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A STUDY OF INTERNATIONAL BANKING PRODUCTS & REGULATORY GUIDELINES

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ABSTRACT: This Paper discusses about the international banking products or services available in Indian banks, regulatory guidelines which international banks need to follow, documents required to submit for availing the international banking products or services, customer services and the other allied activities of banks. This section deals with the international banking products available in Indian banking sector such as; inward remittance, international remittance, letter of credit, bank guarantee, export bill and import bill along with the guidelines followed by the banks to sell these products.
KEYWORDS: foreign currency, traveller's cheque, large transaction, competitive rates

INWARD REMITTANCE

All bank's branches and overseas branches, offers prompt inward and outward foreign remittance facilities at very competitive rates. Inward remittance implies a money transfer into customer's account was made, i.e. customer's account got credited. Whether this was a domestic remittance (i.e. money that was sent within the country) or international remittance (i.e. money that was sent from another country), only customer would know.

Inward remittances are the money, which are transferred or sent by the overseas Indian diaspora to their family, friends, and relatives back in India. It can be in the form of foreign currency, traveller's cheque or demand draft. Correspondent bank is authorized to provide services for another bank or another financial institution located in a foreign country. Correspondent banking works through an agreement between a foreign and a domestic bank where a correspondent account, usually referred to as a vostro or nostro account, is established at one bank for the other bank. Correspondent banking typically involves the two banks establishing reciprocal accounts with each other. These accounts are established to enable the domestic bank to make payments or money transfers on behalf of the foreign bank. Such correspondent accounts enable banks to handle international financial transactions for their customers that ordinarily require foreign currency exchange, such as those that commonly occur between exporting businesses in one country to an importer in another country.

For example, a customer of a bank in one country needs to pay for products purchased from a supplier in another country. The customer's domestic bank determines the necessary foreign currency exchange transaction to facilitate appropriate payment in the currency of the seller. It deducts the appropriate amount from the customer's account and then instructs its correspondent bank in the supplier's country to pay out the corresponding amount to the supplier in the supplier's currency from the domestic bank's correspondent account with the foreign bank.

Telegraphic Transfer & Wire Transfer are considered most secure, reliable and globally accepted remittance mechanism in the world today for which bank should be the member of a SWIFT Organization (Society for Worldwide Interbank Financial Telecommunication). The use of SWIFT network adds to reliability and efficient handling.

EXPORT BILL

Every bank deals in export bill collection means sending of export bills to overseas buyer through his bank to collect payment under export bills. Even banks discount these bills in which the exporter gets amount from his authorized bank while submitting export documents. Discounting trade acceptances may also be used by a bank to finance foreign receivables.

In case of Advance payment, banks are required to obtain, among others, original sale contract/confirmed order / Performa invoice countersigned by overseas buyer / indent from authorized agent of overseas buyer for handling the export documents as per Exchange Control regulations. Submission of such documents need not be insisted upon at the time of handling the export documents, since the goods have already been valued and cleared by the Customs authorities, except in the case of transactions with Letters of Credit (L/C) where the terms of L/C require submission of the sale contract / other alternative documents.

An Export Bill for collection is a process whereby an Exporter can rely on international banking channels to control document movement and release. Under export collections, the customer can instruct Standard Chartered Bank (the "Remitting Bank") to send commercial documents (such as invoices, Bills of lading or Airway Bills) or financial documents (such as

Bills of Exchange) on a collection basis to a Collecting Bank / Presenting Bank) in the customer's buyer's country. Upon receipt of such documents, the Presenting Bank will then release documents against payment (if the collection instruction calls for documents against payment or D/P) or against acceptance (if the collection instructions call for documents against acceptance or D/A) from the customer's buyer, and strictly in accordance with instructions from Bank.

For export bill collections, Bank is not obliged to check the contents of the documents (though typically, Bank will examine the customer's bills of exchange, invoices and shipping documents for consistency as a value-added service). Bank will, however, ensure that all documents submitted as indicated in its‟ standard request for handling export bills form are received and the customer instructions detailed thereon are acted upon.

Documentary collections are typically a more secure method of payment than open account trading because the transaction is handled through the banking channels and documents are only released in accordance with the customer's instructions.

IMPORT BILL

All the banks lodge the import bills on their systems and makes the payment to the sender of goods after verifying all the documents. In this process documents are passed by mediation of bank and upon showing the defined documents the cargo is released and payment is released. Import of Goods and Services into India is being allowed in terms of Section 5 of the Foreign Exchange Management Act 1999 (42 of 1999), read with Notification No. G.S.R. 381(E) dated May 3, 2000 viz. Foreign Exchange Management (Current Account Transaction) Rules, 2000. These Regulations are amended from time to time to incorporate the changes in the regulatory framework and published through amendment notifications. Banks have correspondent relationship with reputed International Banks throughout the world and can thus provide valuable services to importers who may be importing from any part of the Globe. The import bills are collected by our Authorized Forex Branches at very competitive rates. The import bills drawn on customers of other branches are also collected through these branches.

BANK GUARANTEES

Bank guarantee is issued by a bank on behalf of its customer, the exporter, as financial assurance to the importer to be collected in the event that the exporter defaults on certain specified contractual obligations. The bank that issues a guarantee will pay the named beneficiary the amount specified on presentation of a written demand as outlined in the guarantee. While there are standard guarantee formats, guarantees can be tailored to meet the specific contractual needs.

TYPES OF GUARANTEES

Banks deals mainly in all types of guarantees according to the request of customers. The sum is only paid if the opposing party does not fulfill the stipulated obligations under the contract. This can be used to essentially insure a buyer or seller from loss or damage due to non-performance by the other party in a contract. Bank charges different types of commission while issuing guarantees. Guarantees that are commonly requested in foreign contracts like-

1. **Bid guarantee:** An importer will often ask foreign contract bidders to post a bid guarantee as evidence of serious intent to supply the goods or services if selected. In the event that the selected supplier is unwilling or unable to carry out the contract, the importer can collect the amount of the bid guarantee.
2. **Advance payment guarantee:** An advance payment guarantee covers the amount of the down-payment the exporter requests from the importer and provides the importer with some security that, if the exporter does not deliver under the terms of the contract, the amount of the down-payment would be retrievable.
3. **Financial guarantees**: This type of Bank Guarantee is issued by the bank and furnished by the banks customer in lieu of earnest money or the security to be deposited with the beneficiary of the Bank Guarantee for the performance of a contract. These guarantees are given in lieu of purely monetary obligation e.g. the obligation of contractor make earnest money deposit/guarantees give to sale-tax department etc. The financial guarantees and performance guarantees issued by banks on behalf of their clients. A financial guarantee assures repayment of money. (E.g. an advance received on an electrification contract), in the event of non-completion of the contract by the client.
4. **Performance guarantees**: These types of guarantees are issued in respect of performance of a contract or obligation. In such guarantees- in the event of non-performance or short performance of the obligation, bank will be called upon to make good the monetary lose arising out of non-fulfillment of the guarantee obligation. The bank cannot perform the contract itself but by this Bank Guarantee the bank undertakes to reimburse the loss incurred by the beneficiary due to non-performance. The amount of loss to be reimbursed is ascertained at the time of default. The purpose of this Bank Guarantee is to fix the liability in the eventuality of default by the customer. A performance guarantee provides an assurance of compensation in the event of inadequate or delayed performance on a contract.

5. **Deferred payment guarantees**: The bank at request of customer issues such Bank Guarantee when he purchases goods or machineries from a creditor on the terms of payment after a specified time in lump sum or in installments. The creditor requires such deferred payment terms to be guaranteed by the bankers of the principal debtor. Such a Bank Guarantee contain an undertaking by the banker that that deferred payment shall be made by the principal debtor, failing which the banker shall pay the amount to the creditor. These types of guarantees normally arise in the case of purchases of machinery or such capital equipment by industries or other party. The manufacturer or its agent applies the machinery against cash payment say 10% to 15% & obtains accepted bills for the balance amount by purchasers' banker for deferred period say 3 to 5 years. A deferred payment guarantees promises payment of installments due to a supplier of machinery or equipment.

LETTER OF CREDIT

Bank opens letter of credit on the request of applicant and takes an obligation to make a payment to beneficiary once certain criteria are met. A letter of credit is a financial document provided by a third party (with no direct interest in the transaction), mostly a bank or a financial institution, that guarantees the payment of funds for goods and services to the seller once the seller has submitted the required documents. Other financial institutions to issue these letters of credit in addition to a bank are mutual funds or insurance companies but in very few cases. A letter of credit has three important elements – the beneficiary/ seller who is paid the credit, the buyer/ applicant who buys the goods or services and the issuing bank that issues the letter of credit on the buyer's request. There might be another bank involved as an advising bank that advises the beneficiary.

Letters of credit are important assurances or guarantees to sellers that they will be paid for a large transaction, particularly with international exchanges. They are form of payment insurance from financial institutions or another accredited party to the transaction.

A key principle underlying letters of credit is that banks deal only in documents and not in goods. The decision to pay under a letter of credit will be based entirely on whether the documents presented to the issuing bank appear on their face to be in accordance with the terms and conditions of the letter of credit.

Commercial letters of credit, sometimes referred to as import/export letters of credit, are prominent in completing international trades. The International Chamber of Commerce published a Uniform Customs and Practice for Documentary Credits (UCP), with which the majority of commercial letters of credit comply.

REGULATORY GUIDELINES FOR INTERNATIONAL BANKING

Banks are regulated by other agencies and have to abide by national and international regulatory guidelines. There is reporting and audit in the banks from time to time and non-adherence to the guidelines and procedures could attract fines and sometimes could lead to cancellation of banking license. Banks needs to follow below guidelines in processing the transactions.

FEDAI GUIDELINES

Foreign Exchange Dealers Association of India (FEDAI) was established in 1958 under the Section 25 of the Companies Act (1956). It is an association of banks that deals in Indian foreign exchange and work in coordination with the Reserve Bank of India, other organizations like FIMMDA, the Forex Association of India and various market participants. FEDAI has issued rules for import LCs which is one of the important area of foreign currency exchanges. It has an advantage over that of the authorized dealers who are now allowed by the RBI to issue stand by letter of credits towards import of goods

As the issuance of standby of letter of Credit including imports of goods is susceptible to some risk in the absence of evidence of shipment, therefore the importer should be advised that documentary credit under UCP 500/600 should be the preferred route for importers of goods

FEMA GUIDELINES

Foreign Exchange Management Act or in short (FEMA) is an act that provides guidelines for the free flow of foreign exchange in India. It has brought a new management regime of foreign exchange consistent with the emerging frame work of the World Trade Organisation (WTO). Foreign Exchange Management Act was earlier known as FERA (Foreign Exchange Regulation Act), which has been found to be unsuccessful with the pro-liberalisation policies of the Government of India.

FEMA is applicable in all over India and even branches, offices and agencies located outside India, if it belongs to a person who is a resident of India. It prohibits foreign exchange dealing undertaken other than an authorized person; it also makes it clear that if any person residing in India, received any Forex payment (without there being a corresponding inward remittance from abroad) the concerned person shall be deemed to have received they payment from a unauthorized person.

There are 7 types of current account transactions, which are totally prohibited, and therefore no transaction can be undertaken relating to them. These include transaction relating to lotteries, football pools, banned magazines and a few others.

FEMA and the related rules give full freedom to Resident of India (ROI) to hold or own or transfer any foreign security or immovable property situated outside India. Similar freedom is also given to a resident who inherits such security or immovable property from an ROI. An ROI is permitted to hold shares, securities and properties acquired by him while he was a Resident or inherited such properties from a Resident.

The exchange drawn can also be used for purpose other than for which it is drawn provided drawl of exchange is otherwise permitted for such purpose. Certain prescribed limits have been substantially enhanced. For instance, residence now going abroad for business purpose or for participating in conferences seminars will not need the RBI's permission to avail foreign exchange up to US$. 25,000 per trip irrespective of the period of stay, basic travel quota have been increased from the existing US$ 3,000 to US$ 5,000 per calendar year.

UCPDC GUIDELINES

Uniform Customs and Practice for Documentary Credit (UCPDC) is a set of predefined rules established by the International Chamber of Commerce (ICC) on Letters of Credit. The UCPDC is used by bankers and commercial parties in more than 200 countries including India to facilitate trade and payment through LC

UCPDC was first published in 1933 and subsequently updating it throughout the years. In 1994, UCPDC 500 was released with only 7 chapters containing in all 49 articles.

The latest revision was approved by the Banking Commission of the ICC at its meeting in Paris on 25 October 2006. This latest version, called the UCPDC600, formally commenced on 1 July 2007. It contains a total of about 39 articles covering the following areas, which can be classified as 8 sections according to their functions and operational procedures. The widely acclaimed International Standard Banking Practice(ISBP) for the Examination of Documents under Documentary Credits was selected in 2007 by the ICCs Banking Commission.

Export trade is regulated by the Directorate General of Foreign Trade (DGFT) and its regional offices, functioning under the Ministry of Commerce and Industry, Department of Commerce, Government of India. Policies and procedures required to be followed for exports from India are announced by the DGFT, from time to time.

DOCUMENTATION AND PROCEDURE

Banks require proper documentation to process the customer's transaction. Documentation should be as per regulatory guidelines and banks also formulate and follow internal procedures and guidelines to avoid any unlawful transaction. There are different check points and scrutiny departments of the banks which controls each and every transaction. The processes of different transactions are followed by the teams working in bank. The processes and documentations followed are more or less same for all the banks. Documentations and procedures differ according to the products and type of transaction.

Following are the documents which are required for the international banking products:

Commercial Invoice

A commercial invoice issued by the beneficiary in the name of the applicant, in the same currency as the credit and need not be signed.

A nominated bank acting on its nomination, a confirming bank, if any, or the issuing bank may accept a commercial invoice issued for an amount in excess of the amount permitted by the credit, and its decision will be binding upon all parties, provided the bank in question has not honoured or negotiated for an amount in excess of that permitted by the credit. The description of the goods, services or performance in a commercial invoice must correspond with that appearing in the credit.

Transport Document Covering at Least Two Different Modes of Transport

A transport document covering at least two different modes of transport (multimodal or combined transport document), however named, must appear to indicate the name of the carrier and be signed by

The carrier or a named agent for or on behalf of the carrier, or the master or a named agent for or on behalf of the master. Any signature by the carrier, master or agent must be identified as that of the carrier, master or agent. Any signature by an agent must indicate whether the agent has signed for or on behalf of the carrier or for or on behalf of the master.

It indicates that the goods have been dispatched, taken in charge or shipped on board at the place stated in the credit, by pre-printed wording, or a stamp or notation indicating the date on which the goods have been dispatched, taken in charge or shipped on board. The date of issuance of the transport document will be deemed to be the date of dispatch, taking in charge or shipped on board, and the date of shipment. However, if the transport document indicates, by stamp or notation, a date of dispatch, taking in charge or shipped on board, this date will be deemed to be the date of shipment.

The transport document contains the indication intended or similar qualification in relation to the vessel, port of loading or port of discharge. It can be the sole original transport document or, if issued in more than one original, be the full set as indicated on the transport document. It contains terms and conditions of carriage or make reference to another source containing the terms and conditions of carriage (short form or blank back transport document). Contents of terms and conditions of carriage will not be examined. It contains no indication that it is subject to a charter party.

Bill of Lading

A bill of lading, indicate the name of the carrier and be signed by the carrier or a named agent for or on behalf of the carrier, or the master or a named agent for or on behalf of the master.

Any signature by the carrier, master or agent must be identified as that of the carrier, master or agent. Any signature by an agent must indicate whether the agent has signed for or on behalf of the carrier or for or on behalf of the master. It indicates that the goods have been shipped on board a named vessel at the port of loading stated in the credit by pre-printed wording, or an on board notation indicating the date on which the goods have been shipped on board.

The date of issuance of the bill of lading will be deemed to be the date of shipment unless the bill of lading contains an on board notation indicating the date of shipment, in which case the date stated in the on board notation will be deemed to be the date of shipment. If the bill of lading contains the indication intended vessel or similar qualification in relation to the name of the vessel, an on board notation indicating the date of shipment and the name of the actual vessel is required.

It indicates shipment from the port of loading to the port of discharge stated in the credit. If the bill of lading does not indicate the port of loading stated in the credit as the port of loading, or if it contains the indication intended or similar qualification in relation to the port of loading, an on board notation indicating the port of loading as stated in the credit, the date of shipment and the name of the vessel is required. This provision applies even when loading on board or shipment on a named vessel is indicated by pre-printed wording on the bill of lading. It contains terms and conditions of carriage or makes reference to another source containing the terms and conditions of carriage (short form or blank back bill of lading). Contents of terms and conditions of carriage will not be examined.

Transhipment means unloading from one vessel and reloading to another vessel during the carriage from the port of loading to the port of discharge stated in the credit. A bill of lading may indicate that the goods will or may be transhipped provided that the entire carriage is covered by one and the same bill of lading. A bill of lading indicating that transhipment will or may take place is acceptable, even if the credit prohibits transhipment, if the goods have been shipped in a container, trailer or LASH barge as evidenced by the bill of lading. Clauses in a bill of lading stating that the carrier reserves the right to tranship will be disregarded.

Non-Negotiable Sea Waybill

A non-negotiable sea waybill, indicate the name of the carrier and be signed by the carrier or a named agent for or on behalf of the carrier, or the master or a named agent for or on behalf of the master. Any signature by the carrier, master or agent must be identified as that of the carrier, master or agent. Any signature by an agent must indicate whether the agent has signed for or on behalf of the carrier or for or on behalf of the master. The date of issuance of the non-negotiable sea waybill will be deemed to be the date of shipment unless the non-negotiable sea waybill contains an on board notation indicating the date of shipment, in which case the date stated in the on board notation will be deemed to be the date of shipment.

If the non-negotiable sea waybill contains the indication intended vessel or similar qualification in relation to the name of the vessel, an on board notation indicating the date of shipment and the name of the actual vessel is required. It indicates shipment from the port of loading to the port of discharge stated in the credit. If the non-negotiable sea waybill does not indicate the port of loading stated in the credit as the port of loading, or if it contains the indication intended or similar qualification in relation to the port of loading, an on board notation indicating the port of loading as stated in the credit, the date of shipment and the name of the vessel is required. This provision applies even when loading on board or shipment on a named vessel is indicated by pre-printed wording on the non-negotiable sea waybill.

It contains terms and conditions of carriage or make reference to another source containing the terms and conditions of carriage (short form or blank back non-negotiable sea waybill). Contents of terms and conditions of carriage will not be examined. A non-negotiable sea waybill may indicate that the goods will or may be transhipped provided that the entire carriage is covered by one and the same non-negotiable sea waybill. A non-negotiable sea waybill indicating that transhipment will or may take place is acceptable, even if the credit prohibits transhipment, if the goods have been shipped in a container, trailer or LASH barge as evidenced by the non-negotiable sea waybill.

Charter Party Bill of Lading

A bill of lading, however named, containing an indication that it is subject to a charter party (charter party bill of lading), must appear to be signed by the master or a named agent for or on behalf of the master, or the owner or a named agent for or on behalf of the owner, or the charterer or a named agent for or on behalf of the charterer.

Any signature by the master, owner, charterer or agent must be identified as that of the master, owner, charterer or agent. Any signature by an agent must indicate whether the agent has signed for or on behalf of the master, owner or charterer. An agent signing for or on behalf of the owner or charterer must indicate the name of the owner or charterer.

The date of issuance of the charter party bill of lading will be deemed to be the date of shipment unless the charter party bill of lading contains an on board notation indicating the date of shipment, in which case the date stated in the on board notation will be deemed to be the date of shipment. It indicates shipment from the port of loading to the port of discharge stated in the credit. The port of discharge may also be shown as a range of ports or a geographical area, as stated in the credit. It can be the sole original charter party bill of lading or, if issued in more than one original, be the full set as indicated on the charter party bill of lading. A bank will not examine charter party contracts, even if they are required to be presented by the terms of the credit.

Air Transport Document

An air transport document indicates the name of the carrier and be signed by: a) the carrier, or b) a named agent for or on behalf of the carrier. Any signature by the carrier or agent must be identified as that of the carrier or agent. Any signature by an agent must indicate that the agent has signed for or on behalf of the carrier indicate that the goods have been accepted for carriage and indicate the date of issuance. This date will be deemed to be the date of shipment unless the air transport document contains a specific notation of the actual date of shipment, in which case the date stated in the notation will be deemed to be the date of shipment. Any other information appearing on the air transport document relative to the flight number and date will not be considered in determining the date of shipment. It indicates the airport of departure and the airport of destination stated in the credit and contain terms and conditions of carriage or make reference to another source containing the terms and conditions of carriage. Contents of terms and conditions of carriage will not be examined.

Transhipment means unloading from one aircraft and reloading to another aircraft during the carriage from the airport of departure to the airport of destination stated in the credit. An air transport document may indicate that the goods will or may be transhipped, provided that the entire carriage is covered by one and the same air transport document. An air transport document indicating that transhipment will or may take place is acceptable, even if the credit prohibits transhipment.

Road, Rail or Inland Waterway Transport Documents

A road, rail or inland waterway transport document, however named, must appear to indicate the name of the carrier and be signed by the carrier or a named agent for or on behalf of the carrier, or indicate receipt of the goods by signature, stamp or notation by the carrier or a named agent for or on behalf of the carrier. Any signature, stamp or notation of receipt of the goods by the carrier or agent must be identified as that of the carrier or agent. Any signature, stamp or notation of receipt of the goods by the agent must indicate that the agent has signed or acted for or on behalf of the carrier.

If a rail transport document does not identify the carrier, any signature or stamp of the railway company will be accepted as evidence of the document being signed by the carrier. Indicate the date of shipment or the date the goods have been received for shipment, dispatch or carriage at the place stated in the credit. Unless the transport document contains a dated reception stamp, an indication of the date of receipt or a date of shipment, the date of issuance of the transport document will be deemed to be the date of shipment. Indicate the place of shipment and the place of destination stated in the credit.

A road transport document must appear to be the original for consignor or shipper or bear no marking indicating for whom the document has been prepared. A rail transport document marked duplicate will be accepted as an original. A rail or inland waterway transport document will be accepted as an original whether marked as an original or not.

In the absence of an indication on the transport document as to the number of originals issued, the number presented will be deemed to constitute a full set. Transhipment means unloading from one means of conveyance and reloading to another means of conveyance, within the same mode of transport, during the carriage from the place of shipment, dispatch or carriage to the place of destination stated in the credit.

A road, rail or inland waterway transport document may indicate that the goods will or may be transhipped provided that the entire carriage is covered by one and the same transport document. A road, rail or inland waterway transport document indicating that transhipment will or may take place is acceptable, even if the credit prohibits transhipment.

Courier Receipt, Post Receipt or Certificate of Posting

A courier receipt, however named, evidencing receipt of goods for transport, must appear to a) indicate the name of the courier service and be stamped or signed by the named courier service at the place from which the credit states the goods are to be shipped; and b) indicate a date of pick-up or of receipt or wording to this effect. This date will be deemed to be the date of shipment.

A requirement that courier charges are to be paid or prepaid may be satisfied by a transport document issued by a courier service evidencing that courier charges are for the account of a party other than the consignee. A post receipt or certificate of posting, however named, evidencing receipt of goods for transport, must appear to be stamped or signed and dated at the place from which the credit states the goods are to be shipped. This date will be deemed to be the date of shipment. On Deck, Shipper's Load and Count, said by Shipper to Contain and Charges Additional to Freight

Clean Transport Document

A bank will only accept a clean transport document. A clean transport document is one bearing no clause or notation expressly declaring a defective condition of the goods or their packaging. The word clean need not appear on a transport document, even if a credit has a requirement for that transport document to be clean on board.

Insurance Document and Coverage

An insurance document, such as an insurance policy, an insurance certificate or a declaration under an open cover, must appear to be issued and signed by an insurance company, an underwriter or their agents or their proxies. Any signature by an agent or proxy must indicate whether the agent or proxy has signed for or on behalf of the insurance company or underwriter. When the insurance document indicates that it has been issued in more than one original, all originals must be presented. Cover notes will not be accepted. An insurance policy is acceptable in lieu of an insurance certificate or a declaration under an open cover.

The date of the insurance document must be no later than the date of shipment, unless it appears from the insurance document that the cover is effective from a date not later than the date of shipment. The insurance document must indicate the amount of insurance coverage and be in the same currency as the credit. A requirement in the credit for insurance coverage to be for a percentage of the value of the goods, of the invoice value or similar is deemed to be the minimum amount of coverage required.

If there is no indication in the credit of the insurance coverage required, the amount of insurance coverage must be at least 110% of the CIF or CIP value of the goods. When the CIF or CIP value cannot be determined from the documents, the amount of insurance coverage must be calculated on the basis of the amount for which honour or negotiation is requested or the gross value of the goods as shown on the invoice, whichever is greater. The insurance document must indicate that risks are covered at least between the place of taking in charge or shipment and the place of discharge or final destination as stated in the credit.

A credit should state the type of insurance required and, if any, the additional risks to be covered. An insurance document will be accepted without regard to any risks that are not covered if the credit uses imprecise terms such as usual risks or customary risks. When a credit requires insurance against all risks and an insurance document is presented containing any all-risks notation or clause, whether or not bearing the heading all risks, the insurance document will be accepted without regard to any risks stated to be excluded.

An insurance document may contain reference to any exclusion clause. An insurance document may indicate that the cover is subject to a franchise or excess (deductible).

Disclaimer on Effectiveness of Documents

A bank assumes no liability or responsibility for the form, sufficiency, accuracy, genuineness, falsification or legal effect of any document, or for the general or particular conditions stipulated in a document or superimposed thereon; nor does it assume any liability or responsibility for the description, quantity, weight, quality, condition, packing, delivery, value or existence of the goods, services or other performance represented by any document, or for the good faith or acts or omissions, solvency, performance or standing of the consignor, the carrier, the forwarder, the consignee or the insurer of the goods or any other person.

EXCHANGE RATE

This section involves the meaning of foreign exchange, foreign exchange trading, meaning of exchange rates, different types of foreign exchange and risks to international banks in foreign exchange.

MEANING OF FOREIGN EXCHANGE

Foreign exchange is the exchange of money of one country for money of another. Foreign exchange transactions arise out of international trade or the movement of capital between countries. Foreign exchange transactions can be conducted between any business entity, government, or individual; but banks, by virtue of their position as financial intermediaries, have historically been ideal foreign exchange intermediaries, as well. Banks are on one side or the other of the majority of the transactions in the foreign exchange market worldwide.

Bank foreign exchange transactions take place between other banks (referred to as interbank trading) and between banks and their customers (generally referred to as corporate trading). The volume of foreign exchange activity varies widely among banks. The degree of a bank’s involvement is largely dictated by customer demand but increasingly is being driven by interbank trading for a bank’s own account. Multinational or global banks are the most active in terms of both trading volume and the number of currencies traded. These banks trade foreign exchange across virtually any currency. Other banks may trade actively in only a few currencies, while other banks will have only limited activity. While banks of any size can and do engage in foreign exchange transactions on behalf of their customers, generally only the world's largest banks and certain smaller banks specializing in international business enter into transactions for their own account.

FOREIGN EXCHANGE TRADING

Foreign exchange trading is an integral part of international trade and can be an important activity and source of income for banks. However, only banks specializing in this complex and specialized field, particularly those banks which trade foreign exchange for their own account, will maintain a foreign exchange department with qualified dealers. It is these banks which present the most complex risks. Banks that only execute their customer's instructions and do no business on their own account essentially maintaining a "matched book" will generally use the services of another bank or foreign exchange intermediary to place customer transactions.

EXCHANGE RATES

When currencies of different countries are exchanged, it is done at an exchange rate which is simply the price of one currency in terms of another. Many political and economic factors influence exchange rates. A government may attempt to fix the rate of exchange for its currency or allow it to fluctuate freely or within established limits. Trade and investment flows affect the supply and demand for currencies, which, in turn, influence exchange rates. Banks also quote different rates based upon the amount of time required to exchange currencies. For example, the British Pound Sterling is quoted at a certain rate for immediate (spot) transactions and another rate is quoted on the same day for future (forward) transactions. In general, rates vary depending on the agreed payment date (value date) of the transaction, i.e. overnight, one week, one month, etc. Also, banks quote a different exchange rate for a given transaction when they are buyers or sellers of currency. This applies to both spot and forward transactions and the two rates are usually referred to as bid (buy) and offer (sell). The spread between the bid and offered rates represents the bank's profit margin, if the bank is acting as dealer.

Exchange rates can be quoted either as direct rates or cross rates. Direct rates are simply the value of a currency in terms of another, i.e. the value of the Japanese Yen in U.S. dollar terms. A cross rate is defined as the price of one currency in terms of another currency in the market of a third country, i.e. a Japanese Yen rate in Sterling terms calculated from the respective U.S. dollar rates.

CONCLUSION

Foreign exchange is the exchange of money of one country for money of another. Foreign exchange transactions arise out of international trade or the movement of capital between countries. Foreign exchange transactions can be conducted between any business entity, government, or individual; but banks, by virtue of their position as financial intermediaries, have historically been ideal foreign exchange intermediaries, as well. Banks are on one side or the other of the majority of the transactions in the foreign exchange market worldwide.

Bank foreign exchange transactions take place between other banks (referred to as interbank trading) and between banks and their customers (generally referred to as corporate trading). The volume of foreign exchange activity varies widely among banks. The degree of a bank’s involvement is largely dictated by customer demand but increasingly is being driven by interbank trading for a bank’s own account. Multinational or global banks are the most active in terms of both trading volume and the number of currencies traded. These banks trade foreign exchange across virtually any currency. Other banks may trade actively in only a few currencies, while other banks will have only limited activity. While banks of any size can and do engage in foreign exchange transactions on behalf of their customers, generally only the world’s largest banks and certain smaller banks specializing in international business enter into transactions for their own account.

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