

# Types of Foreign Accounts in India



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.



#### Non-Resident Ordinary Rupee Account (NRO Account):

- Tourists from abroad during their short visit to India are entitled to open a Non-Resident (Ordinary) Rupee (NRO) account with any authorised Dealer bank dealing in foreign exchange.
- Such an account can be opened for a maximum period of six months. Tourists can easily make local payments through the NRO account.
- All payments to residents more than an amount of 50,000 can be made only through cheques or pay orders or demand drafts.
- NRO accounts may be opened or maintained in the form of current, savings, recurring or fixed deposit accounts.
- Interest rates offered by banks on NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits. Account should be denominated in Indian Rupees.
- Non resident Indians or any person of Indian origin may remit from the balances held in NRO account containing an amount which

shall not exceed 1 million dollars every financial year, subject to payment of applicable taxes.

- The limit of 1 million dollars every financial year includes sale proceeds of immovable properties held by NRIs and PIOs.

### Non-Resident (External) Rupee Account (NRE Account):

- NRE account may be in the form of savings, current, recurring or fixed deposit accounts. The account will be maintained in Indian Rupees.
- Accrued interest income and balances held in NRE accounts are exempt from Income tax.
- Authorized banks may allow for a period of equal to or less than 2 weeks the overdrawing in savings accounts NRE up to a limit of fifty thousand.
- Loans can be allowed till hundred lakh rupees against the security of funds held in NRE Account either to the depositors or third parties.

### Foreign Currency Non-Resident Account (FCNR Account):

- FCNR accounts mainly are of term deposits which range from one to five years. The account can be in any convertible currency.
- Loans can be allowed till hundred lakh rupees against the security of funds which are present in the FCNR deposit to the depositors or third parties.
- The interest rates are regulated by the DBOD (Department of Banking Operations and Development), RBI.

### EEFC Account

- EEFC (Exchange Earners' Foreign Currency Account) is an account maintained in foreign currency with an Authorized Dealer which may be a bank dealing in foreign exchange.
- It is a facility provided to the foreign exchange earners, including exporters, to credit 100 % of their foreign exchange earnings to the account.
- Thus they would not have to convert foreign exchange into Rupees and vice versa which in turn will minimise the transaction costs.

- All categories of foreign exchange earners, such as individuals, companies, etc. who are resident in India, may open EEFC accounts.
- Such an account can be held only in the form of a current account on which interest is payable.

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