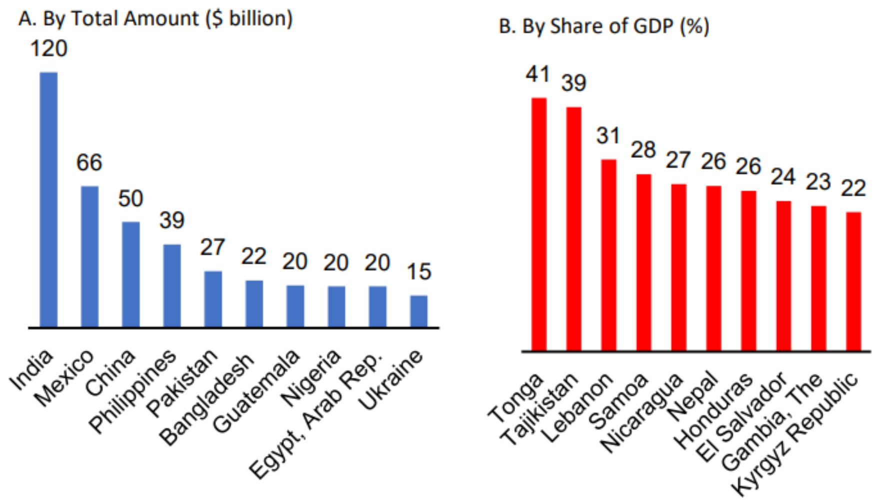
Notes: The corridors represent the number of international migrants (millions) born in the first-mentioned country and residing in the second. Corridors represent an accumulation of migratory movements over time and provide a snapshot of how migration patterns have evolved into significant foreign-born populations in specific destination countries.

Those corridors comprising mainly displaced persons are coloured orange. Revisions have been made based on large-scale displacement from Ukraine to neighbouring countries (as at end October 2023).

Migration and Development Brief 40, June 2024 by World Bank:

Remittance flows to India reached $120 billion in 2023, boosted by low inflation, strong US labor markets, and GCC demand.

Figure 2: Top Recipients of Remittances among Low- and Middle-Income Countries, 2023



Sources: World Bank/KNOMAD staff estimates; World Development Indicators; IMF Balance of Payments Statistics.
Note: GDP = gross domestic product.

Ministry of External Affairs Annual Report 2023: Talks about the Indian diaspora and its contributions and efforts by the ministry to engage them. It also shows the most authentic data for the number of NRIs and PIOs in India. As on May 2024, India has 3,54,21,987 overseas Indians. Out of them, 1,58,50,612 are NRIs and 1,95,71,375 are PIOs. Maximum PIOs are in the USA and maximum NRIs in UAE. The USA has an overall maximum Indian diaspora population.

Figure 3: Population of Overseas Indians: Top 10 Countries

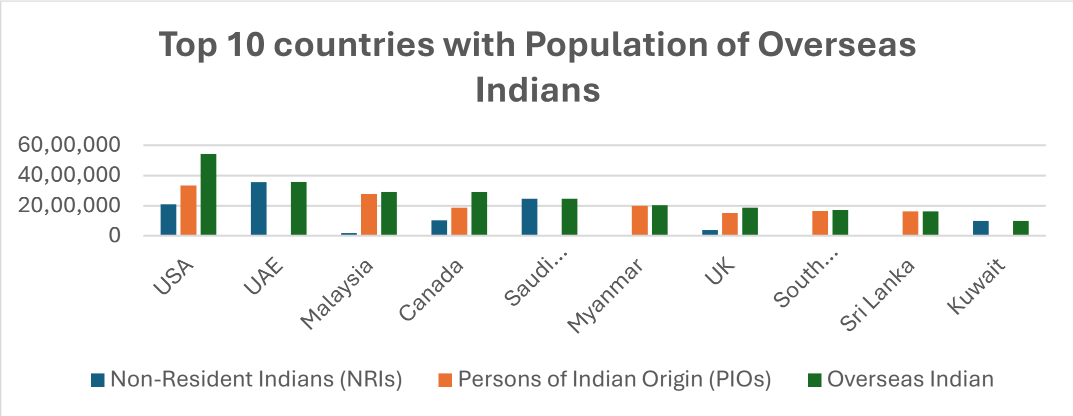
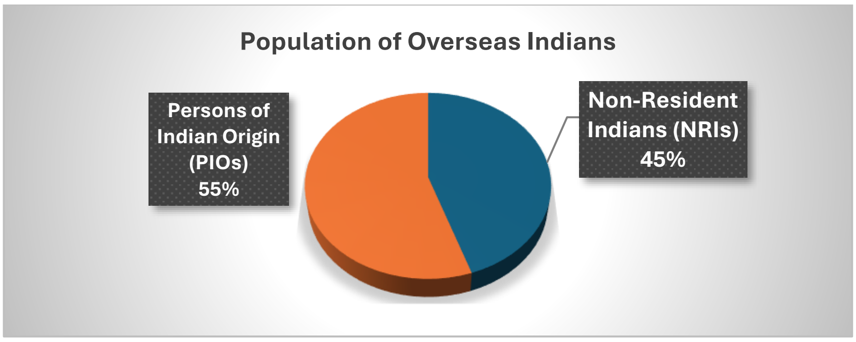


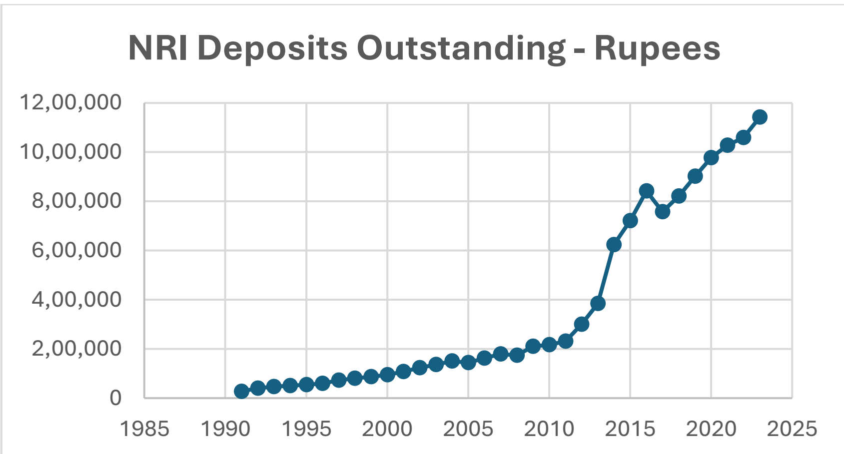
Figure 4: Population of Overseas Indians: NRI Vs PIO



RBI Reports:

Handbook Of Statistics On The Indian Economy > PART I : ANNUAL SERIES > TRADE AND BALANCE OF PAYMENTS extracted on 29 July 2024: NRI Deposits Outstanding - US Dollars and NRI Deposits Outstanding – Rupees: The report shows the NRI deposits with Banks in India have grown from Rs. 27,400 crore in 1991 to Rs.11,41,817 Crore in 2023.

Figure 5: NRI Deposits Outstanding - Rupees



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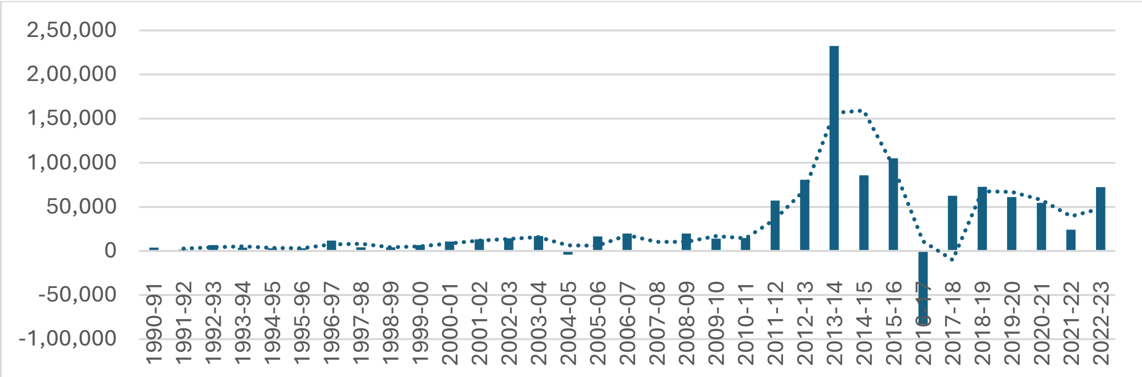
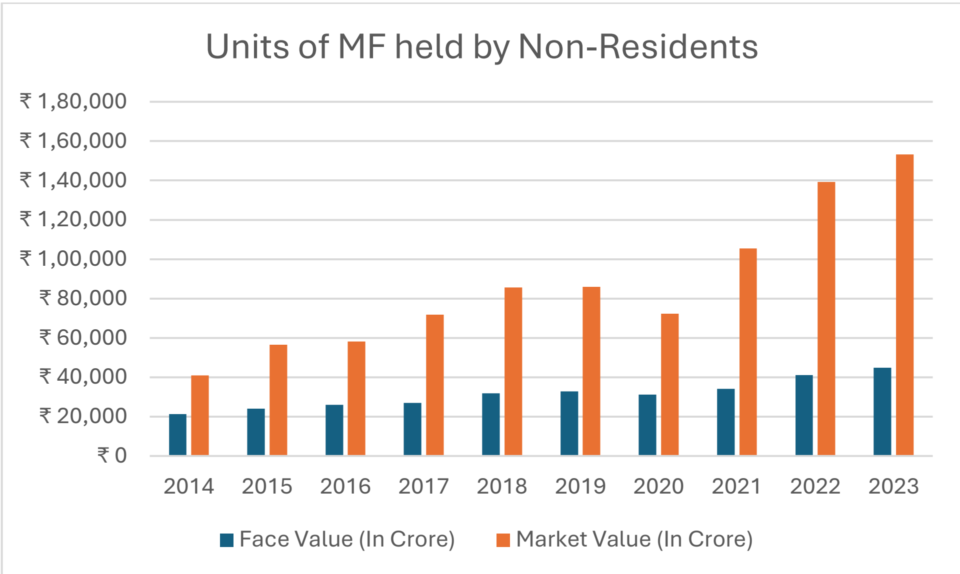
Inflows(+)/Outflows(-) Under Various NRI Deposit Schemes - US Dollars and INFLOWS (+) / OUTFLOWS (-) UNDER VARIOUS NRI DEPOSIT SCHEMES – RUPEES :

The report by RBI shows a steady increase in flows into India with few dips in between.

Figure 6: INFLOWS (+) / OUTFLOWS (-) UNDER VARIOUS NRI DEPOSIT SCHEMES - RUPEES



Survey of Foreign Liabilities and Assets of Mutual Fund Companies –2013-14 – Data Release, 2014-15 – Data Release, 2015-16, 2016-17, 2017-18, 2018-19, 2019-20, 2020-21, 2021-22, 2022-23: The survey covers all Indian MF companies (currently 43) and their Asset Management Companies (AMCs), which held/acquired foreign assets/ liabilities. The information on face value and market value of units held by non-residents as at end of the financial year were collected under the survey. A detailed study of this report shows that investments by NRIs in Mutual Funds in India have grown steadily.



Outcome 1 :

Research Gaps and Potential Research Topics Based on Literature Review

Research Gaps:

1. **Evolution of Investment Products:**

- **Gap:** Sravanthi S. (2013) provided an overview of investment schemes up to 2013. Since then, new investment products and regulatory changes have emerged, including higher financialization of assets and updates in NRI definitions and PIO/OCI schemes.

- **Opportunity:** Conduct an updated study encompassing recent investment products and regulatory changes to provide a comprehensive overview of current opportunities and guidelines for NRIs.

2. **Behavioural Analysis Over Time:**

- **Gap:** Praveen M V (2018) focused on NRI investment behavior in Kerala, particularly the Malabar region, but lacked longitudinal analysis of behavioral evolution.
- **Opportunity:** Conduct a longitudinal study to analyze changes in NRI investment behaviors and preferences over time, considering new investment options and regulatory changes.

3. **Comparison Across States:**

- **Gap:** Existing studies, such as those by Kiran Kumar T N & Deepika Krishnan (2023) and Bhavik U. Swadia (2017), focus on specific states like Karnataka and Gujarat, lacking comparative analyses across different states.
- **Opportunity:** Perform a comparative analysis of NRI investment behaviors across multiple states to identify regional trends and influencing factors.

4. **Impact of Recent Economic Policies:**

- **Gap:** Many studies predate significant economic policies and reforms in India, such as demonetization, GST implementation, and FDI policy changes.
- **Opportunity:** Investigate the impact of these recent economic policies on NRI investment behavior and preferences, providing insights into how these changes have influenced NRI investments.

5. **Digital Transformation and Fintech Adoption:**

- **Gap:** Existing studies do not extensively cover the impact of digital transformation and the rise of fintech on NRI investment behavior.
- **Opportunity:** Explore how digital platforms and fintech innovations shape NRI investment decisions, including the adoption of online investment platforms, robo-advisors, and digital payment solutions.

6. **Gender and Education-Specific Insights:**

- **Gap:** While some studies touch on gender and education, there is limited in-depth analysis of how these factors specifically influence investment decision-making processes.
- **Opportunity:** Conduct detailed studies focusing on gender and education-specific insights, exploring how these demographics influence risk perception, investment preferences, and decision-making criteria.

7. **Psychological and Cultural Factors:**

- **Gap:** The influence of psychological and cultural factors on NRI investment decisions is not extensively explored in the reviewed literature.
- **Opportunity:** Investigate the role of psychological and cultural factors, such as risk tolerance, trust in financial institutions, and cultural attitudes towards saving and investing, in shaping NRI investment behaviors.

Potential Research Topics:

1. **"The Impact of Recent Financial Reforms on NRI Investment Behavior in India":**

- Explore how recent financial reforms and economic policies have influenced the investment preferences and behaviors of NRIs.

2. **"Comparative Analysis of NRI Investment Patterns Across Different States in India":**

- Conduct a comparative study to identify regional variations in NRI investment behaviors and the factors driving these differences.

3. **"Digital Transformation and Fintech Adoption: Effects on NRI Investment Decisions":**
   - Examine how the adoption of digital investment platforms and fintech innovations is impacting NRI investment behavior and preferences.
4. **"Gender and Education-Specific Insights into NRI Investment Behavior":**
   - Investigate how gender and education levels influence the investment decision-making process among NRIs.
5. **"Psychological and Cultural Influences on NRI Investment Decisions":**
   - Explore the psychological and cultural factors that shape NRI investment behavior and how these factors interact with traditional financial considerations.

By addressing these research gaps and exploring these potential topics, new insights can be gained into the evolving landscape of NRI investments in India, providing valuable information for policymakers, financial institutions, and NRIs themselves

Outcome 2:

RBI Master Directions:

"*The Master Directions consolidate instructions on rules and regulations framed by the Reserve Bank under various Acts including banking issues and foreign exchange transactions. The process of issuing Master Directions involves issuing one Master Direction for each subject matter covering all instructions on that subject. Any change in the rules, regulation or policy is communicated during the year by way of circulars/press releases. The Master Directions will be updated suitably and simultaneously whenever there is a change in the rules/regulations or there is a change in the policy. All the changes will get reflected in the Master Directions available on the RBI website along with the dates on which changes are made."* (Master Direction, n.d.)

Let us now briefly study the main Master Directions by RBI.

1. **Master Direction - Deposits and Accounts (Updated as on January 9, 2020)** (MD: Deposits and Accounts, January , 2020)**:**

This Master direction outlines crucial regulations for Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs). Key aspects include:

1. Definitions:

i. NRI: A 'Non-resident Indian' (NRI) is a person resident outside India who is a citizen of India.

ii. 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.

2. Account Types: NRIs and PIOs can maintain Non-Resident (External) Rupee (NRE) Accounts, Non-Resident Ordinary (NRO) Accounts, and Foreign Currency Non-Resident (FCNR) Accounts. NRE and

FCNR accounts facilitate repatriation of funds, while NRO accounts are for managing income earned in India.

3. Repatriation and Taxation: Funds in NRE and FCNR accounts are fully repatriable, whereas NRO account funds are subject to repatriation limits and may incur taxes on interest earned.
4. Joint Accounts: NRE and FCNR accounts can be held jointly with other NRIs/PIOs. NRO accounts can be held jointly with residents, provided the resident operates it under the Power of Attorney solely for local payments.
5. Nomination Facility: NRIs and PIOs can nominate residents or non-residents as beneficiaries for their accounts.
6. Interest Rates: Interest rates on NRE and FCNR accounts are determined by the banks, aligning with guidelines from the RBI. Interest on NRO accounts is taxed at applicable rates.
7. Account Operations: These accounts must be operated in accordance with FEMA regulations, and funds in NRE/FCNR accounts must be sourced from abroad or from other eligible accounts.

These regulations ensure smooth financial management for NRIs and PIOs while maintaining compliance with Indian financial laws.

Master Direction - External Commercial Borrowings, Trade Credits and Structured Obligations (Updated as on December 22, 2023) (MD: ECB, 2023)**:**

The RBI's Master Direction on External Commercial Borrowings (ECBs), Trade Credits, and Structured Obligations, updated on December 22, 2023, outlines significant regulations for Non-Resident Indians (NRIs), Persons of Indian Origin (PIOs), and Overseas Citizens of India (OCIs). These individuals can act as eligible lenders for ECBs, which allows Indian entities to raise funds from them. Key stipulations include adhering to the all-in-cost ceiling, which limits the maximum cost of borrowing, and meeting minimum average maturity periods, generally set at three or five years, depending on the borrowing amount and end-use.

Borrowers must use ECB proceeds strictly for permissible purposes, such as capital expenditure, refinancing of existing debt, and working capital needs. Prohibited uses include real estate activities, investing in capital markets, and on-lending to other entities.

In terms of trade credits, NRIs, PIOs, and OCIs can offer financing for import transactions into India, subject to compliance with tenor and cost regulations. The maximum tenure for trade credits is typically up to five years for capital goods and up to one year for non-capital goods, with specific exceptions allowed by the RBI.

Structured obligations allow NRIs, PIOs, and OCIs to provide guarantees or security for ECBs, provided these adhere to FEMA regulations and other applicable guidelines. These frameworks ensure that cross-border borrowings and trade credits align with India's financial stability and regulatory requirements

Master Direction – Foreign Investment in India (Updated up to March 17, 2022) (MD: Foreign Investment in India , 2022)**:**

This Master Direction outlines comprehensive regulations for Non-Resident Indians (NRIs), Persons of Indian Origin (PIOs), and Overseas Citizens of India (OCIs) to facilitate their investments in India. Key regulations include:

1. **Investment Routes**:

- **Automatic Route**: Allows NRIs, PIOs, and OCIs to invest without prior approval from the RBI or the Government of India in sectors where 100% foreign direct investment (FDI) is permitted.
- **Government Route**: Requires prior approval from the government for investments in sectors where FDI is restricted. Applications are made through the Foreign Investment Facilitation Portal.

2. **Repatriation**:

- Investments made by NRIs, PIOs, and OCIs are generally repatriable, ensuring that investors can transfer their capital and profits back to their country of residence, subject to compliance with Foreign Exchange Management Act (FEMA) regulations and applicable taxes.
- Dividends, interest, and rental income can also be repatriated, following the RBI's guidelines.

3. **Permitted Investments**:

- **Equity and Debt Instruments**: NRIs, PIOs, and OCIs can invest in equity shares, convertible debentures, and units of domestic mutual funds.
- **Real Estate**: They are permitted to invest in real estate development projects, but not in agricultural land, plantations, or farmhouses.
- **Company Capital**: Investments can be made in the capital of Indian companies, including start-ups, following the sector-specific caps and conditions.

4. **Sectoral Caps and Conditions**:

- Different sectors have specific FDI caps that limit the extent of foreign ownership. For instance, 100% FDI is allowed in sectors like IT and manufacturing, while sensitive sectors like defense and telecommunications have lower caps and additional conditions.
- NRIs, PIOs, and OCIs need to adhere to these caps and the conditions laid out for each sector, ensuring compliance with Indian regulatory frameworks.

5. **Reporting Requirements**:

- Any foreign investment must be reported to the RBI through an Authorized Dealer Bank. This includes the initial investment, transfer of shares, and repatriation of funds.
- Proper documentation and adherence to reporting timelines are crucial to maintain compliance.

6. **Portfolio Investment Scheme (PIS)**:

- NRIs, PIOs, and OCIs can invest in the Indian stock market through the PIS, subject to specific ceilings on individual and aggregate holdings in Indian companies.
- Transactions under the PIS are routed through a designated branch of an Authorized Dealer Bank, ensuring regulatory compliance.

These regulations are designed to facilitate foreign investment while safeguarding India's economic interests and ensuring compliance with domestic laws. They provide a clear framework for NRIs, PIOs, and OCIs to participate in India's growth story, promoting transparency and stability in foreign investments.

Master Direction - Insurance (Updated as on December 07, 2021) (MD: Insurance, 2021)

The RBI's Master Direction on Insurance, updated on December 7, 2021, permits residents outside India to hold, purchase, and maintain insurance policies issued by Indian insurers. These policies can cover various risks, including life, health, and general insurance. Premium payments must be made through proper banking channels in compliance with FEMA regulations. Claim settlements can be repatriated, subject to applicable taxes and adherence to regulatory norms. Additionally, non-residents can appoint beneficiaries in India or abroad, ensuring flexibility in managing insurance coverage. These regulations facilitate seamless insurance transactions while maintaining compliance with India's financial laws.

Master Direction – Borrowing and Lending transactions in Indian Rupee between Persons Resident in India and Non-Resident Indians/ Persons of Indian Origin (MD: Borrowing and Lending transactions, 2016)**:**

The RBI's Master Direction on Borrowing and Lending transactions in Indian Rupee between Persons Resident in India and Non-Resident Indians (NRIs)/Persons of Indian Origin (PIOs) outlines key regulations:

1. Borrowing by Residents:

- Residents can borrow from NRIs/PIOs on a non-repatriation basis, subject to a minimum maturity of one year. The borrowing limit is USD 250,000 or its equivalent per financial year.

- The interest rate on such borrowings should not exceed two percentage points above the bank rate prevailing on the date of the transaction.

2. Lending by Residents:

- Residents can lend to NRIs/PIOs under the Liberalized Remittance Scheme (LRS) within the prescribed limit of USD 250,000 per financial year.

- The loan must be for personal purposes or for business activities other than those prohibited under FEMA.

3. Repatriation and Taxation:

- Loans and interest can be repatriated, adhering to FEMA regulations and subject to applicable taxes.

- The repayment of principal and interest should be made as per the agreed terms and documented properly.

4. Reporting and Compliance:

- All transactions must be reported to the RBI through the designated Authorized Dealer Bank.

- Proper documentation and adherence to reporting timelines are crucial for compliance with regulatory norms.

These regulations ensure a structured framework for rupee-denominated transactions between residents and NRIs/PIOs, promoting financial discipline and compliance with Indian laws.

Master Direction - Liberalised Remittance Scheme (LRS) (Updated as on December 22, 2023) (MD LRS, 2023)

This Master Direction allows residents to remit up to USD 250,000 per financial year for various purposes, including education, travel, medical treatment, and investment in foreign assets. Transactions must comply with FEMA regulations, and funds cannot be used for prohibited activities such as margin trading or investments in foreign currency bonds issued by Indian companies. Remittances should be made through authorized dealer banks, ensuring proper documentation and adherence to regulatory guidelines.

Residents can extend loans or gifts to NRIs, PIOs, and OCIs within the USD 250,000 annual limit. Gifts can be made for personal purposes without any restrictions, while loans must be for specific purposes, such as business or personal use, excluding prohibited activities. The loan agreement should be documented, and repayment terms must comply with FEMA regulations. Residents must ensure proper reporting of such transactions to the designated Authorized Dealer Bank, maintaining compliance with regulatory requirements.

Master Direction - Other Remittance Facilities (Updated as on April 03, 2024) (MD: Other Remittance Facilities , 2024)

This Master direction allows residents to pay medical expenses for their close relatives who are NRIs. This payment is considered a resident-to-resident transaction. Authorized Dealers (ADs) can issue International Credit Cards (ICCs) to NRIs and PIOs without needing approval from the Reserve Bank, but any charges must be paid using funds sent from abroad or from their Non-Resident External (NRE) or Foreign Currency Non-Resident (FCNR) accounts. The Reserve Bank will not provide specific instructions on tax deductions for these remittances, but Authorized Dealers must follow existing tax laws.

Master Direction – Acquisition or Transfer of Immovable Property under Foreign Exchange Management Act, 1999 (Updated as on September 01, 2022) (MD: Immovable Property, 2022)

NRIs and PIOs are allowed to purchase any immovable property in India except agricultural land, plantation property, or a farmhouse. They can acquire residential or commercial properties and have the freedom to transfer any immovable property to a resident of India. Additionally, an NRI or PIO can transfer agricultural land or plantation property to another NRI or PIO who is a resident.

OCIs have similar privileges as NRIs and PIOs. They can acquire residential and commercial properties and inherit immovable properties, including agricultural land, plantation property, or farmhouse, from a person resident in India or another OCI. However, OCIs cannot acquire agricultural land, plantation property, or farmhouse through purchase.

All transactions must comply with the reporting requirements to the Reserve Bank of India (RBI) and relevant authorities. Furthermore, the regulations outline the conditions for repatriation of the proceeds from the sale of immovable property, ensuring that such transactions adhere to FEMA guidelines and other applicable laws. This includes ensuring the amount does not exceed the original investment made in foreign exchange, among other conditions.

Master Direction - Remittance of Assets (Updated as on April 28, 2016) (MD: Remittance of Assets, 2016)

This Master Direction outlines that Non-Resident Indians (NRIs), Persons of Indian Origin (PIOs), and Overseas Citizens of India (OCIs) can remit up to USD 1 million per financial year from their Non-Resident Ordinary (NRO) accounts. This includes balances from the sale of assets, inherited money, or any other eligible asset. These remittances must comply with tax regulations and be subject to authorized dealer verification. In case of inherited assets, documentary proof of inheritance and necessary tax clearances are required for remittance.

Master Direction – Import of Goods and Services (Updated as on March 01, 2024) (MD:Import of Goods and Services, 2024)

Under the Foreign Exchange Management (Export and Import of Currency) Regulations 2000, individuals need the Reserve Bank's permission to import foreign currency into India. Without limit, foreign exchange in forms other than currency notes can be sent. Currency notes up to USD 10,000 or cash alone up to USD 5,000 can be brought without declaration. Residents returning from abroad (except Nepal and Bhutan) can bring Indian currency notes up to ₹25,000. From Nepal or Bhutan, notes in denominations up to ₹100 can be brought without limit.

Master Direction – Export of Goods and Services (Updated as on November 22, 2022) (MD: Export of Goods and Services, 2022)

An NRI and PIO not coming from and going to Pakistan or Bangladesh, and visiting India may take outside India currency notes of Government of India and Reserve Bank of India notes up to an amount not exceeding Rs. 25,000 (Rupees twenty five thousand only) while exiting only through an airport.

Master Direction - Miscellaneous (Updated as on November 12, 2018) (MD: Misc, 2018)

This important Master Direction talks about:

1. Remittances to Non-Residents: The Reserve Bank of India (RBI) will not issue instructions under FEMA regarding tax deductions for remittances to non-residents. Authorized Dealers must comply with applicable tax laws.

2. Repatriation for NRIs Returning to India: NRIs returning to India can hold and use foreign assets acquired while abroad, including foreign currency accounts, foreign securities, and property. They can freely use these assets and their income or sale proceeds for payments or investments abroad without RBI approval if compliant with FEMA.

3. Resident Bank Accounts - Joint Holders: Residents can add close NRI relatives as joint holders in resident accounts, treated as resident accounts. NRIs can operate these accounts only for domestic payments, not for their benefit. If the NRI becomes the sole holder, the account converts to an NRO account, subject to applicable regulations.

Master Direction - Money Changing Activities (MD: Money Changing Activities, 2024)

Authorised Dealers Category – I, Authorised Dealers Category – II and FFMCs can convert unspent Indian currency only up to Rs.10,000 in the possession of non-residents unlike foreign tourists where this limit is Rs.50,000/-

Conclusion:

This particular study is limited to various RBI Master Directions related to NRI, PIOs and OCIs. However, regulations regarding investments by NRI & PIOs can be studied as:

Outcome 3:

Key Areas of Regulatory Frameworks:

Basis the overall study of the various regulations a regulatory framework can be created for investments by NRI and PIOs

1. **Investment Regulations and Policies**:
   - **Indian Regulations**: The primary regulations include the FEMA, RBI guidelines, SEBI regulations, and local laws affecting real estate investments.
   - **Host Country Regulations**: Regulations in key host countries, such as the U.S., U.K., and Gulf Cooperation Council (GCC) countries, also impact NRI investments.
2. **Taxation and Compliance**:
   - **Tax Treaties**: Double Taxation Avoidance Agreements (DTAAs) between India and other countries provide clarity on tax obligations and prevent double taxation, influencing NRI investment decisions.
   - **Reporting Requirements**: Compliance with international reporting standards like the Foreign Account Tax Compliance Act (FATCA) imposes stringent disclosure requirements, affecting investment behavior.
3. **Regulatory Challenges**:
   - **Complexity and Fragmentation**: The complexity and fragmentation of regulations across jurisdictions create challenges for NRIs, requiring navigation through multiple legal systems.
   - **Recent Reforms**: Changes in tax policies and repatriation norms influence NRI investment strategies by altering financial incentives and compliance requirements.
4. **Emerging Trends**:
   - **Digital and Fintech Regulations**: The rise of digital assets and fintech innovations is reshaping investment strategies. Regulations concerning cryptocurrencies and digital platforms are evolving to address these changes.
   - **Sustainability and ESG Regulations**: Increasing focus on Environmental, Social, and Governance (ESG) criteria is affecting NRI investment decisions, with emerging regulations promoting sustainable investment practices.

Research Gaps

1. **Comparative Analysis**: Limited comparative studies of regulatory frameworks across different countries and their effectiveness in attracting NRI investments.
2. **Emerging Markets**: Insufficient research on regulatory frameworks in emerging markets where NRIs are increasingly investing compared to India.
3. **Policy Evolution**: A need for longitudinal studies on how regulatory frameworks have evolved and their impact on investment trends.
4. **Technological Integration**: Gaps in understanding how technological advancements like blockchain and fintech simplify compliance and investment processes.

5. **Sociocultural Factors**: Under-researched areas regarding how sociocultural factors influence NRI investment decisions and interactions with regulatory frameworks.
6. **Micro-level Impact**: Lack of analysis on how different NRI segments (e.g., by country of residence, profession, income levels) are affected by regulatory changes.
7. **Sustainability and ESG**: Insufficient focus on how regulatory frameworks address sustainable investments and ESG criteria for NRIs.

Potential Research Questions

1. **Comparative Effectiveness**: How do regulatory frameworks in different countries compare in facilitating NRI investments?
2. **Policy Evolution Impact**: What impact have evolving regulatory frameworks had on NRI investment patterns over the past decade?
3. **Technological Integration**: How are fintech innovations influencing regulatory compliance and investment processes for NRIs?
4. **Emerging Markets**: What are the regulatory challenges and opportunities for NRIs in emerging markets?
5. **Sociocultural Influences**: How do sociocultural factors affect NRIs' investment decisions and interactions with regulatory frameworks?
6. **Segment Analysis**: How do different NRI segments perceive and respond to regulatory changes in their home and host countries?
7. **Sustainability Focus**: How do current regulatory frameworks accommodate sustainable investment practices and ESG criteria for NRI investments?

Conclusion:

Existing studies highlight that NRIs and PIOs, as part of the broader Indian diaspora, have diverse investment patterns influenced by a multitude of factors including economic conditions, regulatory environments, cultural affiliations, and technological advancements. However, there are significant gaps in understanding the full spectrum of these influences and how they interact to shape investment decisions. Despite several existing studies, several underexplored areas warrant further investigation

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