

International Banking- Types, Services and Risks



International banking is a type of banking which has branches across the national border. It is same as the national bank but it also provides the same service to the international clients also. It covers both the type of clients like individuals and businesses.

Types of Services Offered

1) To arrange trade finance

An international bank arranges the finance for the traders who want to deal with the foreign country.

2) To arrange foreign exchange

The core services provided by the international bank are to arrange a foreign exchange for the import-export purpose.

3) To hedge the funds

The international bank hedge the funds by buying the securities at the lower price level and sell it when the price level rising.

4) Offer investment banking services

It also offers an investment banking services by signing underwriting of shares, financial decisions for investment.

Types of International banking

1) Correspondent banks

Correspondent banks involve the relationship between different banks which are in different countries. This type of bank is generally used by the multinational companies for their international banking. This type of banks is in small size and provides service to those clients who are out of their country.

2) Edge act banks

Edge act banks are based on the constitutional amendment of 1919. They will operate business internationally under the amendment.

3) Off-shore banking centre

It is a type of banking sector which allows foreign accounts. Offshore banking is free from the banking regulation of that particular country. It provides all types of products and services.

4) Subsidiaries

Subsidiaries are the banks which incorporate in one country which is either partially or completely owned by a parent bank in another country. The affiliates are somewhat different from the subsidiaries like it is not owned by a parent bank and it works independently.

5) Foreign branch bank

Foreign banks are the banks which are legally tied up with the parent bank but operate in a foreign nation. A foreign bank follows the rules and regulations of both the countries i.e. home country and a host country.

Types of Risks

1) Currency risk

An international bank has to be familiar with the currency exchange rate while doing business internationally. The companies which choose to operate in a foreign country and at that time it has to deal with currency risk.

2) Political risk

Political risk also affects the business because business has to follow the rules and regulation of host country and each country has their political effect on the business. If the political decisions are unfavourable it affects the business.

3) Reputation risk

A reputation risk means the potential loss in reputational capital based on either real or observed loss in reputational capital. A bank faces reputation risks like rumours about the bank, data manipulation, bad customer service, and experience. A bank's reputation is judged by the clients, investors, leaders, and critics.

4) Systematic risk

The systematic risk is not related to particular one bank but it affects the whole economy. A systematic risk is associated with failures of the big entity and it affects the whole economy.

Examples of international banking

- City group
- HSBC Holdings
- Bank of America
- JP Morgan Chase
- Royal Bank of Scotland Group.