CONTINGENT LIABILITIES IN INDIAN BANKS AN EMPIRICAL TREND ANALYSIS

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Abstract

A contingent liability is an obligation, the occurrence of which is contingent on the occurrence or non-occurrence of an event. The Indian banks had seen a major upsurge in contingent liabilities in the post reforms era with a view to expand their income due to earnings shrinkage resulting from deregulation in banking sector, introduction of capital adequacy and provisioning norms and increased competition, as well as to take advantage of technological innovations and increasing expertise in banking activities. The new private sector banks had taken far increased exposure in their contingent liabilities as compared to their public sector counterparts. Foreign banks are also extensively exposed to contingent liabilities. While contingent liabilities tend to increase banks' fee income, it also has significant potential to increase risk of banks in many ways. Banks in India take exposure in contingent liabilities in the form of foreign exchange and derivative contracts, guarantee obligations, acceptances and endorsements, partly paid investments etc. The quantum of such obligations has varied from one bank group to another. The paper examines trend and nature of contingent liabilities in Indian banks.

Keywords: Contingent liability, derivative contracts, off balance sheet positions, public and private sector banks, risk exposure.

JEL classification: G21

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