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RBI Eases Non-Bank Outward Remittance Framework: Prior Approval Removed Under FEMA

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WHY IN NEWS

The **Reserve Bank of India (RBI)** on **May 13, 2026** issued a revised operating framework under the **Foreign Exchange Management Act (FEMA), 1999**, removing the requirement for **prior RBI approval** for tie-up arrangements between **Authorised Dealer (AD) Category-I banks** and **non-bank entities** (fintech platforms, payment aggregators) that facilitate **outward remittance services** for individuals. AD banks remain fully responsible for regulatory compliance.

WHAT CHANGED

Earlier Framework

- Non-bank fintech platforms wishing to offer outward remittance services (international money transfers) to customers were required to partner with an AD Category-I bank
- Such tie-up arrangements needed **prior approval from RBI** – a process that could take months and created a barrier for new fintech entrants

Revised Framework (May 13, 2026)

- **Prior approval requirement: removed**
- Non-bank entities can partner with AD-I banks through commercial arrangements
- The **AD-I bank remains the regulated entity** – it bears all compliance liability (FEMA, KYC, AML/CFT, cybersecurity, consumer protection)
- Mandatory disclosures to customers: **exchange rates, charges, transfer timelines, beneficiary credit details**

OUTWARD REMITTANCES – TYPES AND LRS FRAMEWORK

What Is Outward Remittance?

Outward remittance = sending money from India abroad. Permitted purposes under RBI's **Liberalised Remittance Scheme (LRS)**:

CATEGORY	EXAMPLES
Education	Tuition fees, living expenses abroad
Medical treatment	Hospital and treatment costs overseas
Travel	Foreign travel expenses
Gifts and donations	To foreign relatives, charities
Family maintenance	Support for dependents abroad
Investment	Foreign securities, real estate (within cap)

LRS Limits

- **USD 250,000 per individual per financial year** (consolidated across all categories)
- Below LRS limit: individual remittances; above LRS: needs RBI permission
- **TCS (Tax Collected at Source)**: Under Budget 2023, TCS at **20 per cent** on LRS remittances above Rs 7 lakh (excluding education/medical); settles against income tax at year end

AUTHORISED DEALER CATEGORIES – RBI FRAMEWORK

CATEGORY	DESCRIPTION	EXAMPLES
AD Cat-I	Full forex dealing; can conduct all current and capital account transactions	Scheduled Commercial Banks
AD Cat-II	Limited forex; certain current account transactions only	Urban Coop Banks, some NBFCs
AD Cat-III	Very limited; travel/tourist transactions	Thomas Cook, authorised money changers

REGULATORY ARCHITECTURE – FEMA 1999

Foreign Exchange Management Act, 1999 replaced the **Foreign Exchange Regulation Act (FERA), 1973**:

FEATURE	FERA 1973	FEMA 1999
Nature	Criminal law	Civil law
Burden of proof	On accused	On enforcement authorities
Penalty	Imprisonment	Fine (civil penalty); imprisonment only for wilful violation
Objective	Conservation of forex	Facilitating trade and current account convertibility
Enforcement	ED (criminal adjudication)	RBI + ED (civil adjudication)

Under FEMA, current account transactions are **freely permitted** (subject to procedural requirements); capital account transactions require RBI approval.

WHY THIS MOVE – POLICY RATIONALE

Fintech Growth

- India's cross-border remittance and payment ecosystem has grown rapidly: **Wise, Remitly, Razorpay, Niyò, Skydo** and others serve students, NRIs, and businesses
- The prior-approval requirement created a regulatory bottleneck and discouraged new entrants

Competition and Consumer Interest

- More fintech players = better exchange rates and lower fees for individuals
- RBI's **Payments Vision 2025** and the **Digital Payments Index (DPI)** have emphasized ease-of-access and competition

Risk Management – Unchanged

- By keeping AD-I banks as the responsible entity, RBI ensures:
 - **KYC/AML compliance** (Prevention of Money Laundering Act, 2002)
 - **Cybersecurity standards**
 - **FEMA compliance and reporting**

BROADER CONTEXT – INDIA’S REMITTANCE FLOWS

DIRECTION	AMOUNT (2024-25)
Inward remittances (NRI to India)	~ USD 125-130 billion (India is world’s largest remittance recipient)
Outward remittances (LRS)	~USD 30-35 billion per year

Top destinations for outward LRS remittances: **USA, UK, Singapore, Australia, UAE** (education-driven primarily).

UPSC RELEVANCE

GS Paper 3 – Economy, Banking

- RBI’s regulatory framework; AD categories; FEMA 1999
- LRS; outward remittance policy
- Fintech regulation; digital payments ecosystem

GS Paper 2 – Governance

- Regulatory reforms; ease of doing business; financial inclusion

Mains Angles

- 1 The RBI’s removal of prior approval for non-bank outward remittance tie-ups reflects a shift from prescriptive to principles-based regulation. Examine the implications.
- 2 Compare FERA 1973 and FEMA 1999 in terms of their philosophy, enforcement approach, and impact on India’s integration with the global economy.
- 3 India is the world’s largest recipient of inward remittances. What are the key drivers, and what policy measures can maximise their developmental impact?

*Foreign Exchange Management Act; enacted in **1999**; replaced FERA 1973; civil law; regulates forex transactions; administered by **RBI** (current account) and **ED / MoF** (capital account enforcement).*

*Liberalised Remittance Scheme; introduced **2004** by RBI; allows resident individuals (not companies) to remit up to **USD 250,000** per financial year for permissible transactions.*

Authorised Dealer Category I – scheduled commercial banks holding a full forex dealing licence from RBI; can undertake all current and capital account transactions.

*Tax Collected at Source at **20 per cent** on LRS remittances above Rs 7 lakh per year (for non-medical, non-education purposes); effective since October 2023; creditable against income tax liability.*

*Prevention of Money Laundering Act; requires KYC and suspicious transaction reporting by all financial entities; administered jointly by RBI and the **Financial Intelligence Unit-India (FIU-IND)**.*

*India is the **world's largest remittance recipient** (since 2008 except a few years); primary source countries: USA, UAE, UK, Canada, Australia.*

RBI's roadmap for digital payments; targets include fourfold increase in digital payment transactions; UPI internationalisation; cross-border payment interoperability.

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