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RBI expresses reservations on setting up of family offices

Last year, the RBI permitted profitable non-financial entities to set up financial services entities outside India and invest up to 400% of the net worth of the investing entity. However, whether financial services activities include investing activity is a grey area.

Written by [Ashley Coutinho](#)

March 15, 2023 05:10 IST



The RBI has instructed banks not to facilitate such structures as it is not permitted under current regulations. (File)

The Reserve Bank of India (RBI), in a call with authorised dealer banks on Monday, said the intent for allowing overseas direct investment in financial

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The RBI has instructed banks not to facilitate such structures as it is not permitted under current regulations.

Experts believe this is tantamount to an informal advisory and it would be prudent for the apex bank to issue a formal clarification and FAQs on the matter.

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An email sent to [RBI](#) did not get a response.

India reportedly has 250-300 family offices, with average assets under management of \$100 million each. Prominent businessmen who have family offices include Ratan Tata, Azim Premji and NR Narayana Murthy.

Family offices are like captive vehicles for the purpose of investing, trading, owning businesses and carrying on businesses for the family in some cases. So, these have to be viewed in the light of the activities being carried out by them.

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Usually, family offices being investing vehicles should fit into the ambit of financial services in the context of Indian regulations, said Yashesh Ashar, a chartered accountant. "The RBI's concerns on permitting family offices to be set up overseas can be well understood and appreciated in the macro-

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looked at,” said Ashar.

Last year, the RBI permitted profitable non-financial entities to set up financial services entities outside India and invest up to 400% of the net worth of the investing entity. However, whether financial services activities include investing activity is a grey area.

“As such, the dispensation provided under the overseas investment rules is for Indian entities which are not engaged in financial services to invest overseas in investment entities, provided the Indian entities satisfy a three-year profit track record. So technically, existing families running businesses in India are able to invest in investment companies outside India, provided the three-year profitability track record is met. This is a change from the earlier position, whereby investment into investment entities outside India was restricted only to entities engaged in financial services business in India, with appropriate approvals,” said Parul Jain, head – fund formation practice, Nishith Desai Associates.

The interest of the high net worth individuals (HNIs) in setting up family offices overseas is two-fold. First, many of the second generation HNI families desire to relocate and settle abroad for education, better lifestyle and business expansion and new opportunities. The high tax regime in India, investment opportunities outside India as well as opening up of the overseas portfolio investment regime for Indian entities (in addition to individuals) have made Indian HNI make lifestyle and long-term decisions on setting up family offices.

The popular jurisdictions for establishing overseas family office vehicles are Dubai and Singapore. Singapore, in fact, recently opened an agency to welcome family wealth management firms.

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