CREDIT DISCIPLINE THROUGH SMAs: STRATEGIC ROLE OF CMAs IN MONITORING LARGE BORROWAL ACCOUNTS

Abstract

This paper explores the crucial role of specialised monitoring agencies and Cost & Management Accountants in improving the credit discipline of large borrowal accounts in the banking sector. It examines how systematic monitoring frameworks, coupled with professional expertise and advanced technology, can mitigate credit risk and enhance asset quality. It synthesises current literature on credit risk management practices, monitoring systems, and the strategic value of specialised accounting to offer suggestions for banks seeking to strengthen their credit discipline mechanisms.

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Introduction

Credit discipline is a fundamental pillar of banking sector stability, specifically in the context of large borrowal accounts where exposure to individual corporate borrowers can substantially impact lenders' financial position. The emergence of specialised monitoring agencies (SMAs) and the strategic involvement of Cost & Management Accountants (CMAs) in credit surveillance denote a robust response to the complexities of credit management. Usually, large borrowal accounts carry higher risks due to their concentration within loan portfolios. Although traditional monitoring approaches are foundational, they often prove ineffective in capturing the nuanced risk dynamics associated with credit exposures. This paper posits that credit discipline achieved through the strategic contributions of SMAs and CMAs serves as an effective mechanism for enhancing asset quality, reducing default probability, and eventually ensuring the long-term profitability and stability of financial institutions.

Objectives of the Study

The key objectives of the present study are, (i) To examine the role of SMAs in strengthening credit discipline for large borrowal accounts in the banking industry, (ii) To explore the strategic contributions of CMAs in credit monitoring, early warning identification, and risk mitigation, (iii) To evaluate how technology-enabled monitoring frameworks improve the effectiveness of SMA-led credit oversight, and (iv) To appraise governance and implementation frameworks that enhance asset quality, recovery outcomes, and non-performing loan (NPL) management.

Conceptual Framework

"Credit discipline" encompasses the systematic policies, practices, and behavioural norms of banks

that ensure rigorous borrower appraisal, prudent lending, and continuous oversight throughout the credit lifecycle. It integrates multiple dimensions: ex-ante credit assessment rigour, ongoing portfolio monitoring, and timely intervention mechanisms when warning signals emerge. This is more crucial in the case of large borrowal accounts whose exposures can constitute significant percentages of capital, thereby directly impacting institutional stability metrics. Studies established that banks employing comprehensive credit discipline frameworks experience significantly lower NPL ratios and superior long-term financial performance metrics. It is established that about 65-75% of the performance variance of banks can be explained by credit risk management (Nsabimana, 2023).

Then again, "large borrowal accounts" involve borrowers with complex organisational structures, diversified revenue streams, and sophisticated financial arrangements including derivative hedges, syndication, and cross-border transactions. The concentration risk inherent in these accounts can result in situations where the failure of a single borrower triggers cascading implications throughout the bank's portfolio. Moreover, the information asymmetry between lenders and large corporate borrowers remains significant, creating principal-agent dynamics that SMAs must address (Adesanya, 2024).

Strategic Role of SMAs in Credit Oversight

SMAs represent institutional innovations designed to address market failures and regulatory gaps in credit oversight. Their key mandate includes providing independent, professional assessment of credit quality, borrower financial soundness, and adherence to loan covenants across large account portfolios. This mandate differentiates SMAs from internal bank credit functions. SMA functions offer independent verification of internal credit assessments, reducing information asymmetry that might otherwise permit gaming of risk metrics or selective presentation of borrower information. This is because SMA personnel possess superior technical expertise in operational evaluation and financial analysis than that of average internal credit staff (Tolulope & Opeyemi, 2024). Additionally, ASM frameworks ensure systematic application of standardised monitoring protocols across heterogeneous borrower populations, reducing subjective variations in assessment quality.

CMAs contribute immensely to credit monitoring with their expertise in financial analysis and forensic accounting techniques. They possess expertise in identifying irregularities in financial statements, examining accounting quality, and interpreting underlying economic reality masked by accounting presentations (Dave & Patel, 2023). Additionally, they possess advanced analytical capabilities, including predictive modelling that enhances early warning signals for credit deterioration. They identify creative/manipulative accounting practices that might otherwise obscure deteriorating financial conditions. CMAs can systematically benchmark borrower financial metrics against industry norms and historical performance trajectories.

Mechanisms for Enhancing Credit Discipline

Large borrowal account monitoring demands rigorous assessment of borrower industrial dynamics, macroeconomic sensitivity, working capital management, and strategic positioning within value chains (Boutchaktchiev, 2023). Furthermore, integration of CMA expertise into credit risk assessment provides systematic frameworks for examining financial statement quality and underlying economic performance. They employ artificial intelligence (AI) techniques and machine learning (ML) algorithms to detect subtle patterns in financial data that traditional manual analysis might overlook (Tolulope & Opeyemi, 2024). These technological advances, combined with professional accounting expertise, provide monitoring systems capable of identifying borrower vulnerability at earlier stages, enabling proactive intervention before acute distress manifestation (Bhushan & Santhosh, 2025).

Modern credit discipline frameworks focus on continuous monitoring rather than episodic review cycles. Real-time monitoring systems permit identification of behavioural changes, covenant violations, and deteriorating financial metrics, showing elevated distress probability at earlier stages than traditional quarterly or half-yearly

review systems (George et al., 2025). Integration of CMA expertise within real-time monitoring systems ensures capacity for immediate interpretation of financial anomalies, distinction between temporary fluctuations and structural deterioration, and quick/rapid communication to credit decision-makers. Notably, banks having systematised real-time monitoring report substantial improvements, including reduced duration of NPL periods, quicker recognition of emerging problems, and augmented capacity for borrower communication and remediation support.

Digital Transformation in Credit Monitoring

Recent technological advances, including Robotic Process Automation (RPA), have revolutionised accuracy and efficiency within credit monitoring functions (Jamithireddy, 2025). RPA systems automate routine transaction matching, covenant validation, dunning cycle initiation, and discrepancy flagging, thereby enabling professionals to focus on complex judgment-requiring tasks. A study reveals that implementation of RPA frameworks in accounts receivable and credit monitoring contexts has shown substantial operational improvements: 61% reduction in reconciliation exceptions, 49% increase in matching accuracy, and 2.3 times acceleration of dunning cycles for large overdue accounts (Jamithireddy, 2025). These operational efficiencies translate directly into improved credit discipline and more reliable identification of payment irregularities.

AI and ML methodologies have transmuted credit risk assessment and monitoring capabilities. Advanced ML models, trained on comprehensive historical datasets, ensure superior predictive accuracy in identifying borrowers at elevated default risk. These models process vast arrays of variables simultaneously, identify subtle patterns and interaction effects that manual analysis might overlook. Furthermore, blockchain-based credit platforms ensure real-time verification of borrower compliance with financial covenants through automated data feeds from borrower accounting systems, reducing information lag and increasing confidence in covenant compliance status.

Implementation Frameworks for Large Borrowal Account Monitoring

Effective implementation of SMAs necessitates appropriate governance structures, institutional positioning, and professional staffing. Organisations implementing large borrowal account monitoring frameworks must establish clear authority relationships between monitoring entities and credit decision-making functions, and design incentive structures aligning professional staff interests with institutional credit discipline objectives (Al-Farsi, 2020). Governance structures for large borrowal account monitoring should include audit committee oversight, regular reporting to board-level risk committees, and systematic documentation of monitoring conclusions and recommendations. Furthermore, regular stress testing and scenario analysis constitute critical governance functions, allowing identification of portfolio vulnerabilities under adverse macroeconomic scenarios or borrower-specific distress situations.

Implementation of sophisticated monitoring frameworks needs personnel with advanced technical capabilities combining credit analysis expertise, accounting knowledge, financial modelling proficiency, and technological fluency. Therefore, organisations should prioritise the recruitment of professionals, including CMAs, certified public accountants, and financial analysts. Moreover, continuous professional development programs must address emerging technologies, regulatory innovations, and evolving best practices in credit monitoring and risk management.

Empirical evidence reveals that banking companies implementing integrated monitoring systems combining SMA frameworks, CMA expertise, and digital tools report material performance improvements. Particularly, reductions in NPL ratios ranging from 150-250 basis points within 18-24 months are consistent with findings reported by Nsabimana (2023) who found significant asset quality improvements in banking companies adopting structured credit risk management frameworks. In the same way, George et al. (2025) show that the banking companies employing continuous monitoring and independent oversight mechanisms establish faster problem recognition and improved recovery outcomes.

Compared to traditional episodic monitoring models, integrated SMA-led frameworks demonstrate prediction accuracy exceeding 80% for 12-month default identification (Gayathri, 2025) highlighting their superior analytical capabilities. These comparative insights support the argument that professionally managed monitoring systems considerably outperform conventional internal credit review mechanisms.

Challenges and Critical Success Factors

Despite several benefits, banks that implement large borrowal account monitoring systems face major implementation challenges, including technology infrastructure requirements, change management resistance, staff recruitment and retention difficulties, and substantial capital requirements. Notably, technology integration challenges prove acute in banks with legacy systems lacking interoperability, requiring substantial IT investment and business process redesign (Xu, 2025). Moreover, data quality and system integration constitute critical implementation barriers. Effective monitoring systems require real-time access to complete borrower financial data, often requiring system changes within borrower accounting infrastructure. Security, privacy, and regulatory compliance concerns regarding data sharing require sophisticated contractual arrangements and governance frameworks.

Nevertheless, the successful implementation of large borrowal account monitoring systems depends upon many critical factors: appropriate technology infrastructure investment, sustained senior management commitment, recruitment of qualified professional staff, establishment of clear governance structures, and development of an organisational culture prioritising credit discipline. Furthermore, banks must establish performance metrics for monitoring systems themselves, regularly validating monitoring effectiveness and identifying improvement opportunities (Anestiawati et al., 2025).

Suggestions and Conclusion

Effective credit discipline in large borrowal accounts denotes a non-discretionary requirement for bank profitability and stability. The strategic involvement of SMAs and CMAs introduces professional expertise, systematic rigour, and technological sophistication that materially enhance credit risk assessment and monitoring effectiveness.

In light of the above, the following suggestions are offered: (i) Establish specialised monitoring functions within banks managing large borrowal account concentrations, and position these functions with appropriate independence and authority within credit risk governance structures; (ii) Recruit professional accounting and analytical expertise with relevant experience in credit analysis and risk assessment; (iii) Implement integrated technology infrastructure combining real-time monitoring systems, AI applications, and RPA to enhance analytical sophistication and monitoring efficiency; (iv) Establish comprehensive governance frameworks integrating clear accountability, regular stress testing, board-level reporting, and documented monitoring protocols; (v) Develop continuous professional development programs, regarding emerging technologies, regulatory requirements, and credit monitoring best practices; and (vi) Regular validation of monitoring system effectiveness through systematic assessment of prediction accuracy, timeliness of risk identification, and appropriateness of intervention recommendations.

The findings of this study show that structured SMA-led monitoring frameworks, when integrated with CMA expertise and digital analytics, ensure measurable enhancements in credit discipline for large borrowal accounts. Evidence analysed in this paper signifies tangible outcomes, including considerable reductions in NPL ratios, improved early warning accuracy, faster remediation timelines, and enhanced recovery ratios. Banking companies adopting such frameworks report reductions in asset quality deterioration risk and greater transparency in borrower performance assessment. These findings affirm that SMAs, supported by CMAs, play a vital strategic role not merely as compliance mechanisms but as value-adding risk governance instruments. Accordingly, banking companies seeking to strengthen balance sheet resilience and long-term profitability should institutionalise SMA frameworks as a core component of their credit risk management architecture. MA

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Academic Corner!!!

Our heartiest congratulations to CMA Shiba Prasad Padhi, qualified for the award of the Ph.D. Degree in Business Management, in the faculty of Commerce & Management on doctoral thesis titled "Efficacy of Insurance Claims Management: A Comparative Study on Private and Public Sector General Insurance Companies Operating in Odisha" evaluated and approved by Prof. Tarak Nath Sahu, Head, Dept. of Business Administration, Vidyasagar University, Medinipur and Prof. B D Mishra, Professor and Head, Deptt. of Management Studies, Guru Ghasidas Vishwavidyalaya, Bilaspur. CMA Padhi carried out research under the guidance of Prof. Bhagaban Das, Former Professor, P.G Dept. of Business Management, Fakir Mohan University and co-guidance of Dr. Sk. Gayasudin, Former Reader in Commerce, Siddheswar College, Amarda Road, Balasore.

We wish CMA Shiba Prasad Padhi, the very best for all his future endeavours.