

Emerging Determinants and Analytics of Off-balance Sheet Activities (OBSA) of Commercial Banks

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Abstract

Due to the advent of technology, innovative banking products, ICT, and Artificial Intelligence, Indian commercial banks have indulged in multiple sources of revenue generation, and an off-balance sheet is one of them. This paper aims to analyze major endogenous and extraneous determinants and their effect on the non-interest income of the selected public banks. Empirical research in the banking sector suggested that technological, organizational, and institutional factors profoundly affect the management of non-interest income. The most extensive off-balance sheet items are forward trade contracts, warranties, acceptance, endorsement items, gyrating credits, and additional financing obligations. The study analyzed that the relationship between interest- income, bank size, NPA, CAR, GDP, ROA, and the exchange rate has a positive and significant with OBS activities.

JEL Code : E50; E59; G21; G24

Keywords : Capital Adequacy; Margin; Off-Balance Sheet (OBS); Commercial Banks; Banking; CPI; OBSA; India

I. Introduction

THE STUPENDOUS GROWTH in the banking segment plays a predominant part in the economy because a sound banking system acts as a catalyst for the financial market as a whole (Segura & Zeng, 2020; Sengupta & Wang, 2011). The term off-balance sheet explains the corpus that comprises all those activities not directly depicted in the B/S. It entails the management of funds in such a route that does not exist in the final account but has a

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were analyzed with the help of regression. The article attempts to analyze how endogenous bank-specific elements, governing ratios, and extraneous variables influence the non-interest revenue of banks. This empirical analysis summarized the various determinants, their nature, and their relationship to OBS activities of the Indian commercial banks. The most considerable items in this scenario are the contract of forward exchange, acceptance, endorsement items, guarantees, and other financing obligations. Having selected the principal determinants, the study analyzed the relationship of interest-income, bank size, NPA, GDP, CAR, ROA, and exchange rate positively and significantly with OBS activities. In contrast, NIM, interest income to total asset, inflation, and statutory liquid ratios are insignificant or negative. The findings of this study are coherent with those (Middi, 2016; Moinak, 2017) in their evaluation of the OBS force on the performance of commercial banks. The paradigm shift towards a new business line and generation of fee-based income has become paramount in the present context. (Panda, 2017; Trivedi, 2015) documented that increase in non-interest income through various innovative banking products has gained momentum, and in the near future, there may be progress in OBS activities due to banking participation in the derivative market, information & communication technology, and application of artificial intelligence in financial services. The study is conducive for the banker to analyze and emphasize generating non-interest revenue to augment profitability and sustainable growth. The banks' management should review the outcomes of OBS at regular times for restructuring financial resources and create a credible institutional environment.

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