

FOREX PERFORMANCE AND BANK PROFITABILITY: AN EVALUATION OF PNB FOREX BRANCH

Management Insight
14(2) 83 - 88

DOI: <https://doi.org/10.21844/mija.14.01.8>

Shubhanker Yadav*

Correspondence Email: shubhanker@smsvaranasi.com

Banks form an essential backbone of the economy. In this era of globalization foreign trade form a significant functional priority of the bank. India faces stiff competition in the global market and to continue in the race it needs to strengthen its banking system. Punjab National Bank (PNB) is one of the leading banks which have flown its branches to various small parts of the country. As so it is an essential bank of India, and therefore there is an utmost need to have an insight into the foreign exchange of PNB. This study reveals various loopholes in the foreign exchange policy of PNB Varanasi like 98.5% percent of foreign exchange business from one party only, the dissatisfaction of customers, merging of foreign Exchange and general banking, lack of yearly financial reports and many more. Based on the finding positive recommendation has been suggested to improve the foreign exchange status of PNB which if followed can enhance the functionality of its foreign exchange, and it can stand as an essential backbone in the Indian economy.

Keywords: Foreign Exchange, Forex Policy, Globalisation, Financial Reports. Punjab National Bank

INTRODUCTION

Banking system and its significance is in the economy is increasing day by day. It is quite impossible for any economy to develop in the industrial and commercial sector without a sound banking system in the modern economic era. (Demirguc-Kunt and Maksimovic, 1998; Levine and Zervos, 1998).

The Forex department, being an essential department of any bank, which is also termed as International Banking Division, this division of bank deals with the International

market. All the bank which are regulated under RBI guidelines whether Indian Banks or Outside Bank, has Forex Exchange departments, mainly at metro cities. This department functions as Independent unit, where particular executives are appointed along with the senior officials, as this department is always under eyes of watchdogs of rules and regulations, who also guide such units regarding operational activities.

In India banks doing the foreign exchange, business has issued a license to this effect by

*Research Scholar, IM- BHU

the Reserve Bank of India under Foreign Exchange Regulation Act, 1973. No bank, not having such permit to deal in foreign exchange, can handle foreign exchange operations. Besides Authorized Dealers, licenses are also issued to the Dealers with limited powers to change foreign currency notes, coins and travelers' cheques. Such licensees are known as Authorized Money Changers.

Foreign exchange department of banks earns their profit through activities like export, import, and foreign remittances. Foreign Exchange Market allows currencies to be exchanged to facilitate international trade and financial transactions ([International Business Times AU](#)). Indian market players in Forex sectors are (a) Authorised dealers, who are mostly banks dealing in forex, (b) foreign exchange brokers who act as intermediaries, and (c) customers – individuals, corporate, who for transaction purpose requires forex. Though customers being significant players in the forex market, for all practical purposes they depend upon ADs and brokers (Instruction on Foreign Exchange – PNB, 2011).

Punjab National Bank (PNB) is one of the premier bank founded in the year 1895 at Lahore (now in Pakistan) the Bank made high and steady progress right from its incorporation. It has shown its sustainability in many crucial situations. It withstood during the turmoil in the banking industry of 1913 and the terrible depression in 1930. It survived the most critical period in its history — the Partition of 1947 — when it was uprooted from its primary area of operations. The farsightedness of the management can be

visualized from the fact that even before the announcement of the Partition, the registered office of the Bank was shifted from Lahore to Delhi in June 1947—. Specific acquisition done by PNB includes Bhagwan Das Bank Ltd, Universal Bank of India, Hindustan Commercial Bank, New Bank of India, Punjab National Bank Nationalised in 1969, etc, One of the distinctive features of PNB is that it is the first Indian bank having been started with 100% capital that had survived until today. Currently, Punjab National Bank delivers its services to over 82 million customers, its branch network includes 6000 offices, out of the 5 are overseas, and 2165 are ultra-small branches, Along with its in-person operations, PNB provides its client with modern and powerful PNB Net Banking solution, Together with State Bank of India, ICICI Bank and Bank of Baroda, PNB forms the group of major four Banks of India.

The impressive operational and financial performance has been brought about by the bank's focus on customer-based business (PNB Annual Report –2010-2011 & 2011-2012) (Table-1)

LITERATURE REVIEW

Today Bank should be more conscious of dealing with its customers as the customers have no more choice to bank with and there is the institution that are intensifying competition by focusing more on online customers (Alam, 2009), The scenario of International Business is quite dynamic. Newer trends are taking place from time to time which is creating tension between exporters-importers and the bankers (Scenario Planning & Analysis – International Business Chapter 8, Published by Flat World

Knowledge),

Bracker et al. (2009) interpreted the change in the value of the Currency as one of the six primary sources of bank risk. The earning by FX dealer by taking speculative positions and by providing liquidity to customers, Speculation is typically the responsibility of interbank trader, who positions are only held open a few minutes or hours, and proprietary traders, whose views are open for more extended periods (Bjonnes and Rime 2005), Bracker's study focused on the sensitivity of bank stock returns to various risk factors. One survey by Atindéhou and Gueyie (2001) focuses on Canadian banks and their exposure to risk in the rate of Foreign exchange. Their findings indicate that Canadian bank stock returns were sensitive to foreign currency fluctuations over the

period 1988-1995.

These all findings highlighted the lacunae and the risk which can cause a significant impact on foreign exchange thereby on the banking systems. Taking in the view of all the facts a study was conducted to get an account of the issues of foreign exchange activities of Punjab National Bank Varanasi Branch and to suggest suitable recommendation after that

RESEARCH METHOD

Data Collections - The various sources of data collections are as follows

Primary Data	Opinion and view are taken from the forex client of a bank through specified questions
Secondary Data	Various journals, research articles, research papers, review papers are used as a secondary source of data and have been analyzed. Fact sheets, share prices of the banks, annual financial statements of the companies taken into sample have been used for calculation and analysis purpose.,

Sample Size – Sample size for this study had been accepted as forex customer of a bank who regularly visit the bank for their transactions, Total population of the bank being 20 in numbers. Hence sample size is taken 20 forex customers,

Research Design

The basis for this study analysis Weighted Arithmetic mean (WAM) as a tool been used for analyzing the data and deriving the report, This tool help in obtaining the satisfaction level of forex customer with the bank and

helping in a suggestion for further improvement,

ANALYSIS & INTERPRETATION

A research tool has been used to analyze the data acquired, and We studied that the maximum proportion of bank revenue has been generated from the single party which is approx 95 percent, There is the further scope of improvement in this client acquisition area by providing more better services,

Customer is not satisfied with the facilities to

render by bank,(weighted arithmetic mean (2.66) has been used to find out satisfaction level, The response of client of the Bank, Frequency for purchasing transaction is 73.33% and selling deal 16.67%, In terms of services required by forex customer, Demand for foreign currency is highest 53.28% then comes foreign currency D/D and Travelers' cheque 19.98%, and the lowest is wire transfer 6.66%

Bank has merged the forex department with general banking department, Table 2 indicates the level of satisfaction of forex customer on several parameters, i.e. Branch Accessibility, staff service, Document Accuracy, Query Handling, Delivery time and Regular Visit, As forex customer are given same treatment as regular customer so forex customer are not so satisfied with the services of Bank Yearly financial report on forex transaction is not made, Table 3 display the total revenue of Bank from 2008-2012 which had been increased from 68636 Cr to 874.44 Cr

CONCLUSION & RECOMMENDATION

The study brings out specific important facts about PNB which play an essential role in the functioning of the PNB foreign exchange department. Export, Import, and Remittance are all showing positive trends even after the global challenges that we are facing today. But the international trade handled by bank increases with slow rate because of only one branch which is not widely accessible to customer who stays far away and second the bank majority business is from a single client, Bank should make arrangement to attract more client as now city is now going to be

smart city, more and more export-oriented companies will be expanding their business as many products of Varanasi are world famous like Banarasi Sari etc.

This study faces certain pitfalls like various confidential document were not approachable which could have further strengthened the analysis, lack of better communication with the staffs due to time constraints and hesitation of respondents because of their rural background.

Specific recommendation proposed for improving the condition of foreign exchange of Varanasi branch of PNB includes:

- A bank should promote and co-sponsor workshop seminar on import and export business credit facilities available for export and import of goods and services, risk management while exporting and importing, various opportunities available for benefits of existing and potential exporters.
- Bank has merged its general banking services with its forex rendering services, and it should have separate counter only for forex customer,
- The bank's employees cannot adjust to high system and technology, so they need the training to get accustomed to it and perform efficiently.
- Annual Financial report has to be published only for the foreign exchange activities in details.

Reference

- Law, Finance, and Firm Growth - Asli Demirgüç-Kunt; Vojislav Maksimovic
The Journal of Finance, Vol. 53, No. 6. (Dec. 1998), pp. 2107-2137
- Stock Markets, Banks, and Economic Growth, Ross Levine; Sara Zervos
The American Economic Review, Vol. 88, No. 3. (Jun. 1998), pp. 537-558,
- Bracker, K., Imhof, M. & Lallemand, J. (2009). "Sources of Bank Risks: Impacts and Explanations," Academy of Banking Studies Journal, 8, (2) 107-124.
- Bjønnnes, Geir H., Carol L. Osler and Dagfinn Rime (2011). Sources of Information Advantage in the Foreign Exchange Market. Typescript, Norges Bank.
- Atindéhou, R.B., & Gueyie, J.P. (2001). "Canadian Chartered Banks' Stock Returns and Exchange Rate Risk," Management Decision, 39, (4), 285-295
- Scenario Planning & Analysis – International Business Chapter 8, Published by Flat World Knowledge).
- [International Business Times AU](#) Retrieved: February 11, 2011.
- www.beatthenifty.com, Beat The Nifty – Motilal Oswal)
- Book on Instruction on Foreign Exchange – PNB/2011 Punjab National Bank, *Annual Report 2008 – 2012*.
- Punjab National Bank, Head Office Circulars; 20011 2012
- Punjab National Bank, Brochures of Loans and Advances; 2010
- Annual Report –2010-2011 & 2011-2012
- Foreign Trade Policy 2009- 2014
- Strategic Financial Management Pg- 2.18-2.20
- India's Foreign Exchange Reserve: Policy, Status, and Issues - Y V Reddy
- Indian Banking Industry: Problems & Challenges, Dr. K A Goyal & Vijay Joshi
- UCPDC Guideliness,
- www.pnbindia.in
- www.wikipedia.com

APPENDIX
(Table -1)
PNB Annual Report 2008-2009 to 2012-2013

#	Particulars ^[4]	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
A	Deposits (' INR crores)	209,761	249,330	312,899	379,588	391,560
B	Advances (' INR crores)	154,703	186,601	242,107	293,775	308,725
C	Total Business (A+B) (' INR crores)	364,464	435,931	555,006	673,363	700,285
D	Total Assets (' INR crores)	246,919	296,633	378,325	458,192	478,877
E	Operating Profit (' INR crores)	5,690	7,326	9,056	10,614	10,907
F	Net Profit(' INR crores)	3,091	3,905	4,433	4,884	4,748
G	Business/Employee (' INR lakhs)	655	808	1,018	1,132	1,165
H	Profit/Employee (' INR lakhs)	5.64	7.31	8.35	8.42	8.06
I	Return on assets (%)	1.39	1.44	1.34	1.19	1.00
J	Gross NPA (%)	1.60	1.71	1.79	2.93	4.27
K	Net NPA (%)	0.17	0.53	0.85	1.52	2.35
L	Total Branches	4,665	4,997	5,189	5,670	5,874

(Table 2)
Customer Satisfaction Level of the following Questions

	Highly Satisfied	Satisfied	Moderat Satisfied	Dissatisfied	Highly Dissatisfied
Forex Rate	0	26.64%	13.32%	53.28%	6.66%
Branch Accessibility	19.98%	33.33%	26.64%	19.98%	0
Staff Service	53.28%	39.96%	6.66%	0	0
Document Accuracy	33.33%	39.96%	19.98%	6.66%	0
Queries Handling	19.98%	26.64%	53.28%	0	0
Delivery Time	19.98%	39.96%	33.33%	6.66%	0
Regularity in Visit	6.66%	13.32%	33.33%	39.96%	6.66%

(Table 3)
Foreign Exchange Branch Performance Variable

	2012	2011	2010	2009	2008
Total Income	17.5 Cr	16.09 Cr	14.90 Cr	13.12 Cr	12.50 Cr
Net Profit	4.50 Cr	4.09 Cr	3.55 Cr	3.23 Cr	2.93 Cr
ROA	8.25%	8%	7.5%	7.25%	7%
Export Vol	12.81 Cr	11.02 Cr	10.98 %	10.56 %	10 %
Import Vol	874.44 Cr	807.04 Cr	733.63 %	700.63% Cr	686.36% Cr