IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

FOREIGN EXCHANGE AND RISK MANAGEMENT IN INDIAN BANKS

Guruvy Manohari

MBA IV SEMESTER

B. Sudhakar Reddy

Associate professor

Sridevi womens Engineering college

Hyderabad, Telangana,India.

ABSTRACT

The purpose of this article is to understand the history and concept of foreign exchange transactions in a better way and to get to know about the various types of risks which are pending to banks linked with foreign exchange transactions and, how these commercial banks delay that risk by modifying or reducing the loss.

It mainly focuses on the various kinds of risks that the banks face and what are the ways by which these commercial banks can prevent those risks associated with foreign exchange. Then with reference to two Indian banks- one private and one government, it has been briefly discussed that how banks in India prefer or rather, how a particular type of risk management technique is more applicable to Indian banks as compared to the rest.

It starts with discussing in detail, what the Distant Conversation marketplace is and how it has evolved over the years, the different kinds of transactions- long term and short term that happen, the function that banks play in it and how they manage the various risks associated with foreign exchange transactions when the exchange rates of a currency pair keep changing by the minute.

Keywords : Foreign exchange, foreign exchange risk.

Objectives:

- To study and understand the foreign exchange.
- To find out various risk management techniques.
- To study how banks are trade with foreign exchange transactions.

INTRODUCTION

The objective of the project is to study the attitude of Indian banks towards currency risk management and the problems faced by the companies dealing with their currency exposure which occur as a result of exports or imports or both.

Foreign exchange, more commonly and popularly known as foreign exchange is the transformation of a nation's exchange into alternative country's currency. The extensive globalization existing today makes the entire world one market and gives birth to what we know as a free economy; exchange and conversion of currencies is thus a part and parcel of all trade, commerce and business that exists due to this, the worth of a country's currency is not only determined by its domestic or internal affairs but also the supply and demand of the money in domestic and international markets that is can basically be 'Fixed' to' another country's currency or a basket of currencies in order to determine its value and demand with respect to these other currencies. Globally, distant conversation is fingered between/among banks and all foreign exchange connections decrease below the indication of the Bank of Global Payments which is an international financial institution owned by Central banks to serve the purpose of a bank for them and raise international monetary and financial cooperation. The foreign exchange market is the forum which facilitates foreign exchange. The most important foreign exchange markets are found in Paris, Singapore and Hong Kong.

PARTICIPANTS

The main members in the marketplace are corporations and persons agents. Corporations and persons essential distant exchange for businessor travel. Profitable series are the source from which corporations and individuals obtaintheir foreign currency.

Problems in Indian foreign exchange market:

Our foreign exchange market suffers from several constraints.

i) There are a lot of maximums on open positions and gaps and hence there is a practical absence of market making and position trading.

ii) There is prevention of opening transactions in the cross currency in the overseas market.

iii) Besides the forward contracts, there is no free contact to the other products like futures, swaps, etc. The market lacks the required liquidity and depth for the derivatives to be economically viable.

Risk sharing: The vendor and purchaser decide to part the money peril in direction to save the extended-period association founded on the invention value and supplier reliability.

Diversification: It can be complete by companies by expending assets in more than one investment marketplace and in more than one cash.

Ordinary prevarication: The association among profits and prices of a distant secondary occasionally delivers a normal border, generous the secure continuing security from conversation amount variations.

External advances/ distant exchange currencies: A Profession can benefit the advance in dual dissimilar coins. Recognition in home exchange which have conversation amount peril and other is in distant exchange which is free from conversation amount peril

Cross hedging: If a conversion consists of additional than one exchange then cross hedging is used .

Organization of Distant Conversation in India.

The distant conversation marketplace in India purposes with a two-level organization which includes (1) Deputy Bank of India, at the top level, (ii) official traders/currency changers conducting distant conversation trading accomplishments.

The market is highly influenced by State Bank of India and Reserve Bank of India because of their Sheer Size. The RBI continuously interferes to save the rupee from rising and is accountable for extremely liquid spot market as it is a last option consumer of bucks.

INDIAN EXCHANGE CONTROLS:

Conversation Panels refer to the rule, limitations, strategies that a nation subjects with esteem to distant conversation trades. In the nonappearance of any conversation regulator one would suppose to do anything with the distant conversation assets that the company has-renovate to any other exchange, venture, purchase or vend decision, spontaneously export foreign exchange etc.

Some of the distant Conversation controls are that export of foreign currency is not permitted, unless it has special RBI permission. "Exchange controls also they list the allowable currency" and a method of payment as approved by RBI for translation across the countries. It also contains guidelines relating to " Foreign currency assets" covering permission as for return of capital profits dividends etc.

The Indian Conversation Regulator is that the "prevarication" can be put finished in case of business and conversion contacts only.

Forward contracts:

A forward contract is simply an contract to purchase or vend foreign exchange at a stipulated rate at a detailed period in the future. It is a contract calling for settlement beyond the spot date. The time frame can vary from a few days to many years.

A advancing agreement locks you to a specific conversation sum, thereby protecting the CFO from conversation amount variations.

REVIEW LITERATURE:

BerishaVlora (2014): examined the role of derivatives in reducing exchange rate risk .The study based on qualitative data obtained from secondary sources emphasised that efficient management of currency risk is essential for the survival of a company. Depending on the specific type of currency risk different hedging strategies should be utilised..

Goodhart Marc et all (2015) : attempted to identify the factors which determine how currency rates affect a business"s cash flows. Risks such as Transaction risks, translation risks and economic risks were highlighted. They emphasised that managers should focus on those currency risks that could lead to financial disruption or distress.

PRESENT STATUS:

Conversation regulator in India is administered by the Reserve Bank of India, which is allowed by the Distant conversation guideline Act. The figure shows the players involved in the distant conversation market from administrative point of view.

Foreign Exchange.

Regulation Act, 1973.

Govt. of India.

Foreign Exchange Dealers.

Association of India.

Authorised Dealers.

Authorised Money.

Changers.

Full Fledged Restricted

Suggestions:

Better protection for notes drift and income margins.

Improved financial forecasting.

Profounder accepting of how foreign exchange variations mark your stability sheet.

RESEARCH AND METHODOLOGY:

Sources of data:

The main part of the Study deals with Indian corporate enterprises' awareness of and attitudes to foreign exchange risk exposure. The required statistics was composed finished the pre-tested survey administered on a judgement sample of 501 business enterprises, located in different parts of the country. The administration of the form was done through multiple channels, which included surface mail, e-mail and personal involvement. Information relating to modern practices away was obtained from published sources such as journals, reports, and from related websites.

Sample for the Study:

The survey was proficient with the pre-tested survey administered on 501 business enterprises in India (banks and companies of foreign multi-nationals not included), having foreign exchange contact.

Conclusion:

The start of Globalisation has seen a rapid rise in the significant of cross border flows involving different currencies, posing challenges of shift from low-risk to high-risk operations in foreign exchange transactions. The Study covers a sample of 501 corporate falling in 18 different categories. 53% of the respondents are using derivatives. The non-users of derivatives have mentioned Confused Perceptions of derivatives use, Technical and Administrative Constraints, and Fear of High Costs of derivatives as reasons for not using derivatives. Even the users of derivatives have concerns arising from Confused Perceptions regarding investor expectations, Pricing and Hedging; they have Policy and Legal issues to be sorted out; Monetary considerations involving transaction costs and liquidity problems also position some anxiety. Quite a few do not have adequate knowledge of the use of derivatives.

References:

https://www.myforexeye.com/

https://www.academia.edu/37260145/A_study_on_FOREX_Risk_Management_with_a_special_emphasis_on_banks_SUBMITTED_BY

https://www.slideshare.net/

https://ukdiss.com/

https://www.researchgate.net/