

The Impact of Financial Accounting on Non-Performing Assets Management at Private Sector Banks with Reference to Hdfc and Icici Bank

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Abstract

Private Banks grieve a great deal of adversity because non-performing assets (NPAs) have an instantaneous effect on their overall liquidity, efficiency of operation, and profitability. In order to succeed assets that are not performing (NPAs), financial accountability is vital to ensure transparency, comprehensive risk assessment, and effective reporting systems. The present research investigates how financial accountability structures influence private bank NPA management, emphasizing on auditing processes, regulatory compliance, governing frameworks, and transparency in finances. The study employs a mixed-methods approach to examine the relationship between financial accountability and NPA levels, integrating quantitative analysis of industry data with qualitative case studies of well-known private banks.

The results highlight how crucial strict internal controls, proactive loan loss the provisioning process, and regulatory compliance are to decreasing the risk of non-performing assets (NPAs).

As compared to institutions with weaker management frameworks, banks with strong financial accountability practices—like ICICI Bank and HDFC Bank—show better NPA management and improved financial health. The study provides suggestions to enhance financial accountability in private banks based on the findings, such as the adoption of proactive provisioning methods, risk-based credit assessments, and stronger internal inspection systems. These steps are essential for decreasing non-performing asset (NPA) risks and ensuring private banks' financial sustainability over the long term.

INTRODUCTION

One of the most major challenges affecting the financial services sector today is the growing incidence of non-performing assets (NPAs) among private banks. Non-performing assets (NPAs) are loans that are overdue and bring about a loss for institutions of finance. These assets decrease bank profitability, have an influence on liquidity, and, if unregulated, could cause systemic risks. Private banks are particularly prone to non-performing assets (NPAs) due to their large dependence on hazardous commercial loans and unregulated lending.

Banking transparency refers to the processes and procedures used to ensure that a bank's assessment of risk, financial reporting, and compliance with regulation are genuinely transparent and trustworthy. Being financially responsible enables banks identify possible risks early on and manage their effects.

Comprehensive NPA management, mindful lending practices, and enhanced credit quality are achievable with effective fiscal responsibility measures. Banks may lever their loan holdings more competently and reduce the likelihood of loans presence non-performing assets (NPAs) via financial accountability measures such as timely disclosure, good governance, and clear accounting information.

RESEARCH OBJECTIVES

1. Examine how commercial banks use disclosure measures to oversee non-performing assets.
2. Evaluate the relationship between organisational frameworks, financial reporting procedures, and internal auditors in order to minimise the possibility of non-performing assets.
3. Assessing ICICI & HDFC bank monetary accountability methods for controlling non-performing assets.

RESEARCH QUESTIONS

- A. How does financial accountability influence private banks' research, surveillance, and agreement of non-performing assets?
- B. In what ways do compliance with laws, systems for governance, and internal audits assist in lowering non-performing assets?
- C. In what way do private banking institutions that have higher financial responsibility control non-performing assets (NPAs) more effectively?

LITERATURE REVIEW

Kumar and Verma (2017) studied the role of financial risk management (CRM) methods to minimise NPAs in the private banking market. The authors say that good CRM approaches, such as credit scoring, risk-based pricing, and reliable loan monitoring systems, may assist with reduce NPA levels. The study showed that private banks utilising advanced CRM frameworks have lower defaulted loans and improved asset quality.

Patel (2018) highlights the significance of provisioning for loan losses in managing non-performing assets. According to the study, banks with preemptive providing strategies that choose sufficient reserves to satisfy future research defaults have a stronger ability to absorb losses and reduce the long-lasting effects of NPAs. Patel argues that suitable provisioning for loans is not just a regulatory responsibility, but also an indicator of financial accountability, helping banks in portraying the true value of their assets.

Chandra and Gupta (2018) investigate how successful classification of assets impacts NPA management. They believe that precise asset classification, which assures that loans have been correctly classified as standard or non-performing, permits banks to allocate suitable provisions. This helps with preventing surprises when loans become non-performing, hence reducing the burden of NPAs.

Siddharth and Mehra (2019) study how behavioural traits such as excessive trust and aggressive lending contributes to the rise in non-performing assets. Their study focusses on how bank management choices influence the quality of their portfolios of loans. The authors suggest that when financial accountability structures, like significant assessment of risks and oversight by boards, lack, aggressive lending can frequently result in a rise in NPA's.

Ravindra and Kaur (2019) examined the role of internal auditors in increasing financial transparency and lowering NPAs. The authors highlight that periodic internal audits act as a system of early warning, allowing private banks to spot risks and gaps in the loan application practices that could lead to NPAs.

Their findings suggest that banks with strong internal oversight functions manage the risk of credit better and exhibit lower NPA ratios versus banks with inadequate audit practices.

Singh (2020) investigates the fiscal accountability in banks is carried out through processes such as financial reporting, compliance with regulators, corporate governance, and internal auditors. The above procedures ensure that banks are clear in their operations, preserve correct records, and follow industry norms. According to, fiscal responsibility plays an important role for decreasing the risks that accompany NPAs through promoting in effect decision-making processes at all levels of the company.

Sridhar and Yadav (2020) highlight the significance of financial openness within banking organisations in lowering the incidence of nonperforming assets. Transparent procedures for reporting allow stakeholders to better examine banks' asset worth and risk exposure. The authors claim that banks with more open financial statements have a greater ability to identify challenging loans early and take steps to rectify them, lowering the likelihood of asset degradation into NPAs. Their study shows that private banks having in effect disclosure practices experience fewer NPA-related challenges than banks with less transparency.

Bhattacharya (2020) analyses the efficiency of compliance with regulations in managing non-performing assets in both private and public banks. The study suggests that private banks that adhere completely to international regulatory structures such as Basel III handle credit risks better while maintaining lower NPA levels. The study further emphasises the significance of capital adequacy proportions, asset categorisation, and provisioning requirements for ensuring financial stability.

Basu and Kumar (2021) believe that timely financial information and strong auditing systems are capable of providing banks with insights into their loan portfolios, providing them to identify risky loans before they become non-performing. In addition, financial accountability permits banks to recognise indicators early on of loan defaults, which is essential in reducing NPA's.

Saini and Jain (2021) study the relationship between organisational governance structures and NPA control. The authors believe that robust governance methods, including as independent board management and active risk groups, greatly lower the chances to develop NPAs. They observed that banks that follow strong governance principles, specifically those pertaining to credit risk management, had a substantial boost in loan quality and a decline in non-performing loans.

STRUCTURES OF GOVERNANCE AND MANAGEMENT OF RISK

Corporate governance and internal monitoring mechanisms are essential for NPA management. Strong governance ensures that bank executives and boards take on accountability for loan quality and risk exposure. The RBI suggestions highlight the significance of banks having solid structures for governance which ensure risk management policies are put into effect. Audit committees play an essential function in providing oversight and investigating the standards of the bank's loan portfolio.

A Risk Management Committee (RMC) inside the bank is critical to evaluating possible risks associated with the loan business and ensuring that risk mitigation approaches are implemented successfully. Bhat (2018) demonstrated that private banks with a powerful system of governance (including independent board members and risk mitigation teams) are more successful.

FRAMEWORKS FOR REGULATIONS AND COMPLIANCE

Compliance with usual practices is vital for private banks to effectively handle NPAs. The Basel III framework, for example, highlights the importance of capital adequacy, high quality of assets, and risk

management, amongst other factors which have a straight influence on NPA levels. The Reserve Bank of India (RBI) rules, surrounding asset organization and provisioning norms, preserve responsibility by demanding private banks to properly disclose their collections of loans and allocate adequate capital to cover any NPA liabilities.

The oversight of regulators ensures that banks maintain suitable borrowing groups and sound lending policies. Banks that do not follow these regulations are more likely to encounter higher NPA's. (Basu and Kumar, 2021).

FINANCIAL REPORTING AND TRANSPARENCY

Accurate financial reporting and disclosure are critical factors of financial accountability. Banks that provide timely and accurate accounting records may more accurately track the financial health of their loan portfolios over time. IFRS and Indian GAAP require companies to accurately report NPAs and make required provisions. According to, openness regarding financial reporting enables banks to recognise issue loans early on, permitting them to take corrective action before the loans collapse. (Pillai and Chavan, 2020). Furthermore, open reporting fosters assurance among policymakers and consumers, which is essential to long-term economic security. Accurate statements are also helping investors examine banks' risk exposure and influence lending options to choose from.

RESEARCH DESIGN

This study used a technique known as mixed methods, incorporating quantitative and qualitative procedures. To figure out how responsibility for money affects NPA management, secondary data from accounting documents, private bank studies, and other relevant research are studied. The correlation between financial accountability features (such as governance, reporting procedures, and conformance) and non-performing asset (NPA) levels in private banks has been examined using numerical regression techniques.

DATA COLLECTION

1. **Case Studies:** Analyzing individual private banks' NPA guidance evaluates and accounting transparency processes, such as HDFC Bank and ICICI Bank.
2. **Banking Reports and Statements of Operations:** Evaluating the balance sheets of banks and yearly reports to gain information on financial details, provisioning approaches and NPA levels.
3. **Legislative Guidelines:** For the assessment of the legislative structure for NPA management, RBI circulars and Basel III compliance evaluations have been reviewed.

METHODS OF ANALYSIS:

- a) **Comparative Analysis:** Banks with varying levels of financial accountability are assessed on their NPA performance.
- b) **Regression Analysis:** Statistical tools are used to examine the connection between key monetary answerability variables (such as financial reporting, auditing systems, and governance frameworks) and NPA heights.

DATA ANALYSIS AND DISCUSSION

NPA Trends in Private Banks IN THE YEAR MARCH 2023

METRIC	ICICI BANK	HDFC BANK
GROSS NPA RATION	2.81%	1.12%
NET NAP RATIO	0.48%	0.27%
TOTAL ADVANCES	₹10.19 trillion (approx. \$124.1 billion USD)	₹16.4 trillion (approx. \$200 billion USD)
CONTINGENCY PROVISIONS	₹13,100 crore (approx. \$1.6 billion USD)	₹12,000 crore (approx. \$1.44 billion USD)

Private banks like HDFC and ICICI Bank have beaten other banks in managing non-performing assets (NPAs) throughout the last ten years. These banks have proactively recognized and dealt with non-performing asset (NPA) refers to attributable to the excellent financial accountability mechanisms they currently have in place, including internal audits, timely loan provisioning, and transparent reporting procedures. On the contrary, banks like Yes Bank had an enormous rise in non-performing assets (NPAs) as a result of insufficient financial transparency and governance, which ultimately forced the bank to go through restructuring.

ICICI Bank: Due to strict internal policies and regulatory compliance, the ICICI Bank has noticed an important decrease in NPA amounts in recent years. By March 2023, the bank's net not performing asset (NPA) ratio was at 0.48% and its total non-performing asset (GNP) ratio had decreased to about 2.81%, both that were significantly lower than in the years prior. With an emergency fund of about ₹13,100 crore (\$1.6 billion USD), ICICI continued to take a cautious approach to provisioning in order to mitigate risks. The bank has constantly upgraded its operational and digital banking structures, which has helped improve capital adequacy while decreasing non-performing assets. ICICI Bank: Despite the growing size of its loan portfolio, ICICI has been managed to lessen the impact of non-performing assets (NPAs) due to its early adoption of Basel III capital adequateness standards, internal tools for risk management, and effective corporate governance procedures.

HDFC Bank: A robust internal monitoring system and rigorous loan provisioning criteria additionally helped HDFC Bank keep its non-performing investments (NPAs) under check. With a Net NPA proportion of 0.27% and a gross non-performing assets ratio that was approximately 1.12% as of the 2023 financial year, HDFC ranks among the lowest private banks. A structured credit assessment framework that substantially reduces exposure to risks and risk-based loan evaluation techniques that allow for early detection of prospective loan defaults are the main reasons for HDFC's asset quality consistency. HDFC Bank: Through multiple recessions, HDFC's dedication to risk-based credit evaluations, internal auditing, and financial reporting willingness resulted in consistently low not performing asset (NPA) stages.

FINANCIAL ACCOUNTABILITY AND NPA PREVENTION

In order to prevent non-performing investments (NPAs), financial responsibility measures like pre-emptive loan loss provisioning, effective internal controls, and frameworks for corporate governance are required. By identifying problematic loans early and taking the necessary steps, banks that follow to tough reporting and auditing necessities are more prepared to manage the increasing amount of non-performing assets (NPAs).

1. **Proactive Loan Loss Provisioning:** This approach helps banks minimize the effects of non-performing assets (NPAs) on their financial statements and ensure long-term financial adequacy, particularly with regard to high-risk loans, by moderating likely losses from nonpayment on loans.
2. **Successful Internal Controls:** Managing non-performing assets (NPAs) needs robust controls within the organization, including risk assessment procedures. Early loan default identification by efficient internal audits allows banks to initiate necessary measures, such as restructuring loans or initiating recovery techniques.
3. **Corporate Governance Frameworks:** The concept of transparency, accountability, and ethical choices in banks rely heavily on corporate governance processes. In order to avoid credit incorrect allocation while promoting regulatory compliance, these include auditing committees, responsible lending, and rigorous oversight, all of which help effective NPA management.

CONCLUSION

This study investigated the link between private bank NPA management and financial accountability, highlighting the role of internal controls, financial reporting, and governance structures. Private banks with strong financial accountability processes, such as ICICI Bank and HDFC Bank, have effectively handled non-performing assets (NPAs), based to an investigation into case studies, reports on finances, and regulations. These banks have shown that proactive provisioning, solid internal oversight systems, and transparent accounting procedures are essential for preventing non-performing assets (NPAs) and maintaining liquidity.

Banks that has powerful financial accountability mechanisms have lower non-performing assets (NPA) levels as well as better risk management capabilities, based on the analysis of ICICI Bank, HDFC Bank, and Yes Bank. NPA risks have been decreased in large part by ICICI Bank and HDFC Bank's dedication to comprehensive credit assessments, timely provisioning, and meeting the Basel III requirements for capital.

RECOMMENDATIONS

In order to recognize problem loans early and minimize the likelihood of non-performing assets (NPAs), banks ought to strengthen their internal control systems through the implementation of comprehensive tools for risk evaluation and regular evaluation procedures. To reduce the financial impact caused by non-performing assets (NPAs) and ensure sufficient capital buffers and give active provisioning for loan losses for potential loan defaults, especially high-risk loans, the highest priority. Adopt robust corporate governance mechanisms to stop credit incorrect allocation and reduce the buildup of poor-quality assets. They ought to incorporate independent auditing panels and rigorous oversight processes. Finally, in order fulfill asset classification and provision standards, banks have to comply with regulatory standards, such as those set forth by the RBI and Basel III.

LIMITATIONS

ICICI and HDFC, constitute the few private banks that will be the subject of the study on NPA management within India; these institutions may not be a reflection of the wider private banking industry. The reliability or bias of secondary data, such as reports on finances and compliance with regulations may be constrained. Primary data collection from interviews or surveys with bank officials could become an essential component of future research. The study's period of time, which solely looks at data until March

2023, may not take into account recent changes in legislation or improvements in banks.

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