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Right investment products for NRIs

The constant battle between what is likely to be their home in the future and the possible place where they will retire leaves many NRIs unclear about their investment strategy and choice of financial instruments.

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Remember, financial instruments are a means to an end, not the end itself. Photo: iStock

Over many years of dealing with NonResident Indians (NRIs) in our practice, we come across multiple NRIs who are torn between two worlds. This constant battle between what is likely to be their home in the future and the possible place where they will retire leaves many NRIs unclear about their investment strategy and choice of financial instruments. This lack of clarity leads to one of three possible scenarios:

1. A complete lack of decision making resulting in an accumulation of large liquidity in an account where salary/income from profession simply collects doing nothing but waiting for clarity to emerge.

2. Following a copycat strategy of a friend or a colleague, who has spent more time in the geography and is therefore assumed to be the 'go to person' for everything, including personal finances.

3. Following an extreme strategy of either investing completing in the country that they understand best i.e. India or the overseas geography that they are currently settled in, owing to the availability of new and exotic products that they may not have been exposed to in the past and are now a part of the

process of ‘fitting in’.

We have seen that all the above strategies tend to be detrimental to NRIs in the long term and it is critical to have a customised strategy to deal with personal finances and financial instruments when you are overseas.

Firstly, you need to answer two big questions—where do you plan to retire and where are your children going to live. While you try to find the answer, it is recommended that the money remains in a state of a no-decision zone.

However, it is also critical that this state of no decision does not last beyond six months, as there is an opportunity cost. In case there is no clarity even after six months, it is suggested that flexibility be the key to investment strategy and choice of financial instrument, as this decision to live overseas could either be short term or long term. A flexible investment strategy essentially means that there should be no exposure to investments that require payments for longer periods such as purchases of real estate that require long-term commitments of EMIs or tend to be illiquid, or insurance plans that may require you to pay for a long period, and also need you to stay invested for long periods owing to higher expenses during the early years, resulting in extended break even points. In addition, the investment produce should be liquid because tax treatment for different financial products may differ by geography and thus a movement from a particular geography to another may mean that those assets need to be liquidated owing to adverse tax treatment in a particular geography.

For example, individuals moving to the US may need to be very particular about the kind of financial instruments they hold, as the US taxes global income and also taxes different financial instruments differently. What was a good financial instrument for you when you were in India, may no more be the appropriate instrument when you are in the US. Besides taxation and flexibility, succession laws are a critical determinant of the right financial instrument to use. For example, an NRI living in the Middle East may need to keep in mind how succession and employment visas will be dealt with in case of an unfortunate event like death, and the likely impact on their financial instrument holdings as a result.

For families that have clarity, a blend of instruments that are internationally oriented allow access to global equities and bonds as well as access to more stable currencies like the US dollar combined with investments in the geography.

It is critical though that in both these cases, professional help is sought to navigate through the complexities of living a life in two worlds, and trying to get the best of both. For example, certain instruments such as small savings/postal schemes may not be permitted for NRIs at all, or the type of bank account chosen to make investments may need to keep the need for repatriation flexibility in mind. It may not be possible to keep track of all new developments in both geographies.

Remember, financial instruments are a means to an end, not the end itself.

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