



A STUDY ON CUSTOMER PERSPECTIVES ON FOREIGN EXCHANGE SERVICES & RISK MANAGEMENT PRACTICES OF THE SELECTED BANKS IN VISAKHAPATNAM CITY

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ABSTRACT

Today's globalised world is well connected and integrated with the advent of telecommunication, technology and transport, which facilitate the movement of people, information, knowledge, capital, goods and services. One of the objectives of globalisation is the free movement of capital/ money, which means exchanging one country's currency for the other country's currency and the place/platform that facilitates the foreign exchange market. The foreign exchange market developed due to the advent of telecommunication. The present-day SWIFT network is the leading network that enables financial information between institutions to transfer money. Persons/entities who provide foreign exchange services are called forex dealers, including commercial banks, NBFCs, financial institutions, and other agencies/ individuals should have forex licenses. This study explores customer perspectives on foreign exchange services and practices of selected commercial banks with the help of primary data collected from the customers, including individuals and business entities. Presently, foreign exchange services are most prevalent to facilitate trade (import and export) of goods and services, international travel, education abroad, medical treatment, and purchase of capital goods, machinery and equipment. There is a need to understand the perspectives of forex customers to provide intricacies of the service providers' foreign exchange services and practices – implementing risk management techniques used by banks and business entities.

KEYWORDS: Globalisation, Foreign Exchange Market, SWIFT, Forex, Forex Dealers, Risk Management Techniques.

INTRODUCTION

Foreign exchange market where currencies are bought and sold. It is distinguishable from a financial market where currencies are borrowed and lent. Forex (FX) is the market in which currencies are traded. The forex market is the largest, most liquid market globally, with average traded volumes in trillions of dollars daily. It includes all of the currencies in the world.

Foreign exchange means reserves of foreign currencies. More aptly, foreign exchange refers to a claim to foreign money balances. Foreign exchange gives residents of one country a financial claim on another country or countries. All the deposits, credits and balances payable in foreign currency and any drafts, travellers' cheques, letters of credit and bills of exchange payable in foreign currency constitute foreign exchange. The foreign exchange market is where money denominated in one country's currency is bought and sold with money denominated in another currency. Transactions in countries' currencies with one another, rates at which one currency is exchanged for others, effects/ ramifications in these rates, derivatives to the currencies, and dealing in them and related aspects constitute the foreign exchange (forex) market.

The major players in the foreign exchange market include Central Banks, which can control the exchange rates, and Commercial Banks, which facilitate foreign remittances both inward and outward, accept foreign currency deposits and provide documentary credit for imports and exports. Due to the volatile nature of the Foreign Exchange (FX) market, the individuals/entities involved are vulnerable to market movements. So there is a need for protection from the financial risk for these individuals/entities. Mitigating this risk can be implementing foreign exchange risk management tools/techniques based on their exposures. Banks and other financial



institutions can provide risk management services, including Foreign Exchange rate forecast and advisory services and tools/practices such as Forward Contracts, Futures, and Options.

NEED FOR THE STUDY

Individuals and business entities dealing with different currencies widely use foreign exchange services. Forex transactions involve various concepts, functions and technicalities. Every financial transaction may involve risk that is associated with a factor. The risk can be mitigated by implementing a strategy/tool/technique. The forecast of these risks is significant in managing the risk. So, there is a need to understand the characteristics of the forex market, forex services and various tools and techniques available. The present study explores the customer perspectives on foreign exchange services provided by forex dealers and options available to customers.

OBJECTIVES OF THE STUDY

1. To study foreign exchange's various concepts, functions and technicalities.
2. The sources and size of the firm's foreign exchange risk.
3. To identify the firm's foreign exchange risk management objectives and policy-related issues.
4. The techniques used to manage a firm's foreign exchange risk.
5. To study the different types of foreign exchange exposure, including risk and risk management techniques that the company is used to minimize the risk.
6. To get knowledge about the hedging tools used in foreign exchange.

REVIEW OF LITERATURE

The foreign exchange market is the most liquid financial exchange in the world. Daily market turnover (average) reached approximately \$7.5 trillion per day in April 2022 ("net-net" basis – which is corrected for local and cross-border inter-dealer double counting) - (BIS Triennial Central Bank Survey, October - 2022). Foreign Exchange rates can affect output and employment through real exchange rates, inflation through the cost of imports and commodity prices, and international capital flows through the risks and returns of various assets. - King, Michael R., Carol Osler, and Dagfinn Rime (2012).

Firms/Businesses/Companies/Organisations with regular exposure to foreign exchange rates tend to use foreign exchange derivatives as a risk management tool in China - Hossain, Md Kamal, and Mammadova Gulay (2020). The firms use foreign exchange derivatives for hedging, which reduces the exchange-rate exposure, and the decision to use derivatives depends on the amount of firms' foreign sales and foreign trade. - Allayannis, George, and Eli Ofek (2001). After the liberalisation in India, foreign exchange markets have witnessed exponential trading volume growth. Even though it held back capital account convertibility, it adopted a flexible exchange rate regime for foreign exchange reserves, which led to ballooning foreign exchange reserves. - Chakrabarti, Rajesh. (2005). In an emerging economy like India, which has systemic risks if left unhedged by large firms that constitute a significant part of the gross domestic product of the country. Patnaik, Ila, Ajay Shah, and Nirvikar Singh (2015).

METHODOLOGY OF THE STUDY

The Research Design for this study is based on the Descriptive Research method. For the study, a structured questionnaire is used, keeping in view demographic, conceptual and perception related questions as a source of primary data. Secondary Data collects from various research papers, web-based articles, and research studies. The sampling frame considers individuals and business entities limited to Visakhapatnam Region. The convenience sampling method is used to collect the primary data in the Visakhapatnam region. The questionnaire is distributed through a manual on the premises of the bank branches. Qualitative and quantitative data are collected through primary and secondary sources as a tool for data collection. The sampling size represents primary data from 240 individuals and business entities from the Visakhapatnam region representing different age groups, occupations and income groups. Table and charts used with the help of Microsoft Word and Microsoft excel.

LIMITATIONS OF THE STUDY

There are a few limitations in the current study -

1. As the sampling was taken as convenience sampling with a 240-sample size, it might not necessarily represent the actual population of the Visakhapatnam region



2. The survey was circulated using manual questionnaires on the premises of the selected bank branches where forex services are offered. So, this study is limited to customers who came to bank branches for forex service.
3. Some respondents of sampling size led the survey without any interest and knowledge, which led to misrepresentation to some extent.
4. Foreign exchange service involves a wider aspect, but this study is limited to the people of the Visakhapatnam region, so it will not give a clear picture of its adoption on the larger platform as people want to have this as currency or an asset class.

CUSTOMER PERSPECTIVES ON FOREIGN EXCHANGE SERVICES & RISK MANAGEMENT PRACTICES

Analysis and Interpretation of data

To understand the customer perspectives on foreign exchange services and practices of selected banks in Visakhapatnam city. A primary survey was conducted from 240 respondents representing various types of customers, age groups, gender, and qualifications from selected banks State Bank of India, Union Bank of India, Bank of Baroda, HDFC Bank and ICICI Bank in Visakhapatnam City.

Demographic	Category	Respondents	Percentage
Gender	Male	139	57.92 %
	Female	101	42.08 %
Age	below 18 years	4	1.66 %
	18-30 years	110	45.83 %
	30-45 years	88	36.67 %
	above 45 years	38	15.83 %
Qualification	High school	21	8.75%
	Trade school	34	14.16 %
	Bachelors' Degree	87	36.25 %
	Masters' Degree or higher	98	40.83 %
Customer Type	New	72	30 %
	Existing	168	70 %
Forex Transaction Purpose in Customer Base	Personal	173	72 %
	Commercial	67	28 %
Forex Transaction in Volume	Personal	84	35 %
	Commercial	156	65 %

Table.1 Details of Customers ("Sample size of 240")

ANALYSIS AND INTERPRETATION OF DEMOGRAPHICS OF RESPONDENTS

1.1 & 1.2 Charts represent gender and age

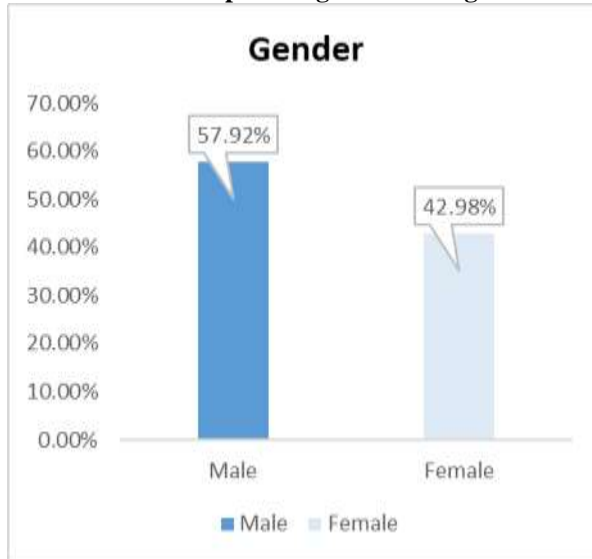


Chart 1.1 Gender

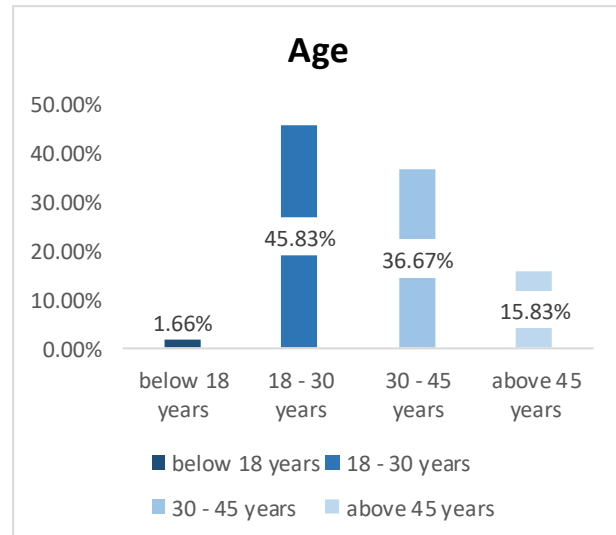


Chart 1.2 Age

1.3 & 1.4 Charts represent Educational Qualification of customer and the Percentage of the New and Existing Customer deal with Foreign Exchange:



Chart 1.3 Educational Qualification

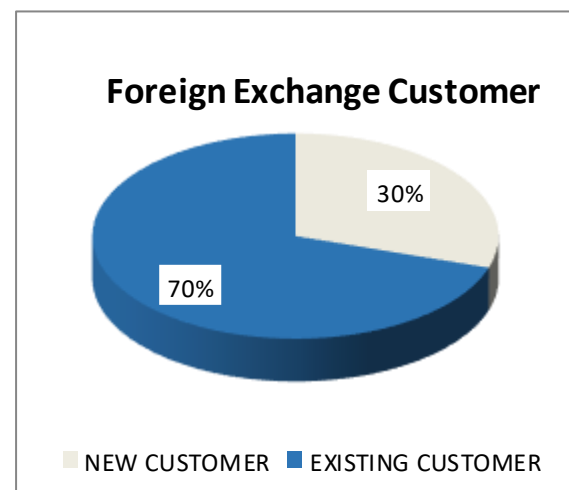


Chart 1.4 Foreign Exchange Customer

Interpretation: Of the respondents, 57.92% represent males, and 42.98% are females. Most respondents either belong to the age groups of 18 – 30 years or 30 - 45 years. 45.83% of respondents belong to the 18 – 30 age group, and 36.67% belong to the 30 – 45 age group. 15.83% of respondents belong to the age group above 45 years, and the remaining 1.66% are below 18 years in terms of educational qualifications. Of the respondents, 70 % represent the existing customers, and 30% represent the new ones. The majority of the respondents were existing customers.

1.5 & 1.6 Charts represent the Nature/ Purpose of Foreign Exchange in the terms of the Business Volume and Customer Base:

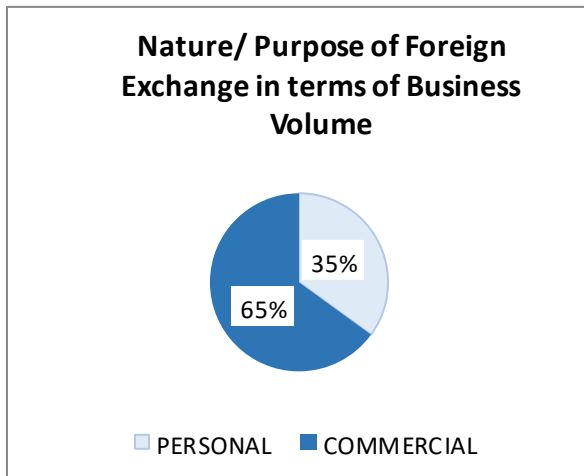


Chart 1.5 Purpose of Forex Business Volume

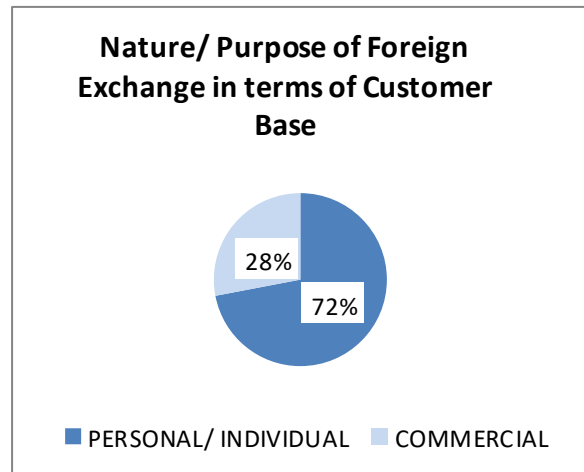


Chart 1.6. Forex Customer Base

Interpretation: Of the respondents, 65 % of the volume of foreign exchange transactions is for Commercial purposes. 35 % of the volume of foreign exchange transactions is for Personal purposes. The majority of the volume of business comes under Commercial purposes. In the aspect of the customer base, out of the total respondents, 72 % of the customer base is in foreign exchange transactions for personal purposes. 28 % of the customer base is foreign exchange transactions for Commercial purposes. Most of the customer base in foreign exchange transactions is for personal purposes.

1.7 Chart represents the Percentage of Currency Volume dealing/trading in Forex Transactions

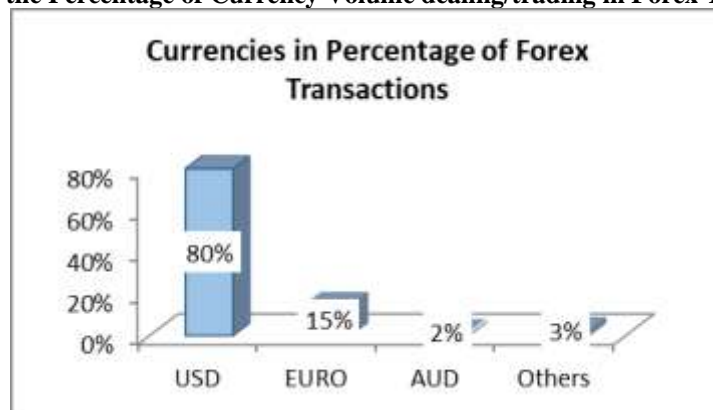


Chart 1.7 Currency Volume in percentage dealing/trading in Forex Transaction

Interpretation: Out of the total respondents, 80 % of the currency volume of forex transactions is in US Dollars, 15% of the currency volume of forex transactions is in Euros, 2 % of the currency volume of forex transactions is in Australian Dollars & 3% of currency volume of forex transactions are in others. The majority of the forex transactions are in US Dollars.

1.8 & 1.9 Charts represent Transaction Size in Rupees & Frequency of Foreign Exchange Transactions by each Customer per annum.

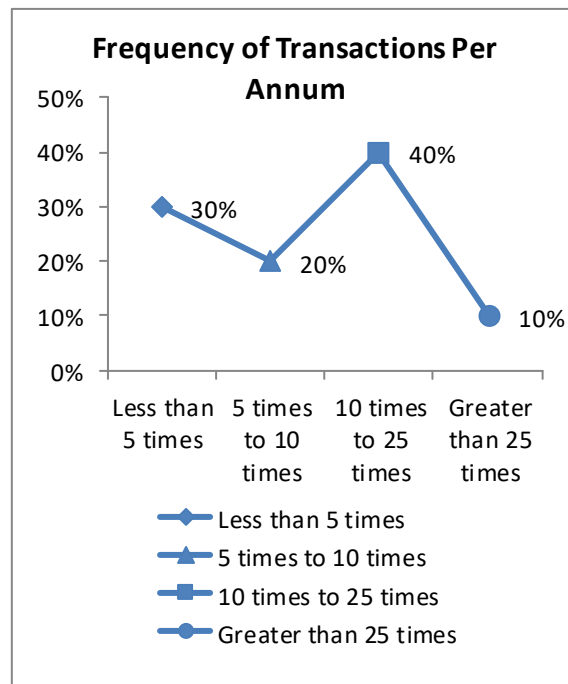
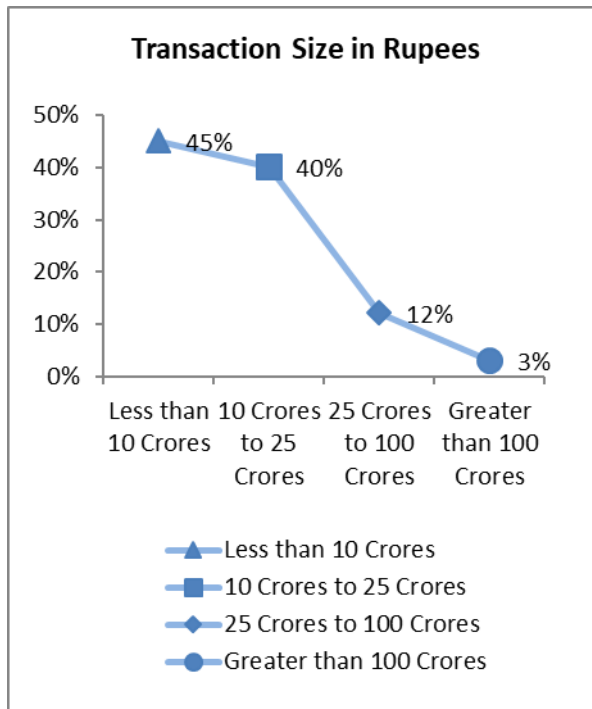


Chart 1.8 Transaction Size in Rupees

Chart 1.9. Frequency of Transactions per Annum

Interpretation: Out of the total respondents, 45% of transaction sizes in rupees are in less than ten crores, 40 % of transaction sizes in rupees are in 10 crores to 25 crores, 12% of transaction sizes in rupees from 25 crores to 100 crore & 3% of transaction size in rupees greater than 100 crores. Regarding the frequency of transactions per annum, most transaction size is in rupees. About 85% of transaction sizes are less than ten crores and between 10 crores to 25 crores. Out of the total respondents, 80 % of forex transactions are in US Dollars, 15 % of forex transactions are in Euros, 2 % are in Australian Dollars & 3 % of forex transactions are in others. The majority of the forex transactions are in US Dollars.

1.10 & 1.11 Charts represent Satisfaction level about the Forex charges by Banks & Time/Speed of Transaction

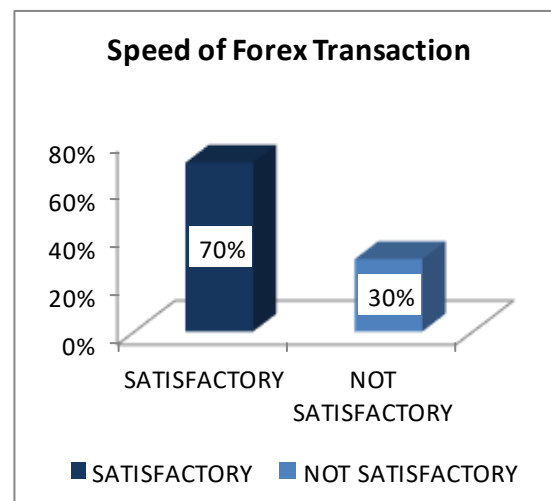


Chart 1.10 Satisfaction Level on the Forex Charges

Chart 1.11 Speed of Forex Transaction

Interpretation: Out of the total respondents, 15% of the customers feel that forex charges are very high, 30% of the customers think that forex charges are high, 45% of the customers feel that forex charges are ok/standard & 10% of the customers believe that forex charges are low. Most customers think forex charges are high (about 45%) or regular (about 45%). Regarding the speed of the Forex Transaction: Out of the total respondents, the majority of the customers, about 70%, are satisfied with the speed of Forex transactions.

1.12 Chart represents Safety/ Security of the Forex Transaction

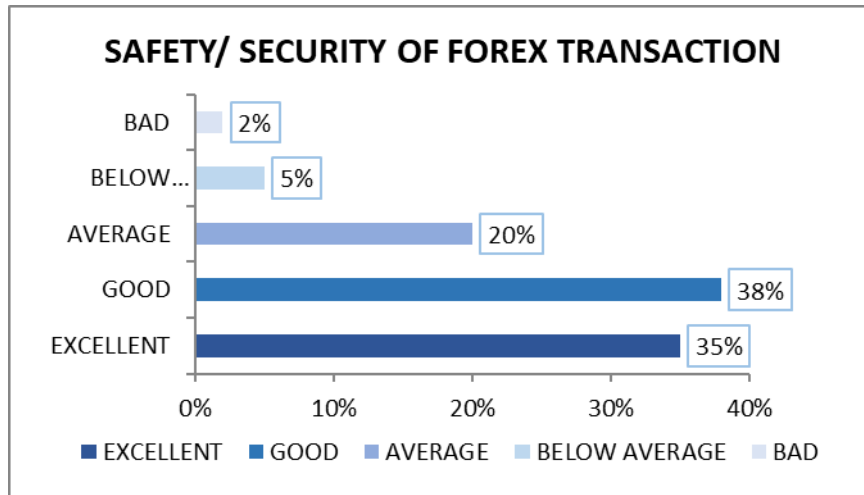


Chart 1.12 Perceived Safety/ Security of the Forex Transaction

Interpretation: Out of the total respondents, 35% of the customers feel that forex transactions safety/security is excellent, 38% of the customers think that forex transactions safety/security is good, 20% of the customers feel that forex transactions safety/security is average, 5% of the customers feel that forex transactions safety/security is below average and 2% of the customers think that forex transactions safety/security is terrible. Most customers believe that forex transactions safety/security is good or excellent (about 73%).

2. FOREIGN EXCHANGE - RISK MANAGEMENT: Only for Business Entities

2.1 & 2.2 Charts represent Type of Business Entity and Ownership of Business Entities

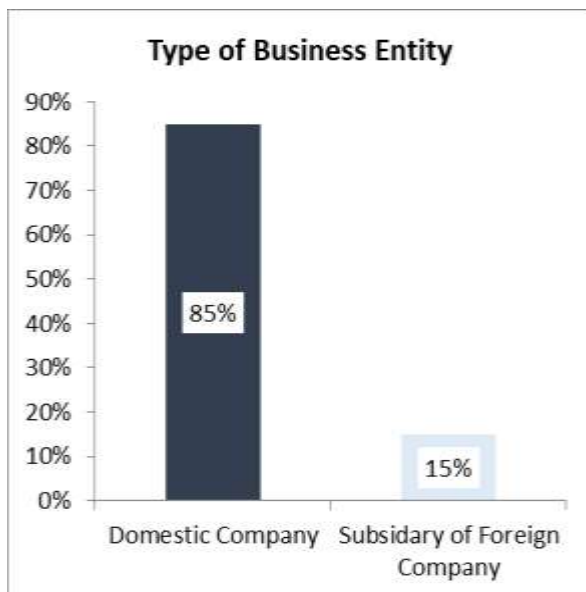


Chart 2.1 Type of Business Entity

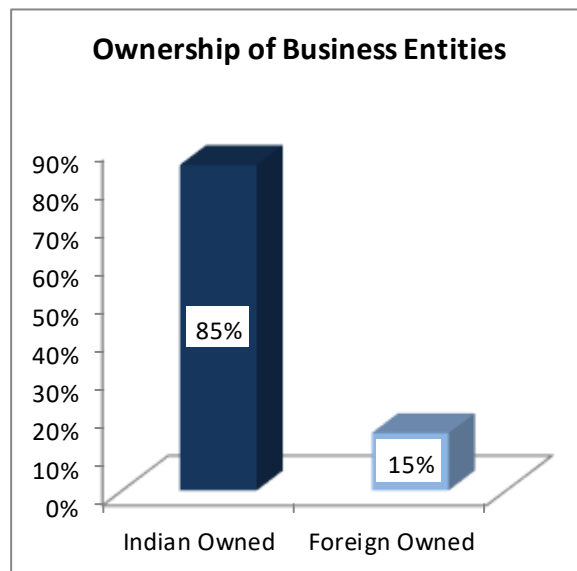


Chart 2.2 Ownership of Business Entities

Interpretation: Out of the total respondents who belong to the business entities, the majority of the customers, about 85%, are Domestic companies/local companies and the remaining holding companies of other foreign companies and subsidiaries of foreign companies. Out of the total respondents who belong to the business entities, the majority of the customers, about 85% of companies, are Indian-owned, and the remaining 15% are foreign-owned.

Chart 2.3 represents the primary source of the firm’s foreign exchange rate forecast

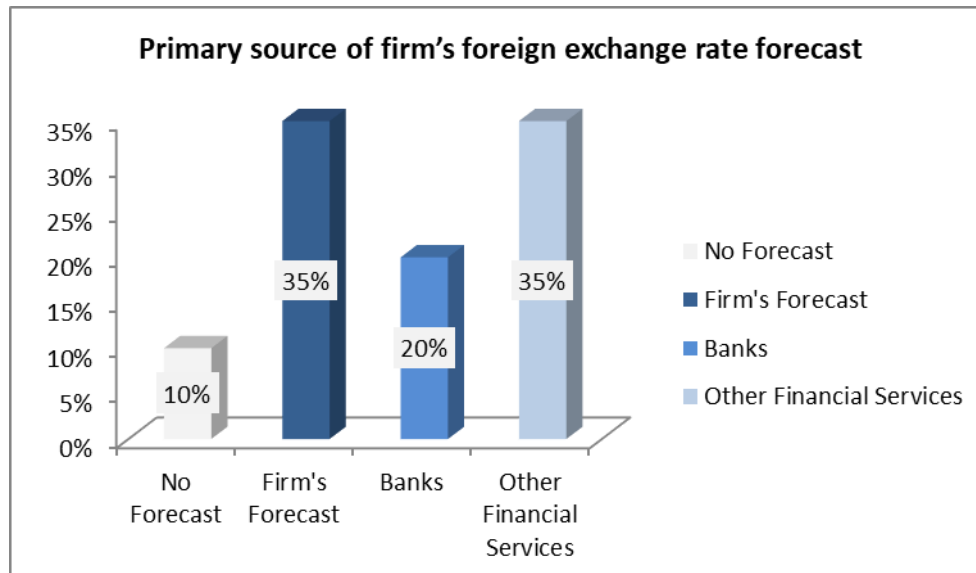


Chart 2.3 Primary source of firm’s foreign exchange rate forecast

Interpretation: Out of the total respondents, who belong to business entities, the majority of the customers, about 90% of companies forecast forex rates and in which, about 35% of companies depend on their forecast of forex rate, about 35% of companies depend upon financial services institutions, about 20% of companies depend upon banks’ forecast of forex rates remaining 10% of companies doesn’t forecast forex rates.

Techniques in Foreign Exchange Risk Management

Chart 2.4 represents Instruments firms use to hedge foreign exchange exposures.

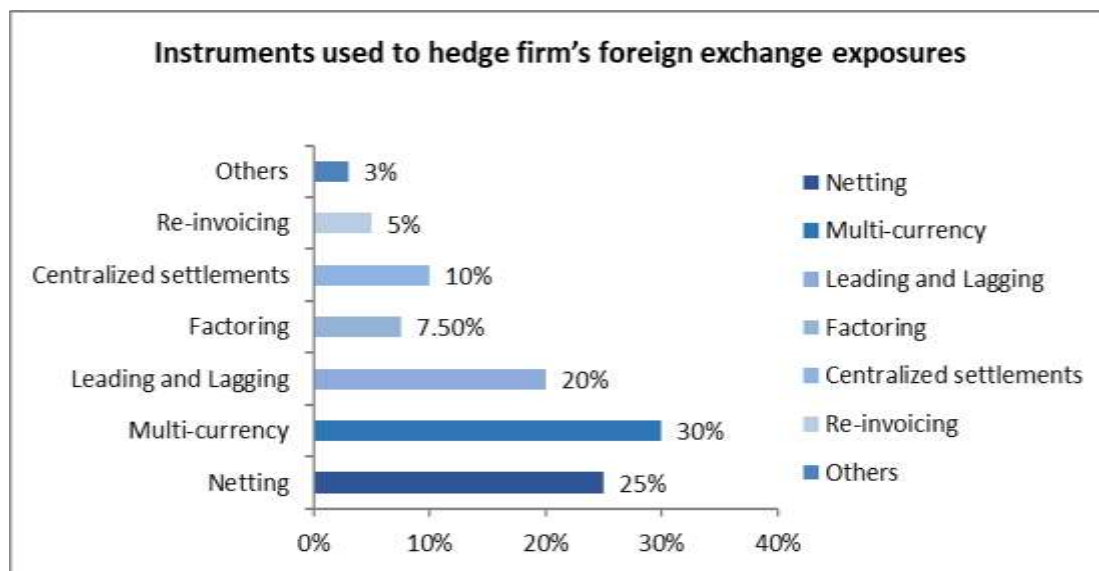


Chart 2.4 Instruments firms use to hedge foreign exchange exposures

Interpretation: Out of the total respondents who belong to business entities, the majority of the customers, about 97% of companies, use instruments to hedge against the forex rates exposure, about companies use tools/techniques such as Netting (25%), Multi-currency billing systems and price adjustment (35%), Leading and Lagging (20%), Factoring (7%), Centralized Settlements (10%), Re-invoicing (5%), remaining 3% others.

Chart 2.5 represents the factors that influence firms' choice of using internal hedging techniques.

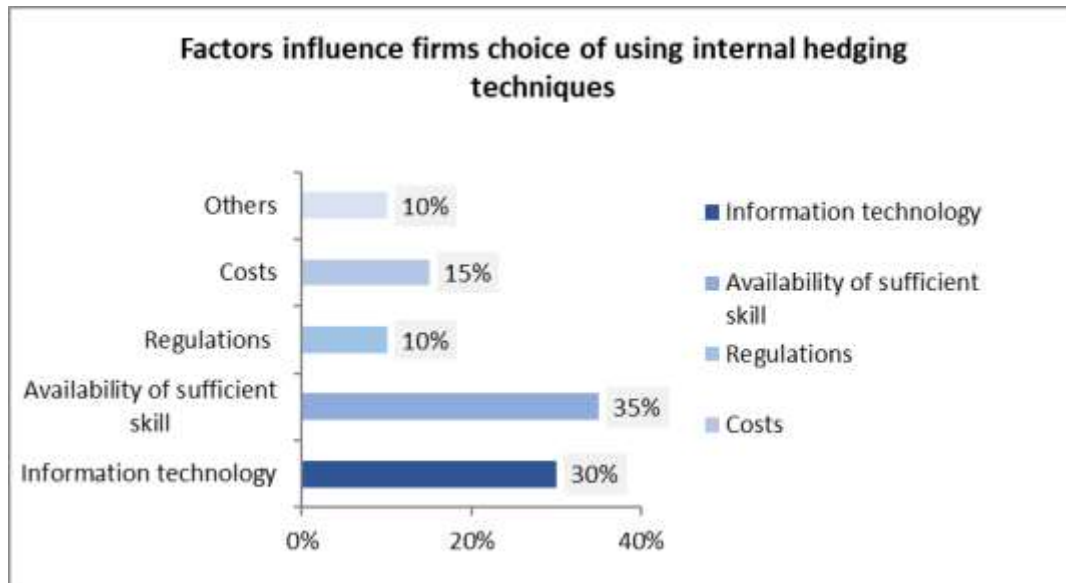


Chart 2.5 Factors influence firms' choice of using internal hedging techniques.

Chart 2.6 represent financial instruments used to hedge a firm's foreign exchange exposure

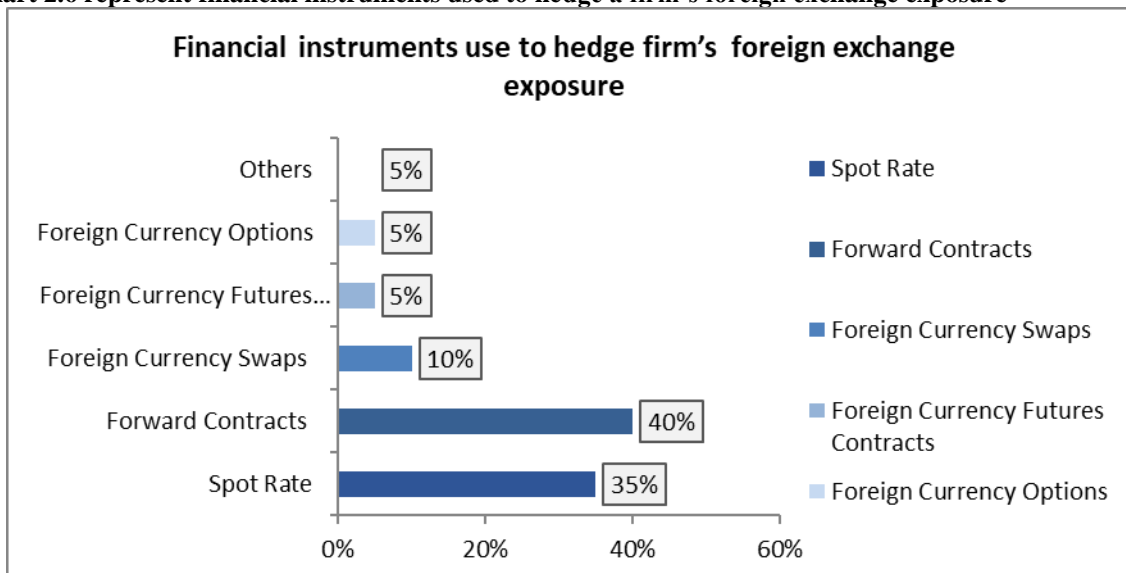


Chart 2.6 Financial instruments used to hedge a firm's foreign exchange exposure

Chart 2.7 represents Factors that influence the choice of using external hedging techniques:

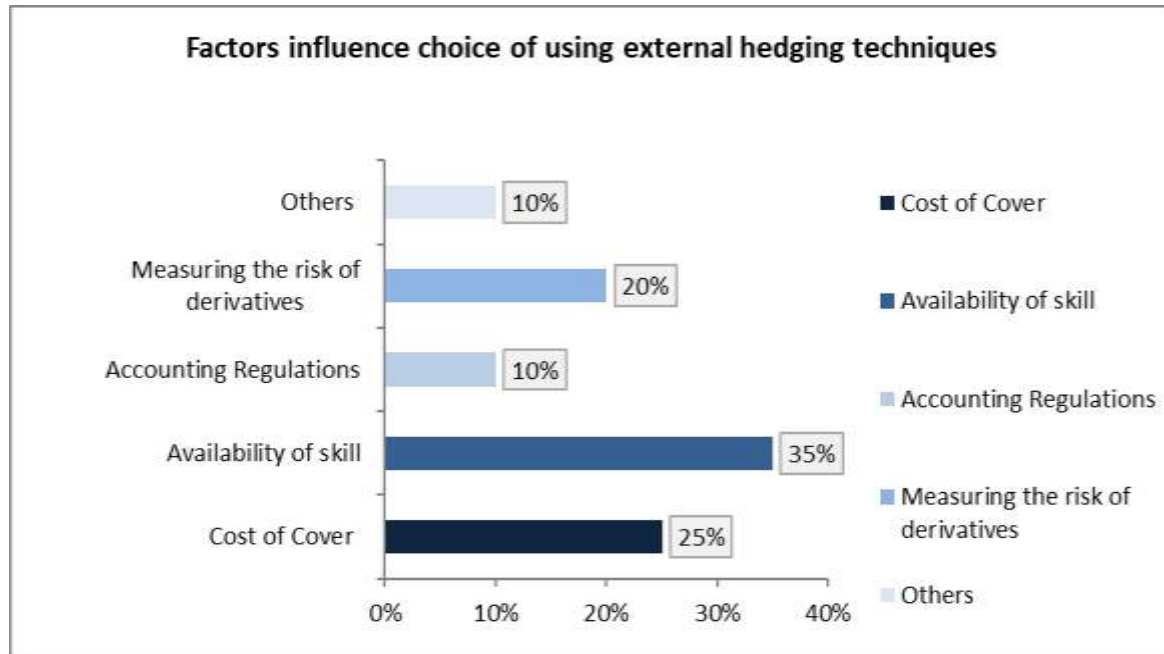


Chart 2.7 Factors influence the choice of using external hedging techniques.

Interpretation: Here are the factors that influence firms' choice of internal hedging techniques. Out of the total respondents, who belong to the business entities, the factors that influence firms' choice of using internal hedging techniques are information technology (30%), availability of sufficient skill (35%), regulations (10%), costs (15%), and other factors (10%). In the aspect of the financial instruments used to hedge a firm's foreign exchange exposure, Out of the total respondents, who belong to the business entities, the majority of the customers, about 75% of companies, use spot and forward contracts as financial instruments. The remaining 25% of companies use swaps, futures, options and other methods in the aspect of factors influencing the choice of external hedging techniques. Out of the total respondents, who belong to business entities, the majority of the customers, about 90% of companies, factors that influence on use external hedging instruments/techniques to hedge against the forex rates exposure are the cost of cover (25%), availability of skill (35%), accounting regulations (10%), measuring the risk of derivatives (20%) and remaining 10% other factors.

KEY FINDINGS, SUGGESTIONS AND CONCLUSION OF THE STUDY

Findings

From the data analysis and interpretation, the following findings emerge:

1. Among 240 respondents, over 57.9% are males who utilise foreign exchange services in banks. Almost 82.5% of respondents have aged between 18-45 years, of which 45.8% belong to 18-30 and 36.6% belong to 18-45 years, and these respondents are in the workable age group. The majority of respondents, i.e., 77%, have a bachelor's degree or more educational qualifications.
2. Most respondents, i.e., 70%, are Existing Customers, and the remaining 30% are new customers involved in forex transactions. Nearly 65% of the transaction volume of foreign exchange comes from Commercial/Business Entities, and the remaining 35% is for individuals for personal purposes.
3. USD is the highest currency volume of forex transactions. About 80% of currency volume is dealt with USD, followed by Euro with 15%. About 2% of currency volume is in AUD, and the remaining 3% is in other currencies.
4. The transaction size of Forex in terms of Rupees is highest in less than ten crores in value is 45%, followed by between 10 - 25 crores is 40%, between 25 - 100 crores is 12%, and more than 100 crores are 3%.
5. Nearly 75% of the respondents feel that forex charges by the bank are either OK or a Bit high; 10% think that costs/charges are low, and the remaining 15% feel that costs/charges are Very High. The majority of the respondents, i.e., 70%, feel that the speed/time taken to complete a forex transaction is satisfactory; and the remaining 30% are not satisfied.



6. Nearly 73% of the respondents feel the safety/security of forex transactions is either good or excellent; 20% is average; and the remaining 7% think the satisfaction levels are bad or below average.
7. The majority of the business entities, i.e., about 85% are domestic companies; the remaining 15% are subsidiaries of foreign companies. Similarly, Indians own 85% of the businesses, and the remaining 15% are foreign nationals.
8. The majority of firms, i.e., 55%, the primary source of the forecast of the foreign exchange rate either depend on banks or other financial institutions; 35% of firms forecast foreign exchange on their own, and the remaining 10% do not forecast, or neither depends on banks or other financial institutions.
9. Instruments used by firms to hedge foreign exchange rate exposure are led by Multicurrency (30%), Netting (25%) & Leading and Lagging (20%), followed by central settlements (10%); factoring (7.5%); re-invoicing (5%) and the remaining 3% other instruments. The availability of sufficient skill and information technology is the primary factor that influences the choice of using internal hedging techniques, which is over 65%, followed by the cost incurred to internal hedging is 15%; regulations affect internal hedging is 10%, and the remain 10% is other factors influencing the internal hedging.
10. Financial instruments used by the firms to hedge the foreign exchange rate exposure are Forward Contracts (FC) – 40% & Spot rate (35%), which are available over the counter at banks, followed by currency swaps 10%; options & futures 5% each and the remaining others 5%. The availability of the skill is one of the significant factors influencing the choice of using external hedging is 35%. Another major factor is the cost incurred by external hedging is 25%, followed by Measuring the risk of the derivatives is 20%, and the remaining 10% is another factor influencing the choice of external hedging.

Suggestions

1. Foreign exchange services are provided by banks in specific bank branches only. There is a need to cater/provide forex service facilities to every bank customer, even to the customers in other branches without the forex service facilities.
2. Active promotion through advertisements, display notices, and personal messages to individuals to promote forex services rendered by banks.
3. The speed of forex services can be increased by training the other employees in forex aspects and related activities involved in forex services.
4. Intensified foreign exchange currencies forecast services are needed, primarily to cater for business entities and various needs, which will, in turn, improve the customer service and revenue from the providing forex services.
5. Promotion of financial instruments used in forex is needed by conducting seminars, workshops, etc., to the business entities to explain the mechanisms of every financial instrument.

Summary

From the above findings, customers who use the forex services of the banks are aware of most of the aspects of foreign exchange but need to be made aware of whether the bank is providing those forex services. Most of the respondents' businesses have forex exposure using forex forecasts supplied by banks and other financial institutions. However, business entities need to use the foreign hedging mechanism efficiently even though companies forecast their forex exposure. The banks can serve the needs of the business banks' expertise and knowledge in the forex market.



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