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MODULE 4

INTERNATIONAL BANKI

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OUTLINE:

- International Banking:
- Exchange rates and Forex Business
- Correspondent banking and NRI Acc
- Letters of Credit
- Foreign currency Loans
- Facilities for Exporters and Importers
- Role of ECGC
- RBI and EXIM Bank

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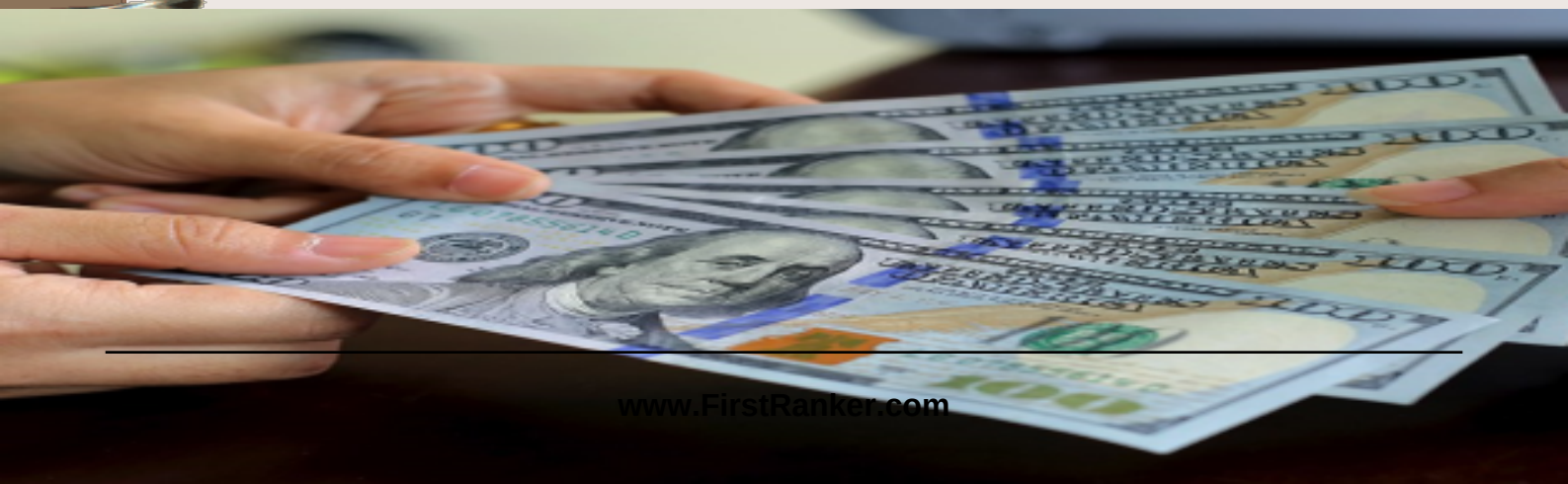
INTERNATIONAL BANKING

With the rapid expansion of interna
network, the banking sector occup
pivotal position in the global econom
has access to the capital, the technol
capabilities and the international ne
to facilitate these activities.



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MEANING

International banking means openin
banks outside country of origin. It
mechanism by which one can ma
bank accounts outside their count
residence.

It is also known as “offshore banking”.

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EXCHANGE RATES AN
FOREX BUSINESS

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EXCHANGE RATES

It is the rate at which one currency w
exchanged for another.

It is also known as foreign-exchange
forex rate, ER, FX rate.

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TYPES OF EXCHANGE RATE

- ► ***Fixed Exchange Rate System***

  Fixed rates provide greater certai
  exporters and importers.

- ► ***Flexible Exchange Rate System***

  Flexible exchange rate or f
  exchange rates change freely ar
  determined by trading in the forex mar

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- ***Exchange rate fluctuations***

  A reliable forecast or future spot r
  called study of empirical pattern
  exchange rate fluctuation.

It provides essential information fo
exchange rate exposure.

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Factors Influencing the Exchange r

- International trade
- Capital movements
- Change in prices
- Speculations
- Strength of the economy
- Government policies
- Stock exchange operations
- Political factors

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FOREIGN EXCHAN

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MEANING

- ***Foreign exchange is the mechanism which the currency of one country g converted into the currency of anoth country.***
- The conversion of currency is done b banks who deal in foreign exchange. banks maintain stocks of one currenc the form of balances with banks

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OPERATION OF FOREIGN EXCHANGE MA

- **Foreign exchange market opera either as:-**

- Spot Market: (Current Market)
- Forward Market

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Spot Market: (Current Mark

Spot market for foreign exchange
market which handles only spot trans
or current transactions.

- ***Principle characteristics:-***
- Spot Market is of daily nature. It does
trade in future deliveries.
- Operation of foreign exchange marke

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Forward Market

Forward Market for foreign exch
that market which handles such tran
of foreign exchange as are meant fo
delivery.

- ***Principles Characteristics:-***
- It only caters to forward transaction.
- It determines forward exchange
which forward transaction are to be h

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The Foreign Exchange Ma
for Beginners

- The foreign exchange market or forex
as it is often called is the market in wh
currencies are traded.

- Currency Trading is the world's larges
consisting of almost trillion in daily vo
and as investors learn more and becom
interested, market continues to rapidly

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- All trades that take place in the foreign exc
market involve the buying of one curren
the selling of another currency simultane
This is because the value of one curre
determined by its comparison to another cu

- The first currency of a currency pair is cal
"base currency," while the second curre
called the counter currency.

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- Foreign exchange Capital Markets (FXCM
online currency trading firm that offers a fr
demo account to traders who are new and
interested in the foreign exchange market.

- Registering for a demo account allows a n
trader to download the online trading platfo
that is used by the company's clients tradin
accounts and make trades as if they were d
with real money.

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NATURE OF FOREIGN EXCHANG

- Volatile, affected by hedger, arbitrager, sp
- Affected by demand and supply
- Affected by rate of interest
- Affected by BoP surplus and deficit
- Affected by inflation rate
- Affected by the fiscal policy of the governn
- Affected by the political condition of the co

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Characteristics of foreign exc

- Lower trading cost
- Excellent transparency
- Superior liquidity
- Strong market trends

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CORRESPONDENT BANKING AND NRI ACCOUNTS

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CORRESPONDENT BANKING

A correspondence bank is a financial institution that provides services on b of another, equal or unequal, financia institution.

It can facilitate wire transfers, conduct business transactions, accept deposits gather documents on behalf of anothe financial institution.

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A correspondent account is an account
called a nostro or vostro account) establishe
a banking institution to receive deposits fron
make payments on behalf of, or handle other
financial transactions for other financial inst

• Correspondent banks are used by domestic
in order to service transactions originating in
foreign countries, and act as a domestic bank
agent abroad.
• This is done because the domestic bank ma
limited access to foreign financial markets, a
cannot service its client accounts without
opening up a branch in another country.

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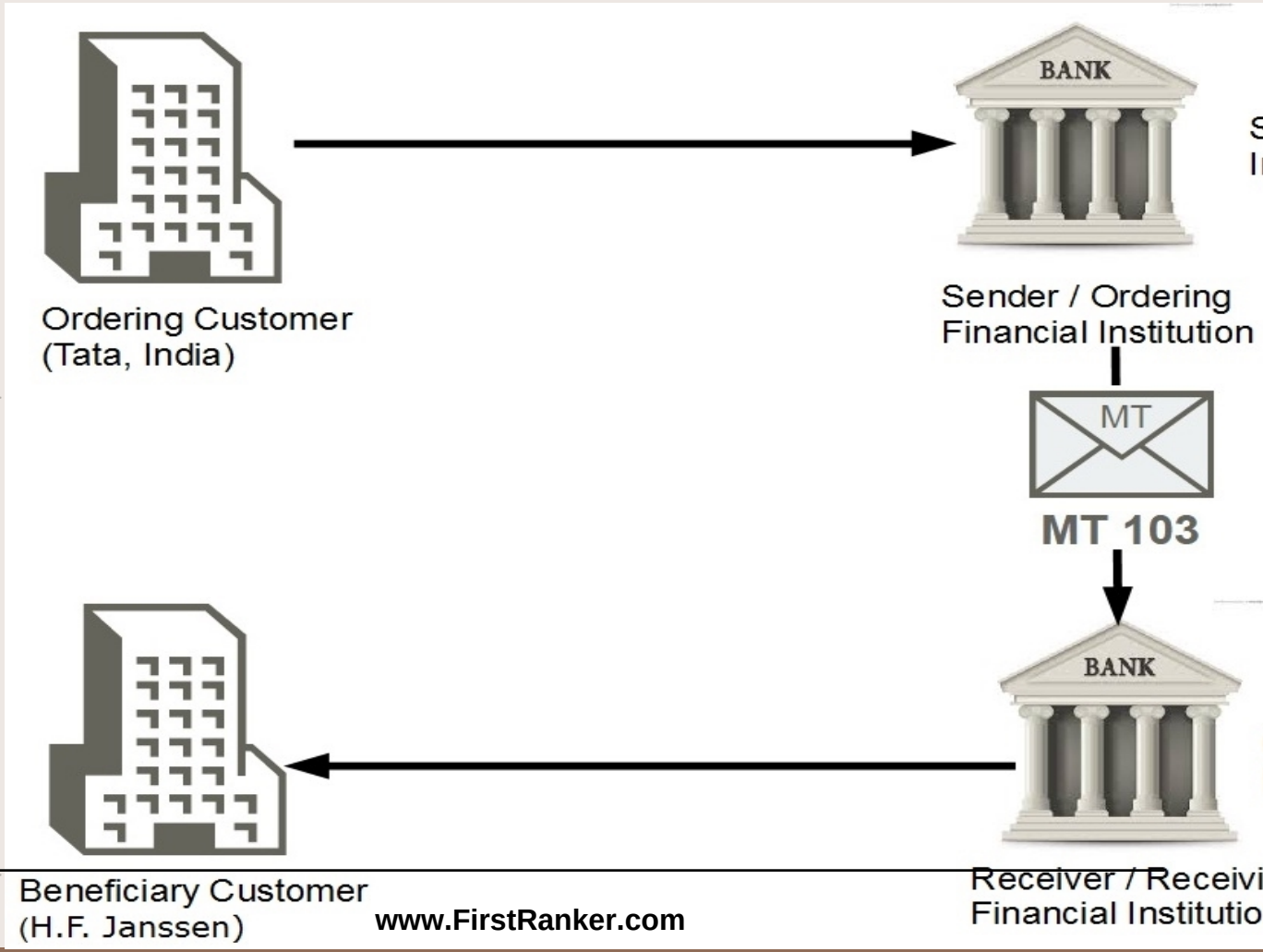
A SIMPLE CORRESPONDENT CROSS BOR
TRANSACTION



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- A Correspondent Banking relat
involves the provision of banking serv
one financial institution (a Correspo
bank) to another financial ins
(Correspondent Banking Client)

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Services offered under CB

- payments including telegraphic or el transfers and drafts.
- Foreign exchange
- Payable through and nested accounts
- Managed investments and mortgage schem
- Custodian account arrangements
- Trade finance transactions
- Syndicated loans

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INTRODUCTION

- To meet the specific needs of Non Res
Indians related to their remitta
savings, earnings, investments
repatriation, the GOI introduced in
Non resident(External) account rule
are controlled by the exchange c
regulations.

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Types of NRI bank account

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Types of NRI bank account

1. Non-Resident Externals (NRE) Deposit
2. Non-Resident Ordinary (NRO) Savings
3. Foreign Currency Non-Resident (FCNR Deposits
4. Resident Foreign Currency (RFC) Depo

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Non-Resident External (NRE) Depo

- The Non Resident External (NRE) sa account is open for Indian residing ab
- This account will help you to transfer foreign earning easily to India .
- NRE account can be opened in any ba saving and fixed deposit account.

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Benefits of NRE Account

- There is no tax and no wealth tax
- The currency maintain in this account is in Indian
- Funds can be easily transferred from NRE accoun account
- Joint account facility is available with only NRI`s
- Nomination facility is available with only NRI In

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Non-Resident Ordinary (NRO) Savings A

- Non Resident ordinary (NRO) account is just
other bank account with the only difference t
account is being opened for only those ind
who are leaving India for taking an employ
establishing a business outside India.
- The existing accounts for these Indians a
termed as Ordinary Non Resident account or a
Accounts.
- These accounts can also be opened through
remittance. Thus it's a rupee denominated acc

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Benefits of NRO Account

- Interest earned on these accounts is high a can themselves determine interest rates.
- These accounts also offer joint account faci a resident or a NRI individual.
- Nomination facility is available with both resident Individuals.
- It is taxable.

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Type of Account	NRE Non Resident External Account	N Non Resident account
Repatriation (can take outside India)	NRE account is freely repatriable	NRO account h repatriability
Tax in India	NRE account is Tax free	The interest ea account and cr are subject to rules
Deposit of Income generated in India, such as salary, rent, dividends etc	Deposit of income earned in India is NOT allowed in NRE account	Deposit of inco India is allowe account
Joint Holding	NRE account can be jointly held with another NRI but not with resident Indian.	NRO account c with NRI as we Indian (close r
Suitable for	Parking overseas earnings remitted to India converted to Indian Rupees	Want to park I earnings in Ru
	Want to maintain savings in Rupee but keep them liquid	

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Points of Difference	NRE Account	NRO Account	FCNR
Currency	Rupee Denominated (INR)	Rupee Denominated (INR)	US Pounds, Euro, Dol
Who can open such Account?	NRI	NRI, Resident before becoming an NRI	
Can it be opened jointly?	Yes, both with Resident**/Non-Resident	Yes, both with Resident/Non-Resident	Yes, both wit
Type of Account	Saving, Current or a Fixed / Term Deposit	Saving, Current or a Fixed / Term Deposit	Fixe
Purpose to open such Account	NRE Accounts are used to hold overseas savings remitted to India after converting to INR	NRO Accounts are used to hold Indian income like rent, dividend etc.	FCNR (B) accou term dep
Repatriation	Yes	Only interest on NRO account balance (after deducting TDS)	
Transfer of funds from one Account to another	Funds can be tranfered from NRE account to NRE/NRO/Resident Account	Funds can be tranfered from NRE account to NRO/Resident Account	Funds can be t / F
Deposit of rupee funds generated in India	No	Yes	
Tax	Tax Free	Taxed as per applicable slab rate	
What is the status of the account when NRI returns to India	Converted to resident account	Converted to resident account	Converted
Is Power of Attorney** allowed	Yes	Yes	

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Foreign currency nonresident (FCNR) fixed deposit

- FCNR Deposits are maintained in for currency and they are completely safe against any exchange rate fluctuation

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Benefits of FCNR

- Interest is payable in the same curre the deposit at Half yearly.
- FCNR account can be opened jointl other non-residents.
- FCNR a/c can be converted or a transferred to NRE accounts.
- No income tax on interest earned.

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Resident Foreign Currency (RFC) Dep

- RFC Deposit has been specially creat
persons of Indian nationality or
returning to India permanently
settlement after having been a re
outside India for a continuous period
least one year.

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Benefits of RFC

- The account will be denominated in U
GBP, and EURO.
- The account can be held single or joi
- The account can be maintained in the
of Term Deposit account.
- The balance in the account can be fre
used for local disbursements.

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Additional Service FOR NRI ACCOU

- An individual resident Indian can bor sum not exceeding USD 250,000 or i equivalent staying outside India, subj the conditions that:
- The minimum maturity period of the one year;
- The loan is free of interest

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What Happens to NRE, NRO and FCNR account, When NRI returns back to India?

- Your NRO account will be converted back to resident saving account.
- Your NRE and FCNR account may be converted to RFC (Resident Foreign currency) acc should you opt for.
- Your NRE and FCNR term deposit can continue with contracted rate, should you decided break them prematurely.
- After maturity, NRE and FCNR fixed deposit account will be converted to RFC account.
- If you stayed abroad for 9 years in previous 10 years then interest earned on RFC accoun tax free for another 2 years.

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LETTER OF CRED

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MEANING:

- A **letter of credit is a document fro bank guaranteeing that a seller wil receive payment in full as long as c delivery conditions have been met. event that the buyer is unable to m payment on the purchase, the bank cover the outstanding amount.**

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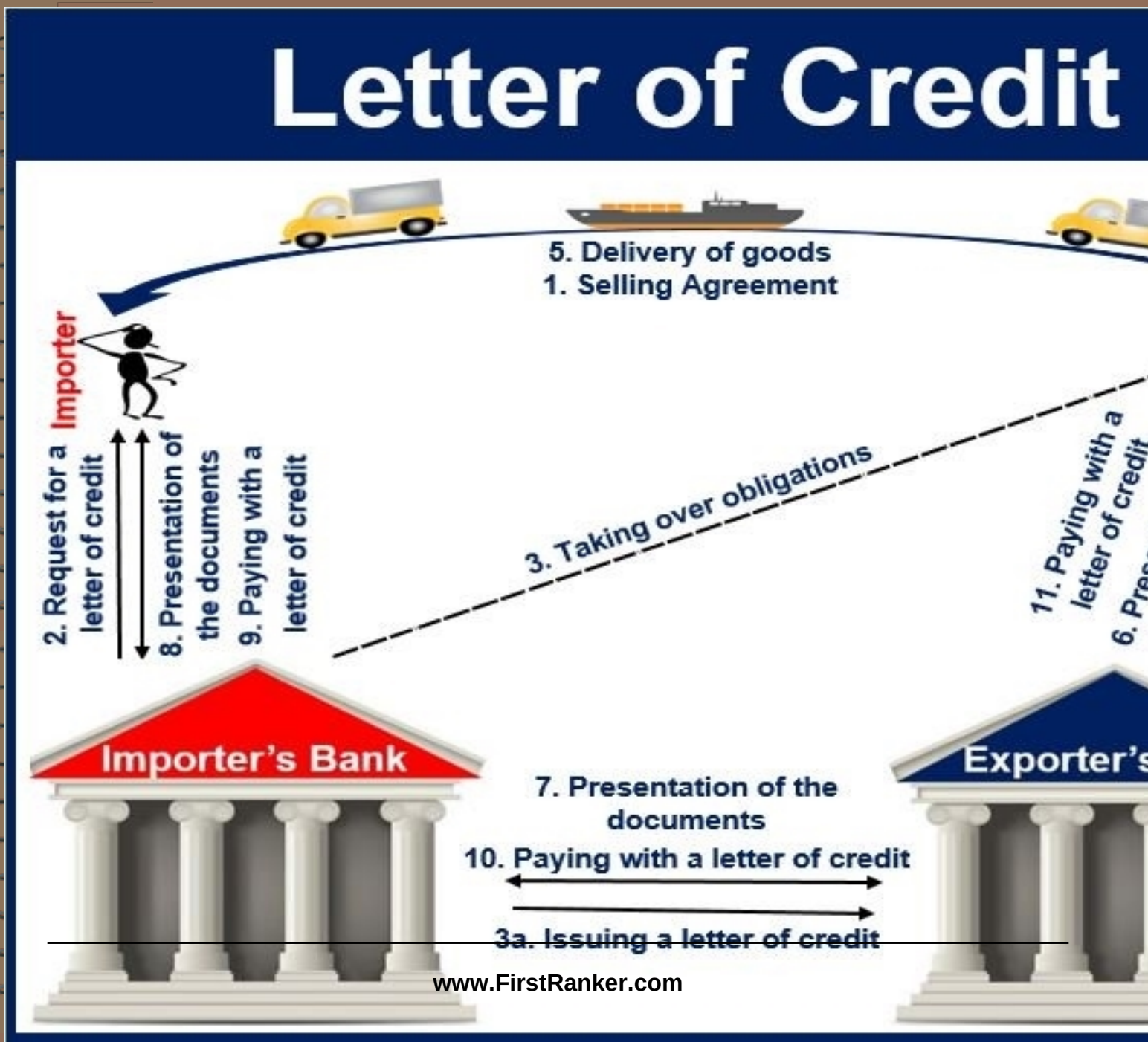

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letter of credit sam

Name and Address of Bank

Date:_____
Irrevocable letter of Credit No. _____

Beneficiary: Commodity Credit Corporation Account Party: Name of Exporter
Address of Exporter

Gentlemen:

We hereby open our irrevocable credit in your favor for the sum or sums not to exceed a total of _____dollars ($_____), to be made a
payment at sight upon the presentation of your draft accompanied by the following statement:

(Insert applicable statement)/2

This Letter of Credit is valid until _____/3, provided, however, that this Letter of Credit will be automatically extended without am
from the present or any future expiration date thereof, unless at least thirty (30) days prior to any such expiration date the Issuing Bank provide
Commodity Credit Corporation at the U.S. Department of Agriculture, 14th and Independence Avenue, S.W., Stop 1025, Washington, D.C. 20250-1
renew this Letter of Credit for such additional _____/5 period. The notice required hereunder will be deemed to have been given

This letter of Credit is issued subject to the Uniform Customs and Practice for Documentary Credits, 2007 Revision, International Chamber of Co

(Name of Bank)

By: _____

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TYPES OF LOC

- Import and Export Letter of Credit
- Revocable and Irrevocable Letter of Cre
- Confirmed and Unconfirmed Letter of C
- Transferrable and Un transferrable LoC
- Deferred/ usance LoC
- Red clause Loc
- Back to back Loc

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Import and Export Letter of Cre

- Are letters of credit that are used in international trade. The same letter of credit would be termed an import lett credit by the importer and an export l of credit by the exporter. In most case importer is the buyer and the exporter beneficiary.

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Revocable and Irrevocable Letter of

- The **revocable letter of credit** can be changed at any time by either the buy the issuing bank with no notification beneficiary.
- **Irrevocable letter of credit** only allo change or cancellation of the letter of by the issuing bank after application b buyer and approval by the beneficiary

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Confirmed and Unconfirmed Letter of

- A **confirmed letter of credit** is one v
  a second bank agrees to pay the letter
  credit at the request of the issuing ban
- An **unconfirmed letter of credit** is
  guaranteed only by the issuing bank.
  is the most common form with regard
  confirmation.

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Transferrable and Un transferrab

- A letter of credit may also be a **transferrable letter of credit**. Thes commonly used when the beneficiary simply an intermediary for the real su of the goods and services or is one of group of suppliers.
- An **un-transferrable letter of credit** not allow transfer of payments to thir parties.

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Deferred/ usance LoC

- A letter of credit may also be **at sight** which is payable as soon as the documentation has been presented an verified, or payment may be **deferred**
- Deferred letters of credit are also call a **usance letter of credit** and may be off until a certain time period has pas the buyer has had the opportunity to i or even sell the related goods.

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Red clause Loc

- A **red clause** letter of credit allows th beneficiary to receive partial paymen before shipping the products or perfo the services.
- Originally, these terms were written ink, hence the name. In practical use, issuing banks will rarely offer these t unless the beneficiary is very creditw or an advising bank agrees to refund money if the shipment is not made.

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Back to back Loc

- A **back-to-back letter of credit** is us
a trade involving an intermediary, suc
trading house.
- It is actually made up of two letters c
credit, one issued by the buyer's bank
intermediary and the other issued by t
intermediary's bank to the seller.

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Foreign currency Loan

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Meaning:

- Foreign currency loans are all loans
  or taken for which the contract curre
  different to the local currency (ba
  sheet/company code currency).

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Eligibility

- Exporters for working capital needs
- Importers for meeting import obligations
- Importers of capital goods
- Those customers who have earlier raised medium
  Loans for meeting capital expenditure from
  financial institutions, so that these loans can be fo
  (subject to RBI guidelines)
- Loan to JV/WOS entities of Indian companies.
- High value corporate clients with a good track r
  meet working capital requirements in substit
  WCDL
- Those customers who are looking for conversion
  term/cash credit

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Period:

- Working capital for exporter/importer- 6 r
to one year.
- Importers of capital goods-3 years (sub
availability of funds)
- Substitution of WCDL/Cash Credit – 6 mo
one year.
- In case of Term Loan Conversion- 6 mont
years (subject to availability of funds)

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Quantum/ Currency:

- On transaction to transaction basis v
the existing credit facilities
- Minimum USD 0.50 mn. (Rs. 2.00 C
equivalent.
- Normally in US$, FC Loans can al
availed in Pound Sterling or in
subject to availability of funds

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Rate of Interest

- Bench marked to relevant LIBOR rat

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Repayment

- Bullet payment (one lump sum) by:
- Tendering export documents
- Proceeds of export collection bills
- Debit to EEFC accounts
- Purchase of foreign currency from the b contracted/ready rate if forward booking is wa
- Term loans for import of capital goods – rep in stipulated installments
- Conversion of rupee term loans – as per c sanction terms

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Procedure

- Roll-over at the sole discretion of the Bank
- In case of loans on floating rate basis the rates reset once in every six months
- Interest charged on reducing balance method.
- Forward cover for appropriate maturity to be l
- Forward cover can be waived for customers natural hedge.
- Prepayment generally not permitted
- In exceptional cases prepayment permitted. Ho as an exception, prepayment is permitted in cases, with levy of penalty.

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Facilities for exporters and importe

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FACILITIES FOR EXPORTER

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Facilities for Exporter

- Export credit
- Export bill rediscounting
- Export credit in foreign cur
  Pre-shipment credit in foreign cur
  (PCFC)
- Exporter gold card

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Export Credit

- ***Rupee export credit (pre-shipment and post-shipm***
- Bank offers both pre and post shipment credit to th exporters through Rupee denominated loans as foreign currency loans in India.
- Exporters having firm export orders or L/C recognized Bank can avail the export credit faciliti United Bank of India provided they satisfy the r credit norms. The details of the credit norms obtained from the nearest authorized branch of the
- Post shipment rupee export credit is availabl maximum period of -180- days /360daysfrom the first disbursement. The corporate, if required ca forward contracts in respect of future export credit

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- ***Export bill rediscounting:***
- Bank offers financing of export by way discounting of export bills to provide post sh finance to the exporters at competitive intern rate of interest.
- The export bills (both Sight and Usance) purchased/ discounted provided they compl the norms of the Bank/ RBI.
- All exporters are eligible to cover the bills under L/C, non-credit bills under sanctioned under the Bill discounting Scheme.

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Export credit in foreign currency

Pre-shipment credit in foreign currency (P

- Bank provides PCFC in the foreign currency to the e enabling them to fund their procurement, manufactur processing and packing requirements.
- These loans are available at very competitive interna interest rates covering the cost of both domestic as w content of the exports. The PCFC can be availed in U GBP and Japanese Yen.
- The corporate / exporters with a good track record ca running account facility with the Bank for PCFC. To this purpose, the exporter's overdue bill should not e the average annual export realization during the prec years.
- PCFC in foreign currency is available for a maximur 180- days from the date of first disbursement similar of Rupee facility.

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- ***Export bill rediscounting:***
- Bank offers financing of export by way discounting of export bills to provi shipment finance to the exporters at com international rate of interest. This fac available in -4- currencies i.e. US$, Pound Euro and JPY.
- The export bills (both Sight and Usance) purchased/ discounted provided they com the norms of the Bank/ RBI.
- All exporters are eligible to cover the bill under L/C, non-credit bills under sanctione under the Bill discounting Scheme.

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- ***Exporter Gold Card***
- Bank has formulated Gold Card Scheme exporter clients based on the scheme dra by Reserve Bank of India.
- The scheme proposes to ensure availability of export credit on best te credit worthy exporters with good track
- The card to be offered by United Bank o will be known as 'United Bank of India Gold Card'. The salient features of the s are as under:

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- ***Eligibility under the Scheme:***
- All exporters , including those in small and m sector having good track record and credit wor depending on the credit rating done as per norms.
- Exporters whose accounts have been classi 'Standard' continuously for a period of thre and there are no irregularities/adverse feature conduct of the accounts will be considered.
- The scheme will not be applicable to those ex who are blacklisted by ECGC or included in defaulter's list/caution list or making losses past 3 years or having overdue export bills in of 10 per cent of the current year's turnover.

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Bank Facilities for Import

- Import finance
- Collection of import bill
- Letter of credit

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- ***Import Finance:***
- Bank provides various types of f services to the importers for facilita imports in the country.
- The vast network of branche Correspondent Banks worldwide fa prompt & efficient services to the imp
- All the facilities are subject to the pr rules of the Bank/ RBI guidelines.

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- ***The various facilities provided are:***
- Collection of import bill.
- Opening of Import L/Cs (Sight/ DA)
- Financing of import by way of Fo Currency Loans
- Issuing Guarantees etc. on beha importers.

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- ***Collection of import bills:***
- The import bills are collected throug 47 authorized branches at very compe rates.
- The Bank has correspondent relatio with reputed International I throughout the world and can provi services to importers who ma importing from any part of the globe.

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Letter of credit:

- Bank offers L/C facility for the purchase of g
the international market. Being a Prime B
repute, the L/Cs of the United Bank of India a
accepted in the International market.
- With the Letter of Credit of United Bank o
importers can build up better trust/ confide
their suppliers and develop other b
relationship at a much faster pace.
- The L/C facility can be granted to the importe
assessing their requirement/ credit wort
financial strength and other parameters being
satisfaction of the Bank.

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- ***Bank guarantees:***
- Bank on behalf of importers/ customers issues guarantees in favo beneficiaries abroad. The guarantees c both Performance and Financial.

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Role of ECGC, RBI and EXIM B

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Export Credit Guarantee Corporation of India (ECG

- The ECGC Limited (ECGC) was established on 30 July 19 objective to provide insurance cover in respect of risks in ex
- These risk may include loss of money on account of fo becoming bankrupt or sudden import or exchange restrictio in stopping of payments etc.
- The Export Credit Guarantee Corporation of India Li company wholly owned by the Government of India based Maharashtra.
- It provides export credit insurance support to Indian expo controlled by the Ministry of Commerce. Government o initially set up Export Risks Insurance Corporation (ERIC)
- It was transformed into Export Credit and Guarantee Limited (ECGC) in 1964 and to Export Credit Guarantee of India in 1983. In 2014 August, the Company was again ECGC Limited.

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What does ECGC do?

- Provides a range of credit risk insurance co
exporters against loss in export of goods and servi
- Offers Export Credit Insurance for Bankers and f
institutions to enable exporters to obtain better f
from them.
- Provides Overseas Investment Insurance to
companies investing in joint ventures abroad in t
of equity or loan.

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How does ECGC help exporters?

- Offers insurance protection to exporters against p risks.
- Provides guidance in export-related activities
- Makes available information on different countr its own credit ratings
- Makes it easy to obtain export finance banks/financial institutions
- Assists exporters in recovering bad debts
- Provides information on credit-worthiness of c buyers

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RBI

- RBI has issued Authorized Dealers (AD) licenses t
India financial institutions and a few co-operativ
undertake foreign exchange transactions in India
- It has also issued Money Changer licenses to a la
of established firms, companies, hotels, shops, etc.
- Money changers help facilitate encashment
currencies of foreign tourists
- Entities authorized to buy and sell foreign curr
coins and travelers' Cheques are called full-fled
changers
- Those authorized only to buy are called restric
changers

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EXIM Bank

- Export-Import Bank of India (Exim Bank) up by an Act of the Parliament "THE E IMPORT BANK OF INDIA ACT, 19 providing financial assistance to expor importers and for functioning as the financial institution for co-ordinating the wo institutions engaged in financing export an of goods and services with a view to prom country's international trade and for connected therewith or incidental thereto.

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ASSIGNMENT:

- Explain: ECGC: Functions, role of ECGC, policies, risks and guarantees covered by E
- RBI: Functions, loans, schemes of RBI Regarding exports.
- EXIM bank of India: Objective, organisati EXIM bank, Financing assistance by EXIM Role of EXIM bank, EXIM bank Finance.
- Due on : 16th November, 2017

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