Why rich Indians are investing in foreign residency plans

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The next generation of rich Indian families are becoming more globalized, with many young members of the family pursuing foreign degrees and choosing to live abroad. Investing in overseas equities, bonds or real estate isn't enough anymore.

As per Reserve Bank of India (RBI) data, the money sent under liberalized remittance scheme (LRS) in financial year (FY) 2020-21 stood at $12.7 billion, from a mere $1.3 billion in FY2015. Around 10% of the overall outward remittanceswasfor global deposit accounts, international equities, debt instruments and real estate investments.

Experts say that rich Indian families have started focusing on residency or citizenship by investment (RCBI) option as an investment asset.

“These programs arealso called alternative residencyofferings. Basically, you're creating optionality for these families.For example,what if your next generation wants to pursue a more global lifestyle? What ifyour home currency depreciates by a lotand you lose global buying power overtime?,"saysShilpaMenon, senior director-India, LCR Capital Partners, aUS-basedinvestment and advisory services firm.

These investments are made with an objective of fulfilling the family’s lifestyle goals such as education and career prospects for children, access to better healthcare, security, asset protection and global mobility.

Investment-based immigrant programs are specific long-term residency or visa programs run by many countries such as the US, the UAE and Portugal. This allows individuals and families to apply for green card or long stay visas on certain conditions of investing in pre-approved and qualifying commercial enterprises, which not only brings in foreign capital to these countries but also generates local employment. The investments are typically in a country's real estate or government approved fund and range between $175,000 and $800,000, depending on the type of program and the country.

If you take up permanent residence in Europe, for instance, you get benefits such as return on investment (RoI), ability to diversify wealth by investing abroad and getting the resident permit. "This is a win-win for both parties as people applying for such programs can secure green card / visa for places like the US, which allows them to get employment, immigrate to those countries with families without the hassle and difficulty of shorter-term visa which comes with restrictions and pre-conditions, etc," said Nishant Agarwal, senior managing partner-advisory, ASK Private Wealth.

Until a few years ago, India's investment migration market was largely geared toward the EB-5 program of the US.

TheEB-5program (investment to create jobs in the US economy and obtain US green cards) had been historically dominated by Chinese applicants, but it's fast changing in favour of Indians. Data shows that India overtook China to become the largest EB-5 investor market in both FY2019 and FY2020. Indian EB-5 applicants accounted for 26% of the total EB-5 applicants globally in 2019.

Nowadays, European residence-by-investment migration programs for Malta, Portugal, Greece, and other European golden visas are also gaining traction. In the Caribbean, there are some countries offering direct citizenship through investment programs such as Antigua & Barbuda, Dominica and Grenada. However, these programs are not popular among Indians, as it entails giving up their Indian passports. According to experts, as India does not allow dual citizenship, most domicile Indian families opt for residence-by-investment programs.

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There is also little demand for programs by some non-EU countries such as Montenegro, which is negotiating to become part of the euro bloc. The idea behind these programs is that since they are not in the EU as of now, their programs are cheaper and offer better incentives to investors.

"The main benefit of the European residency programs that investors are attracted to is to ability to live, work and study anywhere in the EU. But if that aspect is uncertain, the investment may not be worth it for most investors," said Menon.

Nirbhay Handa, group head of business development, Henley & Partners, a citizenship and residency planning firm, says, "A typical profile of Indians currently residing in India going in for the investment migration route includes business people, corporate executives, entrepreneurs and even retired wealthy Indians. Less than 10% of the families we deal with across the subcontinent actually use the visa to move abroad and if they do this would be primarily centered towards programs offered in places such as the US, Australia and Canada," he said.

A recent government data revealed that over 160,000 Indians renounced their citizenship in 2021. Handa, however, made it clear that is due to naturalization, and not investment migration. “More than 99% of the passport renunciations, as declared by the Indian government, would be a result of them naturalising into a citizen of country that they have been residing in for years as they possibly moved for their work or education early on,"Handa said.

Not just India’s rich but several entrepreneurs are also keen on multiple residencies offered either through structured residency investment programs in Portugal or Malta or through setting up businesses in countries like the UAE or talent-based visas offered by Australia and Singapore.

“Another trend we see is in the international financial centres such as London, Dubai, Hong Kong and Singapore, which have a large population of professional NRIs. They might be there on an employment pass/work permit now, but if they are unable to get permanent residency or citizenship, they’d like to have another option open to them and would consider an alternative residence or a citizenship through investment,“said Handa.

Experts say that investment programs are individual specific. Even when investments are made through a family office, it would be through a specific person and all the benefits of residence will accrue to that single individual in whose name the investments are made.

As India is a capital-controlled economy, free flow of capital outside India is not permissible for Indians. This is governed under the LRS regulations, which currently allows $250,000 for individuals to be remitted every year for global investments. “However, for families with source of income and wealth outside India through business, etc., or some members of family living, working, and earning outside India, there can be a large existing offshore portfolio for which global family office can be set up in the same manner and for similar purpose as those set-ups in India," said Agarwal.

Separately, experts flagged the impact of the Ukraine-Russia war on investment-based immigrant programs.

For example, the UK earlier this year cancelled its tier-I investor visa program over concerns that it may be enabling fraud and illicit finance.

“Covid and the Ukraine war had a huge impact on the processing timelines. Immigration agencies were swamped. So that is just the operational part of it. There have also been concerns about money laundering, etc across the European programs. Programs like the USEB-5havea very high level of source of funds and investor scrutiny, but some of the

European programs have drawn flak for not being as demanding. Going forward, European programs may slowly start to ramp up the scrutiny of investors and related paperwork," said Menon.

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