Financial planning for Indians moving abroad

Many people move to new countries for better opportunities. However, while doing so, what should you do with your financial assets and liabilities in India?

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For years, Indians have moved out of the country in search of work and better opportunities. According the Ministry of External Affairs, India has the second-largest diaspora in the world, with around 30 million people living in over 200 countries. When you shift from your homeland, the geography that you are in has a direct impact on your investment products as well. Are you one of those planning to move out of the country or a non-resident Indian (NRI) already? Remember that your residential status also makes a difference to how you handle the investment products in India. Are you wondering what you should do about your current investments? Is it mind-boggling for you to decide whether you should invest in India or overseas, where you might end up living for a large part of your working life?

It is not easy. Shifting to another country exposes you to a new tax regime, newer investment products, different interest rates and also currency risk. *Mint Money* spoke to a few experts who manage the money of NRI clients, to give you a sense of what you should do if you are moving abroad to work.

New beginning

First, remember that everything you do with your financial portfolio will be linked to your risk profile, income, financial goals and the purpose of investing. Any change you make to your financial basket will be directly linked to the tax regime and available investment products in the country you plan to stay for work. A person moving to the US will have to tweak her financial portfolio differently, compared to someone who is moving to the UAE, said Vishal Dhawan, founder and chief financial planner, Plan Ahead Wealth Advisors—a Mumbai-based financial planner. This change is over and above your risk profile and other requirements.

You will have to start with the basic bank account. "First, if you have multiple bank accounts, you will have to consolidate them and switch to an NRO (non-resident ordinary) account," said Dhawan. An NRO savings account is where you can maintain and manage your income earned in India, such as from rent, dividends and pension.

A non-resident external (NRE) account is a savings account maintained in rupees, where you can invest your foreign-income earned outside India. So, you can invest in Indian financial products through this account.

Investment products

If you have mutual funds, stocks, Public Provident Fund investments, bank fixed deposits or corporate fixed deposits, your change in residential status will need you to evaluate your investments too. "For your current holdings you don't have to do much. But once your status changes to NRI, you will have to update your KYC documents with the new residential status for mutual fund investments, and the demat account too. Once you are an NRI, you cannot source money from a resident Indian account. You will have to make investments through your NRE account. Some banks allow you to change the status of your existing bank account. However, most banks require you open a new NRE account," said Srikanth Meenakshi, co-founder and chief operating officer, FundsIndia.com.

The products for investment also gets limited. "Some mutual funds will no longer be available to you. As of now only seven to eight mutual funds offer products to the US and Canada, NRIs, such as L&T Mutual Fund and Sundaram Mutual Fund. Some fund houses additionally require you to be physically present in India to make investments," said Srikanth, who says 7-8% of his investors are NRIs. For NRIs, some of the mutual fund products that gave you tax breaks, may turn out to be inefficient. "Products such as ELSS (equity-linked savings scheme) and international funds turn inefficient for NRI investors. If you are in Europe, you are likely to have much better funds to invest in," said Meenakshi. Like mutual funds, most corporate fixed deposits are also not available to NRIs.

Loan products

If you have any kind of loan in India, you may want to reconsider doing the math. Many NRIs tend to re-evaluate their loans in India, if the countries they are moving to can offer them better interest rates.

For instance, if you had an education loan at 12% in India, and are now in the country where you have access to a loan at 3%, you may want to do the calculation to consider switching—if such an option is available. "If you are getting a lower interest rate loan as an NRI in the country of your residence, and you still save after factoring in the currency cost, you should go ahead. If you have multiple loans, you can do loan laddering—that is, pay off the loan with the highest interest rates first," said Bangalore-based Shyam Sunder, managing director, PeakAlpha Investment Services Pvt. Ltd.

Check before you leap

But before making any changes in your investment products, you need to settle down in the new country to understand your cash flows and expenses. If you think you can't handle the investments and taxation process all by yourself, you should take help from an expert. "You should tap into the local expertise in the country of your residence if the taxation process and investment products are not easy for you to understand," said Sunder. And don't get bogged down by all the changes that occur due to change in your residential status. You can start the process slowly once you have settled down.

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