

BANKING

1. Meaning of Banking

Banking refers to the business of accepting deposits from the public for the purpose of lending or investment. Banks act as a link between people who save money and people who need money for business or personal use. Example: When you deposit money in a savings account, the bank uses that money to give loans to others.

2. Primary functions of banks

Meaning: Primary functions are the main and basic functions performed by commercial banks. These functions form the foundation of the banking system and are directly related to money and credit. The two primary functions of banks are:

- ✓ Accepting Deposits
- ✓ Advancing Loans

3. Types of Deposits

a) Savings Account

- Suitable for individuals and salaried persons
- Helps in developing the habit of saving
- Provides moderate rate of interest
- Allows limited withdrawals
- Example: Salary credited every month into a savings account.

b) Current Account

- Mainly used by businesses and traders
- Allows frequent deposits and withdrawals
- Generally does not earn interest
- Overdraft facility is available
- Example: A shop owner uses a current account for daily business transactions.

c) Fixed Deposit Account (FD)

- Money is deposited for a fixed period
- Higher rate of interest compared to savings account
- Premature withdrawal may attract penalty
- Example: Depositing ₹1,00,000 for 2 years in a fixed deposit.

d) Recurring Deposit Account (RD)

- Fixed amount deposited every month
- Suitable for small savers
- Encourages disciplined saving
- Example: Depositing ₹2,000 every month for 3 years.

4. Granting Advances

Another primary function of banks is to lend money to individuals, businesses, and industries. Banks use the money collected as deposits to provide loans and earn interest.

Types of loans and advances:

a) **Overdraft**

- Facility to withdraw more money than the account balance
- Usually provided to current account holders
- Interest charged on overdrawn amount

b) **Cash Credit**

- Short-term loan mainly for businesses
- Loan amount is sanctioned against security
- Interest is charged only on the amount actually used

c) **Loans**

- Given for a specific purpose
- Can be short-term, medium-term, or long-term
- Repaid in installments

Examples: Education loan, home loan, vehicle loan.

d) **Discounting of Bills**

- Bank provides immediate cash against bills of exchange
- Used mainly in trade and commerce

5. **Secondary Functions of Bank**

Secondary functions are the additional services provided by banks apart from accepting deposits and giving loans. These functions support the primary functions and make banking more convenient for customers.

Secondary functions are broadly classified into:

- ✓ Agency Functions
- ✓ Utility (General) Functions

6. **Agency Functions**

Under agency functions, banks act as an agent or representative of their customers and perform certain tasks on their behalf. Major Agency Functions:

a) **Transfer of Funds**

Banks transfer money from one place to another through:

- NEFT
- RTGS
- IMPS
- UPI

b) **Periodic Payments**

Banks pay electricity bills, water bills, insurance premiums, and loan EMIs on behalf of customers through standing instructions.

c) **Collection and Payment of Cheques**

Banks collect cheques, dividends, and interest on behalf of customers and also make payments as instructed.

d) **Portfolio Management**

Banks provide portfolio management services to customers by managing their investments in shares, bonds, mutual funds, and other securities. Under this service, banks:

- Advise customers on investment options
- Diversify investments to reduce risk

- Monitor performance of investments
- Aim to maximise returns based on customer's risk profile

Example: A high-income individual asks the bank to manage investments in equity, debt, and mutual funds according to long-term financial goals.

7. Utility Functions

Utility functions are general services provided by banks to make financial transactions safe and convenient. Major Utility Functions:

a) Issue of Demand Drafts and Banker's Cheques

Banks issue drafts to make secure payments, especially for large amounts.

b) Locker facility

Banks provide lockers to keep jewellery, documents, and other valuables safely.

c) Underwriting

Underwriting refers to the service provided by banks where they guarantee the subscription of shares or debentures issued by companies. If the public does not fully subscribe to the issue, the bank purchases the remaining securities.

Importance of Underwriting:

- Ensures successful issue of securities
- Builds investor confidence
- Helps companies raise capital smoothly

Example: A bank underwrites a company's IPO to ensure full subscription.

d) Preparation and Evaluation of Project Reports

Banks assist entrepreneurs and businesses in preparing and evaluating project reports for loan and investment purposes.

Project reports include:

- Business idea and objectives
- Cost of project
- Means of finance
- Profitability and cash flow analysis

8. Reserve Bank of India

The Reserve Bank of India (RBI) is the central bank of India. It regulates the Indian banking system and controls the country's monetary policy to ensure financial stability and economic growth.

a) Head of the banking institutions

The Reserve Bank of India (RBI) is the apex and highest authority in the Indian banking system and acts as the head of all banking institutions in the country. It regulates, controls, and supervises the functioning of commercial banks, cooperative banks, regional rural banks, and, to a large extent, non-banking financial companies. RBI grants licences for opening new banks and branches, regulates mergers and expansions, and conducts regular inspections to ensure that banks follow sound banking practices and comply with banking laws. As the controller of credit, RBI uses monetary policy tools such as repo rate, CRR, and SLR to regulate credit creation and maintain economic stability. RBI also acts as the custodian of cash reserves of banks and provides financial assistance as the lender of last resort during emergencies, thereby preventing bank failures. Through its guidelines, policies, and supervisory role, RBI protects the interests of depositors and ensures stability, transparency, and public confidence in the Indian banking system.

b) Controls nation's money supply

The Reserve Bank of India controls the nation's money supply by having the sole authority to issue and regulate currency notes in India (except the one-rupee note and coins, which are issued by the Government of India). RBI decides the quantity of currency to be issued based on the needs of the economy and withdraws excess or damaged notes from circulation. By ensuring an adequate supply of genuine currency and preventing over-issue, RBI maintains monetary stability and public confidence in the currency system.

c) Banker to government and other banks

The Reserve Bank of India acts as the banker to the government as well as to other banks. As banker to the government, RBI manages the receipts and payments of the Central and State Governments, maintains their accounts, manages public debt, and advises the government on financial and economic matters. As banker to other banks, RBI acts as the banker's bank by holding a portion of their reserves, providing financial assistance during emergencies, and acting as the lender of last resort. Through this dual role, RBI ensures smooth functioning, stability, and confidence in the Indian banking system.

d) Granting / renewal of license to banks

The Reserve Bank of India is responsible for granting and renewal of licences to banks in India. No bank can commence or continue banking business without obtaining a valid licence from RBI under the provisions of the Banking Regulation Act, 1949. RBI examines the financial soundness, capital adequacy, management quality, and compliance with regulatory norms before granting or renewing a licence. This function ensures that only stable and well-managed banks operate in the banking system, thereby protecting depositors' interests and maintaining overall financial stability.

e) Inspection and enquiry of banks and financial institutions

The Reserve Bank of India conducts inspection and enquiry of banks and financial institutions to ensure their safe and sound functioning. RBI regularly inspects the books of accounts, financial statements, asset quality, capital adequacy, and management practices of banks. It also conducts special enquiries whenever required to examine irregularities or financial weaknesses. Through this supervisory function, RBI ensures compliance with banking laws and regulations, prevents mismanagement, and safeguards the interests of depositors while maintaining stability in the financial system.

9. Types of Banks

a) Public sector banks

Public sector banks are an important part of the Indian banking system in which the Government of India holds a majority stake (more than 50%). These banks were mainly established to promote financial inclusion, economic development, and social welfare. Public sector banks accept deposits from the public and provide loans to individuals, businesses, agriculture, and priority sectors such as MSMEs, education, and housing. They play a key role in implementing government schemes like Jan Dhan Yojana, Direct Benefit Transfer (DBT), and priority sector lending. Being government-owned, public sector banks enjoy a high level of public trust and are known for their wide branch network, especially in rural and semi-urban areas. They are regulated by the Reserve Bank of India and follow strict regulatory and prudential norms. Through their developmental and commercial functions, public sector banks contribute significantly to economic growth, financial stability, and inclusive banking in India.

b) Private sector banks

Private sector banks are banks in which the majority shareholding is held by private individuals or corporate

entities, while they operate under the regulatory control of the Reserve Bank of India. These banks function on commercial lines with a strong focus on efficiency, profitability, and customer service. Private sector banks offer a wide range of modern banking services such as internet banking, mobile banking, digital payments, and customized financial products. They play an important role in mobilizing savings and providing credit to individuals, businesses, and industries, particularly in urban and semi-urban areas. Known for their advanced technology, quick decision-making, and innovative services, private sector banks contribute significantly to competition, efficiency, and growth in the Indian banking system.

c) Co-operative banks

Co-operative banks are financial institutions established on the principles of cooperation, mutual help, and democratic management. They are owned and managed by their members, who are both customers and shareholders of the bank. Co-operative banks mainly aim to provide affordable credit and banking facilities to small borrowers, farmers, artisans, and lower-income groups, especially in rural and semi-urban areas. These banks are divided into urban co-operative banks and rural co-operative credit institutions, which include state co-operative banks, district central co-operative banks, and primary agricultural credit societies. Co-operative banks accept deposits and provide loans at reasonable interest rates, helping to promote financial inclusion and reduce dependence on moneylenders. They are regulated by the Reserve Bank of India and the respective State Governments, ensuring their smooth and stable functioning within the Indian banking system.

d) Development banks

Development banks are specialized financial institutions created to provide long-term finance and support for industrial, infrastructural, and economic development. Unlike commercial banks, development banks focus on promoting specific sectors such as agriculture, small and medium enterprises (SMEs), exports, and housing, rather than general banking services. They provide term loans, equity finance, project finance, and technical assistance to projects that contribute to national development. Examples include Industrial Finance Corporation of India (IFCI), Small Industries Development Bank of India (SIDBI), and National Bank for Agriculture and Rural Development (NABARD). Development banks play a crucial role in bridging the gap between short-term commercial credit and long-term investment needs, encouraging entrepreneurship, regional development, and overall economic growth in India.

e) Foreign banks

Foreign banks are banks that are headquartered in a foreign country but operate branches in India to provide banking services. They primarily cater to multinational companies, exporters, importers, and high-net-worth individuals, but many also offer retail banking services. Foreign banks bring advanced technology, international banking expertise, and global best practices to India's banking system. They are regulated by the Reserve Bank of India and must comply with Indian banking laws while following guidelines from their home country. Examples include Citibank, HSBC, Standard Chartered, and Deutsche Bank. By introducing competition, innovation, and international standards, foreign banks contribute to the efficiency, diversity, and growth of the Indian banking sector.

10. Banking Instruments

Banking instruments are financial tools or documents issued by banks to facilitate transactions, credit, and payments. They are widely used in trade, business, and personal finance. The most common banking instruments in India include:

a) Cheque

A cheque is a written order issued by a bank account holder, instructing their bank to pay a specified sum of money to a person named in the cheque or to the bearer. It is a safe and convenient method of transferring funds without the need to carry cash. Cheques can be of different types, including bearer cheques, which can be encashed by anyone holding them; order cheques, which are payable only to the person named; and crossed cheques, which can be deposited directly into a bank account and not encashed over the counter, adding an extra layer of security. Widely used in personal, business, and commercial transactions, cheques provide a legal proof of payment and help in maintaining transparency in financial dealings.

b) Draft

A bank draft (DD) is a prepaid negotiable instrument issued by a bank, directing another branch or bank to pay a specified sum of money to the person or organization named in the draft. Unlike a personal cheque, a bank draft is guaranteed by the bank, making it a safe and reliable method of transferring funds, especially over long distances. Bank drafts are widely used for tuition fees, government payments, business transactions, and other high-value payments. Since the amount is paid upfront by the issuer, the risk of dishonour is minimal, and it provides a secure and trusted way to make payments.

c) Bill of Exchange

A bill of exchange is a written, unconditional order by one party (the drawer) directing another party (the drawee) to pay a certain sum of money to a specified person or the bearer at a predetermined date or on demand. It is commonly used in trade and business transactions, both domestically and internationally, to facilitate the payment of goods and services. Bills of exchange provide a formal, legally binding method of payment and help manage credit by allowing the drawee time to make the payment. They can be endorsed or transferred to another party, making them a flexible instrument for settling debts and obligations.

d) Deposit slip

A deposit slip is a written form provided by a bank that a customer fills out to deposit money—cash or cheques—into their bank account. It contains details such as the depositor's name, account number, date, and the amount being deposited. Deposit slips serve as a record of the transaction and help the bank accurately credit the depositor's account. They are commonly used for cash deposits, cheque deposits, and transfers between accounts and provide both the customer and the bank with a proof of deposit, ensuring transparency and accountability in banking transactions.

e) Withdrawal slip

A withdrawal slip is a written form provided by a bank that a customer fills out to withdraw money from their bank account, either in cash or by transfer. It includes details such as the account holder's name, account number, date, and the amount to be withdrawn. Withdrawal slips serve as a record of the transaction for both the bank and the customer, ensuring accuracy and accountability. They are commonly used for counter withdrawals and provide a legal proof of payment, helping maintain transparency and proper documentation in banking operations.

f) Credit Card

A credit card is a plastic payment card issued by a bank or financial institution that allows the cardholder to purchase goods and services on credit, up to a pre-approved limit. The cardholder is required to repay the borrowed amount either in full or in installments, usually with interest if not paid within the due date. Credit cards provide convenience, security, and flexibility, eliminating the need to carry cash. They often come with

additional benefits such as reward points, cashback, discounts, and insurance coverage. Widely used for personal and business expenses, credit cards also help in building a credit history, which is important for obtaining loans and other financial services.

g) Debit Card

A debit card is a bank-issued plastic card that allows the cardholder to directly access funds in their bank account for making purchases, withdrawing cash from ATMs, or paying bills. Unlike a credit card, a debit card does not involve borrowing; the payment is immediately deducted from the available account balance. Debit cards provide convenience, safety, and ease of cashless transactions, and are widely used for both online and offline payments. They often come with features such as ATM access, contactless payments, and transaction alerts, making them an essential tool for everyday banking and personal finance management.

h) Bank Statement

A bank statement is a detailed record issued by a bank that summarizes all the transactions in a customer's account over a specific period, usually monthly or quarterly. It includes deposits, withdrawals, cheques cleared, interest earned, fees charged, and the opening and closing balances. Bank statements help customers track their account activity, verify transactions, and manage finances effectively. They also serve as an official document for income verification, loan applications, and tax purposes, providing transparency and accountability in banking operations.

i) Forex Card

A Forex card (foreign exchange card) is a prepaid card issued by banks or authorized financial institutions that allows users to carry multiple foreign currencies while traveling abroad. It functions like a debit or credit card but is loaded with foreign currency at prevailing exchange rates. Forex cards offer convenience, safety, and cost savings, as they reduce the need to carry cash and often provide better exchange rates than cash currency. They can be used for payments at shops, online purchases, and ATM withdrawals in foreign countries. Additionally, they are protected against theft or loss and can be easily reloaded, making them a popular choice for international travellers.

11. Digital Banking

Digital banking refers to the delivery of banking services and financial transactions through electronic channels such as computers, smartphones, tablets, and the internet, without the need to visit a physical bank branch. It enables customers to perform a wide range of activities, including fund transfers, bill payments, account management, online investments, loan applications, and card services, anytime and anywhere. Digital banking improves convenience, speed, and accessibility, especially for people in remote areas. By reducing paperwork and manual intervention, digital banking also helps banks increase efficiency, reduce costs, and enhance customer experience. Let's discuss digital banking services in detail:

a) Internet Banking

Internet banking, also known as online banking, is a digital banking service that allows customers to access and manage their bank accounts over the internet using a computer, laptop, or smartphone. Through internet banking, customers can check account balances, view statements, transfer funds, pay bills, apply for loans, and invest in financial products without visiting a bank branch. It offers 24/7 convenience, speed, and security, with features like two-factor authentication, encrypted transactions, and account alerts. Internet banking reduces paperwork, saves time, and enables efficient management of finances, making it an essential service in modern banking.

b) Mobile Banking

Mobile banking is a digital banking service that allows customers to access and manage their bank accounts using a smartphone or tablet through mobile apps or SMS-based services. It enables users to check balances, transfer funds, pay bills, recharge mobile phones, and make online purchases anytime and anywhere. Mobile banking offers convenience, speed, and security, often incorporating features like OTP verification, fingerprint or face recognition, and real-time transaction alerts. By providing instant and easy access to banking services, mobile banking enhances customer experience, promotes cashless transactions, and supports financial inclusion, especially in remote and rural areas.

c) UPI

Unified Payments Interface (UPI) is a real-time digital payment system developed by the National Payments Corporation of India (NPCI) that enables instant money transfer between bank accounts using a smartphone. UPI allows users to send and receive money, pay bills, make online purchases, and request funds using a single mobile application, without the need to enter bank account details each time. Transactions are fast, secure, and available 24/7, even on holidays. UPI uses virtual payment addresses (VPAs), two-factor authentication, and encryption to ensure safety. It has revolutionized digital payments in India by making cashless, paperless, and convenient transactions accessible to everyone.

d) Digital Wallets

Digital wallets, also known as e-wallets, are mobile or web-based applications that allow users to store money electronically and make payments without using cash or physical cards. Money can be added to a digital wallet through bank transfers, UPI, debit/credit cards, or other payment methods. Digital wallets enable users to pay for goods and services, recharge mobile phones, pay bills, and transfer funds instantly. They provide convenience, speed, and security, often including features like QR code payments, transaction alerts, and encryption. Popular examples in India include Paytm, PhonePe, Google Pay, and Amazon Pay. By facilitating cashless and contactless transactions, digital wallets have become an integral part of modern banking and digital payment systems.

e) E-KYC

e-KYC (Electronic Know Your Customer) is a digital process used by banks and financial institutions to verify the identity and address of customers electronically, eliminating the need for physical documents. Using e-KYC, customers can open bank accounts, invest in financial products, or access services by submitting digital identity proofs such as Aadhaar, PAN, or other government-issued IDs. The process is fast, secure, and paperless, often involving biometric verification or OTP authentication. e-KYC enhances efficiency, reduces fraud, and promotes financial inclusion by making banking and financial services more accessible, especially in remote or rural areas.

f) Digital Loans

Digital loans are loans offered by banks, non-banking financial companies (NBFCs), and fintech platforms that can be applied for, approved, and disbursed online without visiting a physical branch. Customers can apply using mobile apps, websites, or digital platforms, submitting necessary documents electronically. Digital loans include personal loans, business loans, instant cash loans, and education loans, and the approval process is typically faster due to automated credit assessment and minimal paperwork. They provide convenience, speed, and accessibility, allowing borrowers to receive funds directly into their bank accounts. Digital loans are increasingly popular for promoting financial inclusion and catering to customers in remote areas.

12. Career Paths in Banking

The banking sector offers a wide range of career opportunities for individuals with diverse skills and educational backgrounds. Some of the prominent career paths include:

a) Personal Banker

A Personal Banker is a banking professional who provides personalized financial services and advice to individual customers. Their primary role is to understand the customer's financial needs, such as savings, investments, loans, and insurance, and recommend suitable banking products and services. Personal bankers assist with opening accounts, managing deposits, facilitating loan applications, and offering wealth management solutions. They act as a single point of contact for customers, ensuring a seamless banking experience while building strong relationships and trust. By combining financial expertise with excellent customer service, personal bankers help clients make informed decisions and achieve their financial goals.

b) Cashier

A Cashier in a bank is a frontline employee responsible for handling cash transactions and basic banking operations at the branch counter. Their duties include accepting deposits, processing withdrawals, issuing drafts and cheques, and exchanging currency notes. Cashiers ensure that all transactions are accurate, secure, and properly recorded, maintaining the integrity of the bank's cash operations. They also assist customers with routine queries and provide guidance on banking procedures. By managing daily cash flow efficiently and ensuring smooth branch operations, cashiers play a critical role in customer service and the overall functioning of a bank.

c) Relationship Officer

A Relationship Officer in a bank is a professional who manages and strengthens the bank's relationships with its clients, primarily in the retail or corporate banking segments. Their role involves understanding clients' financial needs, offering suitable banking products, and providing personalized solutions such as loans, investment options, and insurance products. Relationship officers act as a bridge between the bank and its customers, ensuring customer satisfaction, loyalty, and retention. They also monitor accounts, identify business opportunities, and help in cross-selling bank services, contributing to the growth of the bank while maintaining high standards of service and trust.

d) Loan Officer

A Loan Officer is a banking professional responsible for evaluating, authorizing, and recommending loan applications for individuals, businesses, or organizations. Their duties include assessing the creditworthiness of applicants, analyzing financial statements, verifying documents, and determining the terms and conditions of loans. Loan officers guide customers through the loan process, ensuring compliance with the bank's policies and regulatory requirements. They play a key role in managing risk, facilitating credit flow, and supporting the bank's profitability, while helping clients access the financial resources they need for personal, business, or developmental purposes.

e) Credit Analyst

A Credit Analyst is a banking professional who evaluates the creditworthiness of individuals, businesses, or organizations applying for loans or credit facilities. Their role involves analyzing financial statements, assessing income and repayment capacity, studying market conditions, and identifying potential risks associated with lending.

Based on this analysis, credit analysts provide recommendations on whether to approve, modify, or reject a loan application. They help banks manage credit risk, minimize defaults, and ensure that lending decisions are sound and profitable, playing a crucial role in maintaining the financial health and stability of the institution.

f) Forex

Forex, short for foreign exchange, refers to the global market where currencies of different countries are bought, sold, and exchanged. It is the largest and most liquid financial market in the world. Banks and financial institutions play a key role in forex by facilitating currency conversion for trade, investment, tourism, and international remittances. Forex operations involve activities like buying and selling foreign currency, managing exchange rate risks, and offering hedging solutions. The Reserve Bank of India regulates forex transactions in the country to maintain currency stability, facilitate international trade, and manage foreign exchange reserves, ensuring smooth functioning of the economy in a global context.

13. Foreign Exchange

Foreign exchange (Forex) refers to the system of buying, selling, and exchanging currencies of different countries at an agreed-upon rate. It plays a vital role in facilitating international trade, investments, travel, and remittances by enabling smooth currency conversion. Forex markets operate globally, with banks, financial institutions, and authorized dealers participating to provide liquidity and efficient currency exchange services. In India, the Reserve Bank of India (RBI) regulates foreign exchange transactions under the Foreign Exchange Management Act (FEMA, 1999) to maintain currency stability, prevent fraud, and manage foreign reserves. Foreign exchange is essential for integrating the domestic economy with global markets and supporting economic growth.

14. How banks facilitate the purchase of foreign currency

Banks facilitate the purchase of foreign currency by acting as authorized dealers in foreign exchange under the regulations of the Reserve Bank of India. Customers can buy foreign currency from banks for purposes such as international travel, education, medical treatment, imports, and overseas investments. By offering regulated and transparent foreign exchange services, banks ensure safe, legal, and convenient access to foreign currency for individuals and businesses.

a) Customer Request

Customer request is the initial step in the foreign exchange process. In this stage, the customer approaches the bank or an authorized foreign exchange branch with a request to buy, sell, or exchange foreign currency for a specific purpose such as travel, education, medical treatment, imports, exports, or overseas remittances. The customer specifies the currency required, amount, and preferred mode of exchange such as cash, forex card, or electronic transfer. This request enables the bank to begin the foreign exchange transaction in accordance with RBI and FEMA guidelines.

b) Foreign Exchange Rates

Checking foreign exchange rates is an important step in the process of exchanging foreign currency through banks. Banks determine the applicable exchange rate based on prevailing market rates, which are influenced by demand and supply of currencies, global economic conditions, and RBI guidelines. Before executing the transaction, the bank informs the customer of the current buying or selling rate, including applicable charges or margins. This ensures transparency and allows the customer to understand the cost involved in the foreign exchange transaction.

c) **Currency Availability**

Currency availability refers to the bank's confirmation of whether the required foreign currency and amount are available for exchange. After receiving the customer's request, the bank checks its foreign currency stock or correspondent banking arrangements to ensure timely availability. If the currency is not readily available, the bank may arrange it through another branch or authorised dealer. This step ensures that the transaction can be completed smoothly without delay and helps the bank manage its foreign exchange resources efficiently.

d) **Transaction Processing**

Transaction processing is the stage where the bank formally executes the foreign exchange transaction after completing all required checks. Once the customer's request, documentation, exchange rate, and currency availability are confirmed, the bank processes the transaction by debiting or crediting the customer's account and issuing the foreign currency in the approved form, such as cash, forex card, or electronic transfer. All details are accurately recorded in the bank's systems to ensure compliance, transparency, and proper accounting of the foreign exchange transaction.

e) **Inventory Management**

Inventory management in foreign exchange refers to the bank's process of managing its stock of foreign currencies to meet customer demand efficiently. Banks monitor inflows and outflows of different currencies, maintain optimum currency levels, and replenish shortages through inter-bank markets or authorised dealers. Effective inventory management helps banks avoid shortages or excess holdings, reduce exchange risk, and ensure smooth and timely foreign exchange transactions for customers while complying with RBI guidelines.

15. **Forex Card**

A Forex card is a prepaid foreign currency card issued by banks and authorized financial institutions to help individuals make payments while travelling abroad. It is loaded with one or multiple foreign currencies at the prevailing exchange rates and can be used like a debit or credit card for purchases, online payments, and ATM withdrawals in foreign countries. Forex cards offer convenience, safety, and cost efficiency by reducing the need to carry cash and protecting users from frequent exchange rate fluctuations. They are widely preferred by students, tourists, and business travelers for managing international expenses securely and easily.

a) **Multiple Currencies**

The multiple currency feature of a forex card allows the cardholder to load and use more than one foreign currency on a single card. This is especially useful for travelers visiting multiple countries, as it eliminates the need to carry separate cards or exchange cash repeatedly. The card automatically deducts the payment from the relevant currency balance when used in a particular country, ensuring convenience and cost efficiency. This feature also helps users manage expenses better, avoid frequent conversion charges, and enjoy seamless transactions across different countries.

b) **Secure**

A forex card is highly secure compared to carrying cash while travelling abroad. It is protected with a PIN and advanced security features, reducing the risk of misuse in case of loss or theft. If the card is lost, it can be blocked immediately and the remaining balance can be transferred to a replacement card. Additionally, forex cards are protected by international payment networks and fraud monitoring systems, ensuring safe and reliable transactions. This high level of security makes forex cards a preferred choice for international travelers.

c) **Global Acceptance**

A forex card offers global acceptance, as it is issued on international payment networks such as Visa or Mastercard.

This allows the card to be used at millions of merchants, hotels, restaurants, and ATMs across the world. Global acceptance ensures that travelers can make payments and withdraw cash conveniently in foreign countries without worrying about currency exchange at every location. This feature makes the forex card a reliable and widely accepted payment option for international travel.

d) Reloadable

A forex card is reloadable, meaning the cardholder can add funds multiple times as per their requirements. Even while travelling abroad, users can easily reload the card through internet banking, mobile banking, or bank branches, subject to applicable regulations. This feature provides flexibility and ensures that travellers do not run out of funds during their trip. Being reloadable also reduces the need to carry excess cash, making the forex card a convenient and practical payment solution for international travel.

e) Competitive exchange rate

A forex card offers competitive exchange rates, as the foreign currency is loaded at rates that are generally better than cash currency rates. Since the exchange rate is locked in at the time of loading, users are protected from frequent fluctuations in currency values. This helps travellers save money on conversion costs and manage their travel expenses more efficiently. Competitive exchange rates make forex cards a cost-effective option for international payments and foreign currency spending.

f) Cost effective

A forex card is cost-effective compared to other modes of carrying foreign currency. It involves lower transaction charges and minimal conversion fees when used for payments or ATM withdrawals abroad. Since the exchange rate is fixed at the time of loading, users avoid repeated currency conversion costs. Additionally, forex cards reduce expenses related to cash handling, loss, or theft, making them a budget-friendly and efficient option for managing international travel expenses.

16. How banks process international transactions

a) Foreign exchange conversions

This step involves converting the transaction amount from one currency to another to complete an international payment. The sending bank determines if conversion is needed and applies the prevailing exchange rate or a pre-agreed rate. The bank's forex desk or treasury executes the conversion accurately to ensure the beneficiary receives the correct amount, avoid losses from currency fluctuations, and comply with regulations. It also affects the fees and the final amount credited, making it a crucial step in smooth international transactions.

b) Message transmission

In international transactions, banks securely transmit payment instructions to the beneficiary's bank using standardized networks like SWIFT. This message includes details such as amount, currency, beneficiary information, and purpose. Accurate and error-free transmission ensures that funds reach the correct recipient on time, allows tracking of the transaction, and maintains transparency, reliability, and regulatory compliance in cross-border payments.

c) Correspondent bank involvement

When the sending and receiving banks do not have a direct relationship, correspondent banks act as intermediaries to facilitate international payments. They maintain NOSTRO and VOSTRO accounts for each other, handle currency conversion if needed, and forward funds to the beneficiary's bank. Their role ensures that cross-border transactions are smooth, secure, and compliant, enabling timely completion even without direct banking links.

d) Funds transfer

This is the key step where money moves from the sender's account to the beneficiary's account. After completing documentation, currency conversion, message transmission, and routing through correspondent banks, the sending bank debits the sender and transfers funds through the banking network. The beneficiary's bank then credits the recipient's account. Accurate and efficient funds transfer ensures successful, timely, and reliable international transactions.

e) Fees & charges

Banks apply various costs during international transactions, including transfer fees, currency conversion charges, and correspondent bank fees. These may be informed to the customer upfront or deducted from the transaction amount. Proper management and disclosure of these charges ensure transparency, regulatory compliance, and trust, while affecting the final amount received by the beneficiary.

f) Compliance & regulations

Banks ensure all international transactions follow RBI, FEMA, AML, and other legal guidelines. They verify customer identity (KYC), validate payment purposes, and screen parties against sanctions lists. Compliance ensures transparency, prevents financial crimes, and maintains the integrity of the banking system in cross-border transactions.

g) Settlement & reconciliation

Settlement is the completion of an international payment, where funds are transferred to the beneficiary's account and NOSTRO/VOSTRO accounts are updated. Reconciliation ensures that records on both sides match, verifying amounts, fees, and charges. Together, they guarantee accuracy, transparency, and successful completion of cross-border transactions.