

FINANCIAL REPORTING REFORMS AND COMPLIANCE COSTS IN INDIAN BANKING: A REVIEW OF THEIR IMPACT ON FINANCIAL PERFORMANCE

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ABSTRACT

This review thoroughly discusses the changes in financial reporting reforms and the mounting compliance expenses in the Indian banking industry since the time of deregulation after globalization. Banks are subject to huge direct and indirect compliance costs, driven by ever more sophisticated regulations such as the Basel Accords and the International Financial Reporting Standards (IFRS) to deal with systemic risks. Operational challenges cover strict anti-money laundering (AML) requirements, rigorous environmental, social, and governance (ESG) standards, and significant technological investments. A bank's corporate governance is inextricably tied to high-quality financial reporting that consists of accurately, transparently, and promptly reported information. Good corporate governance is an integral part of high-quality financial reporting, which is defined as accurate, transparent, and timely reporting of information, and is an important aspect of a bank's total market valuation. However, empirical evidence shows that the level of regulatory compliance and financial performance are not directly correlated; high standards in financial reporting and voluntary disclosure of ESG data have a positive impact on profitability and investor trust, but too many regulatory costs can have a significant negative effect on operational efficiency. Among them, the effects are found to be different in different Indian banks, both public and private sector-based, because of their different ownership and governance structures. Financial institutions are turning to cutting-edge digital solutions like RegTech and Artificial Intelligence (AI) to overcome these challenges, not only improving reporting practices but also mitigating compliance expenses and promoting sustainable financial outcomes.

Keywords: Financial Reporting Quality, Compliance Costs, Indian Banking Sector, Corporate Governance, ESG Disclosures, Regulatory Technology (RegTech)

INTRODUCTION

The Indian banking sector has evolved over time, largely thanks to the Banking Regulations Act, 1949, followed by various revisions of the banking sector policy by the Reserve Bank of India (RBI) (Saldanha & Aranha, 2021). Deregulation and economic reforms of 1991 marked a significant change in the structure of Indian banks, with the aim of providing operational autonomy, encouraging competition, and introducing international banking practices (Rajput & Gupta, 2011). The reforms paved the way for foreign & private

sector banks, and the absolute dominance of PSX banks was over, compelling them to be more efficient to compete in the market (Rajput & Gupta, 2011). In more recent history, the sector's development has focused on boardroom dynamics as larger boards, the addition of nonexecutive directors, and gender diversity in Indian private banks have actively improved decision-making and sustainable financial success (Pandey & Chaturvedi Sharma, 2025). This transformation has also been met with significant challenges, including the loan fraud by the ICICI-Videocon Case/Scandal (should be corrected to ICICI–Videocon) (UCICI-AUDIOCON) that revealed deep flaws in corporate governance in relation to related party transactions and conflicts of interest (Khandbahale et al., 2025).

A significant importance of financial reporting in banking is that high-quality financial reporting is a key component to the success of the organization and is crucial to gain the trust of banking stakeholders (Ibrahim & Khudair, 2024). Key qualitative characteristics of financial statements are relevance, faithful representation, comparability, and timeliness, which help investors and regulatory bodies to make informed decisions (Alharasis et al., 2024; Valdiansyah & Murwaningsari, 2022). Moreover, thorough disclosure of risk information in these reports can significantly improve market discipline, enabling stakeholders to more effectively oversee the performance of banks (Anggraita et al., 2018). Financial reporting integrity is also closely tied to banks' corporate governance, as it has been found that greater accounting conservatism and general quality of reported earnings are associated with the presence of financial experts and gender diversity on boards (García-Sánchez et al., 2017).

After globalization, the financial markets have been integrated, and there are many risks in these markets; thus, there was a need for sweeping financial reforms (Rajput & Gupta, 2011). Initial financial institution deregulation promoted the development of complex financial instruments and cross-border banking, but also increased information technology weaknesses, operational risks, and the likelihood of large-scale corporate frauds (Alexander, 2005). In response to these threats at the global level, international regulatory institutions have established systems such as the Basel Accords (Basel II and III) that place rigid restrictions on capital demands, increase the scope of supervision, and foster market discipline (Agoraki, Gounopoulos & Kouretas, 2026). The effects of such a treatment of tight supervision and disclosure regulation on reducing information asymmetries, enhancing capital allocation, and eliminating economic rents in the banking sector are confirmed across countries (Agoraki, Gounopoulos & Kouretas, 2026).

Rising compliance demands. With rising financial crises and globalization, modern banking institutions are facing a lot of compliance and disclosure demands. Since the onset of the global financial crisis in 2007-2009, international laws have become much stricter, imposing a heavy burden on legal aspects of data management and transparency in the reporting of risks and trades (Dattoo, 2019). Banks are therefore now being required to adhere to the new accounting standards, such as the IFRS and revised Basel regulations, which emphasize operational risk and disclosure of financial instruments (Rajput & Gupta, 2011; Alexander, 2005). In India, regulators have tightened the net of regulation in the area of related party transactions, conflict of interest mitigation, and whistleblower protection to stamp out crony capitalism (Saldanha & Aranha, 2021; Khandbahale et al., 2025). For these robust regulations to be effective, institutions need to strike a balance between their enforcement and robust internal corporate governance (Díaz-Sánchez et al., 2023; Bachi et al., 2025).

Compliance Costs in Commercial Banks

Types of Compliance Costs

Direct compliance costs

There are high direct financial costs for organizations when it comes to regulatory frameworks in Figure 1. One example is Sarbanes-Oxley (SOX) Section 404 compliance, which is acknowledged as one of the most expensive regulatory mandates ever implemented in securities regulation, with costs seen to be costing organizations billions of dollars per year (Leech & Leech, 2011). Likewise, financial institutions have increasing direct compliance costs to adhere to ever more stringent obligations with respect to AML, counter-terrorist financing (CTF), and sanction screening (Rowley, 2024). Specialized directives such as the EU's Statutory Audit and Corporate Reporting Directives (SACORD) have also been reported to have a significant impact on direct compliance costs, especially for smaller banks than larger banks (Poshakwale et al., 2020).

Indirect compliance costs

The sources cited do not contain the exact wording “indirect compliance costs”, but they point to a number of compliance costs that are indirect and/or systemic. High legislative and normative complexity can be a significant obstacle to organizational compliance and can impose an undue regulatory burden on businesses that may impact their economic context (Domingos & Fonseca, 2026). Additionally, compliance monitoring creates “error-cost asymmetries”; that is, the cost of compliance and the cost of operation are greater in an AML/CFT supervision context with false negatives than with false positives (Bui, 2026). In addition, there can be indirect market implications as negative market reactions to excessive compliance costs lead investors to believe that the costs of regulatory compliance are greater than the benefits to the firm (Chamberlain, Khokhar & Sarkar, 2016).

Technology investments

To deal with the complex compliance requirements, organizations are compelled to invest in Regulatory Technologies (RegTech) and AI. The application of technologies such as AI, distributed ledger technology (DLT), blockchain, smart contracts, and Application Programming Interfaces (APIs) can alleviate compliance needs for regulations that are constantly evolving, automate data collection, and digitize financial markets (Grassi & Lanfranchi, 2022). These tools bring automated compliance monitoring and predictive risk analytics, but they also pose high implementation costs and bring in new cybersecurity risks that organizations need to cover and handle (Golzarjannat & Gustafsson, 2025). Although there is a substantial upfront investment in technology, the tools can save money over time: In one example, AI can boost operational efficiency and cut overall compliance expenses by as much as 30 percent (Kulkarni, 2025).

Human resource costs

Compliance standards such as SOX are successful in influencing the valuation of an organization due to the presence of a financial expert on the audit committee, board independence, and Chief Executive Officer (CEO) involvement (Akhigbe & Martin, 2006).

Audit and reporting expenses

The regulatory environment is constantly evolving and costly, requiring organizations to comply with a wide range of audits and reporting requirements. External auditing costs are continually rising, for example, because of regulations such as SOX Section 404, which

require continuous external auditor, CEO, and Chief Financial Officer (CFO) opinions on the effectiveness of financial reporting controls (Leech & Leech, 2011). The next major area that needs high resource investment is environmental auditing, which evaluates remediation expenses, compliance obligations, and overall environmental, social, and governance fiscal risks (Diaconu et al., 2025). Many companies are investing in RegTech solutions to help defray some of these continuing reporting costs, including automated reporting, better transparency, and machine-readable regulations that enable regulators to access the data directly from banks' systems (Grassi & Lanfranchi, 2022; Golzarjannat & Gustafsson, 2025).

Risk management expenditure

There are more and more compliance frameworks that mandate separate investments in risk management systems. To ensure compliance, investments need to be made in complex cybersecurity and financial crime risk assessment frameworks that operationalize the statutory requirements and outline threats, control systems, and consequences (Bui, 2026). Moreover, as financial institutions transition to the adoption of innovative tech, it becomes crucial for them to invest in ethical risk management and fairness-testing mechanisms to address risks associated with algorithmic bias and data privacy violations (Kulkarni, 2025). It is argued that compliance budgets could be better spent on "true risk-based approach" (focus on risk management processes instead of on compliance control effectiveness) so as to be able to achieve a reduction in long-term compliance costs and better corporate governance (Leech & Leech, 2011).

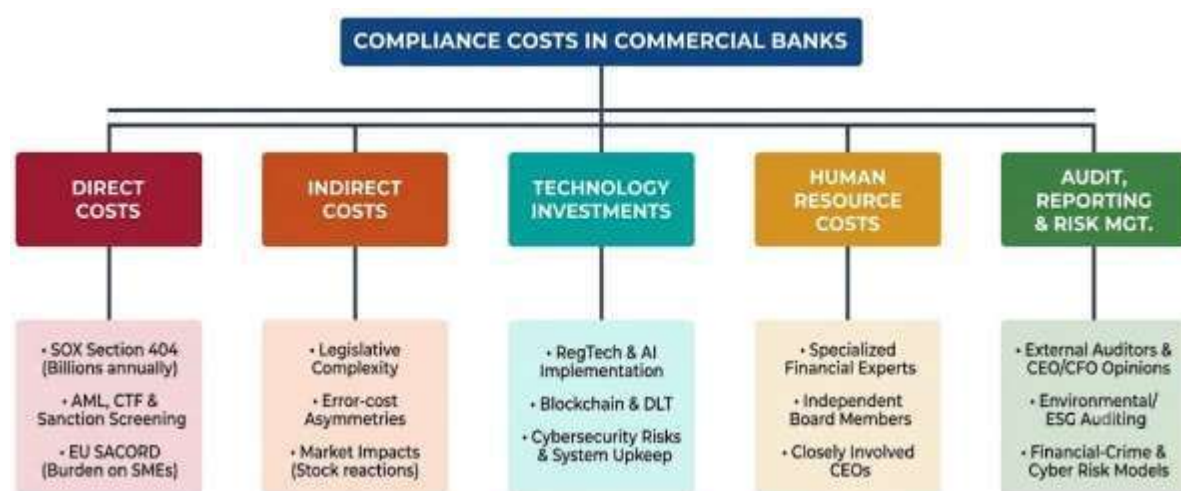


FIGURE 1 THE IMPACT OF REGULATIONS ON COMPLIANCE COSTS, RISK-TAKING, AND REPORTING QUALITY OF THE EU BANKS

Drivers of Rising Compliance Costs

A number of factors are contributing to some industries facing compliance costs that are increasing exponentially, from the large financial institutions to Small and Medium Enterprises (SMEs).

The global spread and robust enforcement of AML and Counter-Terrorism Financing (CTF) regulations present one of the biggest challenges in terms of increased compliance costs (AlQudah, Mazhar& Al-Haddad, 2025). Perhaps more than anything else, the USA

Patriot Act and other laws have given an increased role to the private sector in financial crime disruption, creating significant compliance requirements that are disproportionately felt by smaller financial institutions (Dolar & Shughart, 2012). The same regulatory lines are seen internationally, for instance, the AML laws in China and Pakistan are undergoing development with extensive operational and cost consequences because of the complicated requirements to implement customer due diligence (CDD) and suspicious transaction reporting (Sajid & Hassan, 2026; Zhao et al., 2025). Moreover, the uneven level of harmonization across the cross-border data transfers places financial institutions under ever more demanding AML, CTF, and sanction screening requirements, adding to the cost (Rowley, 2024). Excessive regulation in this regard can result in higher compliance costs and inadvertently contribute to a negative climate in the banks, especially anti-business (Mugarura, 2015).

Another factor affecting compliance costs is tax legislation and financial reporting standards (Podrugina & Tabakh, 2020). For example, the Foreign Account Tax Compliance Act (FATCA) in the United States of America (USA) has had negative externalities due to imposing new registration requirements on millions of US citizens residing overseas, which has created additional burdens on compliance (Ahlawat & Telson, 2015). Also, the use of strict financial reporting standards, such as fair value accounting measures, can cause measurement errors and noise (Valencia et al., 2013). Such errors may result in the misperception of bank capital adequacy, which can eventually lead to inefficient allocation of capital and result in higher compliance costs for banks (Valencia et al., 2013).

Environmental, Social, and Governance (ESG) and Climate Regulations

SGD and environmental regulations are becoming an increasing cost driver. New governance frameworks in South Asia have been found to have short-term compliance costs that can temporarily squeeze bank profitability (Rana et al., 2026). Likewise, enterprises are also likely to face more operational risks and debt financing costs when participating in an emissions trading system (ETS) like China's Carbon Emission Trading Scheme (CETS) (Zhang et al., 2026). Heavy investments in the transnational environmental alignment are also required, such as when South East European countries implement the European Union (EU) energy model (Deitz, Stirton & Wright, 2009) or the maritime sector adapts to the FuelEU Maritime Regulation (Matczak & Papadimitrou, 2026), and entities endure high costs to comply with strict sustainability requirements.

Financial stability is under the lens of banking regulations, and there are new compliance challenges all the time in the Systemic Banking Regulations and Capital Requirements (SBRC). Regulatory regimes such as the Basel Accords impact competition and require banks to shoulder increased compliance expenses to satisfy new risk and capital demands (Muzzupappa, 2024). As the regulatory environment continues to change and reporting requirements evolve, the ongoing burden of regulation also presents an opportunity to cut costs via efficiencies or consolidation to keep their institutions alive—scaling-up or consolidation (Fayman et al., 2022).

Data Security and Technological Implementation

The requirement for data security measures is another expense that can prove to be a large hurdle in itself, but technology is also being seen as a solution for streamlining operations. Actions necessary for conforming with the Payment Card Industry Data Security Standard (PCI DSS) are expensive actions, and they carry high technical barriers and financial costs for small businesses (Clapper & Richmond, 2016). Furthermore, although

digital banks have been leveraging regulatory sandboxes to test innovations, it has been shown that participating in such highly regulated environments can paradoxically have an adverse effect on short-term compliance and efficiency costs (Washington et al., 2022).

Crisis interventions and external shocks

Last but not least, unexpected state interventions in times of crisis are sudden compliance cost drivers. Restrictive governmental measures such as lockdowns and mandatory closures during the COVID-19 pandemic placed a heavy burden on SMEs, relative to larger corporations, in terms of compliance costs and disruptions in their value chains, severely impacting their survival (Semanne, 2025).

International Perspective on Banking Compliance Costs

The regulatory environment for the international banking sector has become more complicated and has added considerable compliance costs for financial institutions across the world. In various areas, facts show that these compliance costs impact bank profitability, risk-taking, and market structure, often creating a disproportionately high compliance cost burden on smaller banks.

Global dynamics and Regulatory arbitrage

International banks that have been active in their international operations are found to be engaged in regulatory arbitrage on an international scale due to the higher level of compliance standards, in addition to different regulatory frameworks (Avdjiev, Aysun, & Tseng, 2022). In more regulated environments, banks may have to invest more in complying with regulatory requirements, which can lead to a higher cost of claims. When the financial environment becomes more volatile, banks may choose to expand their claims to less-regulated countries. (Avdjiev, Aysun & Tseng, 2022) In addition, the AML and CTF regulations put in place by regulators around the world have rendered compliance disproportionately costly for businesses worldwide (Otudor & Bagheri, 2025). In order to prevent such high expenses without considering the infringement by third parties, many banks choose to “de-risk”—placing the compliance burden on the customer or pulling out of markets altogether, inadvertently compromising financial inclusion, which is a goal of financial services (Otudor & Bagheri, 2025).

The United States: The Burden on Community Banks

Post-crisis regulatory changes have been rigorously reviewed in the U.S. for compliance costs. The early attempts to put the Basel II framework in place faced serious challenges with the lack of clarity over the effect of the Basel II on financial stability and the enormous compliance cost it would place on banks (Herring, 2007). The Dodd-Frank Act was enacted after the 2008 financial crisis, and it adopted one-size-fits-all banking regulation that hurt small community banks (Marsh, 2015). Empirical evidence supports the notion that the cost of complying with Dodd-Frank has been substantially greater on small institutions than on their larger counterparts, and thus resulted in a re-distribution of wealth throughout the industry (Dolar & Dale, 2020). Also, regulatory changes resulting from the Dodd-Frank

Act caused small banks to show measurable rises in a variety of other metrics, including declines in pre-tax returns on assets, increases in salaries-to-assets ratios, and drops in technology spending (Cyree, 2016).

The European Union and the United Kingdom

Similar issues exist in the EU, as prudential regulation and the application of the Basel Accords have drastically changed banking competition and efficiency. Regulatory frameworks and the strength of the deposit insurance have been found to have a significant impact on European bank takeovers and mergers: tougher regulatory regimes and better deposit insurance schemes can be expected to lead to lower premiums that acquiring banks offer for the target, presumably because they expect to incur higher costs to comply with the regulations (Hagendorff, Hernando, Nieto, & Wall, 2012). Similarly, Basel III has brought about a varied impact depending on bank size (Gržeta, Žiković, & Tomas Žiković, 2023). It appeared that larger banks were able to adapt to the new environment, while the framework was found to significantly limit the profitability and efficiency of smaller banks, which found themselves under extra burdens of administration and regulation (Gržeta et al., 2023). Moreover, the compliance cost of the SACORD of the EU was found to have gone up significantly for all banks, smaller banks will incur higher cost increase than large banks (Poshakwale, Aghanya, & Agarwal, 2020). Due to the failure of institutions such as Silicon Valley Bank, European scholars are once again considering the need to introduce "proportionality" in banking legislation, which would enable compliance costs to be more equitably distributed across the banking industry, with a focus on smaller institutions (Arrigoni & Rino Restelli, 2023). The United Kingdom (UK) saw a significant decline in the market value of the largest retail banks due to a combination of major legislative changes leading to a higher regulatory burden and structural changes, which investors believed would impact the profitability of these banks in the future (Amuah et al., 2025).

Asia and the Middle East

The cost of complying with ESG requirements and AML rules is a major operational burden in Asian and Middle Eastern markets. In South Asia, it has been demonstrated that compliance with ESG principles has led to short-term operational trade-offs in terms of reduced profitability of banks, which may decline in the short term, even if it benefits them in the long run (Rana et al., 2026). AML laws have undergone significant changes in China and have significantly increased the compliance requirements, which creates a unique operational burden and compliance cost for smaller regional banks that do not have enough resources (Zhao, Rahman, & Ismail, 2025). In the Middle East, Iraqi commercial banks (ICBs) are required to strictly comply with the regulations on capital, and therefore, banks may have to resort to very risky lending practices just to fulfill the cost of complying with the rules (Al-Husainy et al., 2026). Likewise, in the United Arab Emirates, banks have been subjected to increasing costs associated with Compliance responsibilities around CDD, leading to a worrisome trend of de-risking in financial institutions in the region (ElYacoubi, 2020). Although compliance with AML regulations is essential for foreign investment inflow and consumer confidence in Pakistan, experts in the banking sector point out that the regulations are very complex and costly, causing a tremendous burden on the daily operations of banking institutions (Hassan & Sajid, 2026).

Africa and Oceania

This is a similar pressure in other international markets. Empirical studies have shown that the cost of doing business in accordance with banking regulations in South Africa is unacceptably high and that the procedures need to be drastically changed, to enable banks to cut this cost by as much as 40 percent (Marx & Mynhardt, 2011). A longstanding tradition of "light touch" regulation and corporate governance in New Zealand resulted in the collapse of the country's finance company sector in the late 2000s, which inevitably cost the financial institutions in the country a great deal more to comply with the new regulations (Mayes, 2015).

Evidence from Indian Banks

Empirical studies in the Indian banking sector in recent times establish a strong support for the importance of corporate governance, transparency, and disclosure (T&D) mechanisms and the emergence of the ESG practices and technological adoption.

Corporate Governance, Transparency and Disclosures (T&D)

Corporate governance and transparency are vital for financial stability and valuation in the banking sector in India due to its distinctive ownership and regulatory frameworks. Empirical research shows that T&D has a positive and significant association with bank value, with operating performance measures being constant (Rastogi & Agarwal, 2023). Moreover, although T&D may not necessarily be a linear driver of valuation, it is positively correlated with the value of a bank when controlled for other factors like ESG practices and shareholder activism (Bhimavarapu, Rastogi & Abraham, 2022).

Mandatory disclosure is also well enforced and has been very effective in bringing market discipline. For example, the RBI has introduced regulations that require banks to report discrepancies in asset quality evaluations, which reduced banks' flexibility in taking discretionary loan loss provisions, thereby mitigating moral hazard issues and enhancing earnings quality (Bhusan, Dayanandan & Naresh, 2024; Bhusan, Bansal & Naresh, 2026). Once the level of institutional investors reaches a certain threshold, their active presence can significantly motivate Indian banks to be more transparent and improve disclosure practices (Singh et al., 2025). Moreover, in the Indian private sector banking industry, favorable boardroom conditions like greater size of boards and nonexecutive or female directors are also significant factors in improving the financial performance and market valuation of private banks (Pandey & Sharma, 2025). Although T&D is shown to improve stability, the connection between T&D and financial distress is complicated: higher transparency leads to higher financial distress at low levels of market competition, while higher transparency leads to lower financial distress at high levels of market competition (Rastogi & Kanoujiya, 2022).

ESG, CSR, and Sustainability Reporting

The incorporation of ESG criteria is transforming the Indian banking sector, with regulatory requirements like the Business Responsibility and Sustainability Reporting (BRSR) framework playing a pivotal role. The outcomes of the studies indicate that the financial performance of Indian banks has a significant positive relationship with ESG performance, both based on market and accounting measures (Debnath et al., 2024). In the private sector banks, there is a higher level of initiative to begin ESG practices and to offer

complete environmental disclosures than in public sector banks (PSX) (Prasad & Mondal, 2025; Singh et al., 2026).

Likewise, different priorities are observed in the disclosures of Corporate Social Responsibility (CSR). The PSX has mainly concentrated its CSR activities on community and rural development and environment, while the private sector banks have made Customer-related CSR work as their major preoccupation (Pratihari & Uzma, 2018). Banks with independent and gender-diverse boards are found to be much more effective when it comes to risk management in relation to climate change and environmental disclosures, with larger and more profitable banks (Singh et al., 2026).

Technological Advancements and Digital Disclosures

In India, bank disclosures have evolved with the advent of new technologies like AI and blockchain. The introduction of new technologies like AI and blockchain has added new dimensions to bank disclosures in India. The occurrence of voluntary disclosure of AI initiatives in banks' annual reports serves as a positive signaling effect that can boost confidence and directly affect the levels of deposits, with the effects more pronounced in PSX because of doubts about the level of credibility in private banks' disclosures (Venugopala Rao et al., 2025). However, the current market lacks clarity on AI guidelines, and a lack of transparency and audibility of AI systems is one of the structural issues that hinder the successful implementation of such technologies (Bansal et al., 2024).

Increased Transparency in Lending and Operational Costs: Regulatory measures promoting transparency in lending and operational costs have real market impacts in India. For instance, the introduction of a publicized and cost-based benchmark interest rate by the RBI resulted in higher cost transparency for incumbent banks and reduced the high relationship rents that incumbent banks were able to extract, which eventually led to lower interest rates and boosted the levels of corporate borrowing and firm investments (Tantri & Vishen, 2025). Moreover, there is a significant impact of market competition on bank T&D, which further strengthens market discipline (Rastogi et al., 2025).

Financial Reporting Quality and Bank Performance

The overall valuation of banks and their performance has an immediate and substantial impact on the quality of financial reporting (Rawal et al., 2025). The disclosures of detailed accounting indicators limit information asymmetry and thereby enhance market confidence and increase market value, sometimes reflected in the value of Tobin's Q in Table 1 (Alshdaifat et al., 2025). However, if a bank fails to make accurate and honest financial disclosures, it can cause the bank to have financial risks, and financial risks can lead to the instability of the entire economic system, which can be caused by any financial risk, such as income smoothing or earnings manipulation (Almasri et al., 2025). Additionally, good reporting practices facilitate easy operation of the banks, thereby increasing cost efficiency and optimizing long-term profitability (Alroud, 2025).

Concept of Financial Reporting Quality

According to (Al-Ramahi & Binsaddig, 2024), financial reporting quality is defined as the degree of accuracy, objectivity, and transparency in the way that a bank's financial

statements reflect economic reality and its performance to the public. A high quality of reporting decreases opportunistic earnings management and gives external users of the financial statements accurate information for decision-making (Jin & Wu, 2023). The overall quality, completeness, and verifiability of such financial disclosures are greatly influenced by the adoption of modern accounting systems, such as cloud accounting, and compliance with robust frameworks, like the IFRS (Alfartoosi & Mohsin, 2025; Shahwan et al., 2025).

Dimensions of Reporting Quality

Accuracy: An important element of accuracy is that financial statements are presented without any material error, leaving a true picture of the bank's position. These advantages, such as reduced human error, improved data integrity, and enhanced financial statement accuracy, are significant when implementing advanced accounting systems like digital and cloud accounting (Alfartoosi & Mohsin, 2025). This high accuracy brings about enhanced institutional reputation, improved investor decision-making, and strong compliance with regulatory standards (Shahwan et al., 2025).

Timeliness: The information is published on time and is therefore relevant to the market. However, a financial report that may be related but not timely becomes of little use and can cause market imperfections (Siyanbola et al., 2020). In addition, if reporting deadlines are not met and there are frequent pre-publication changes, it shows that the risks in the future will likely be high for the bank (Guettler et al., 2024).

Reliability: Information is reliable if it does not show any bias and is a faithful representation of what it is supposed to be. Positive indirect effects of financial information reliability have a direct impact on the business of a bank and its financial performance (Oudah et al., 2025). Reliable reporting will create the necessary transparency that will be needed by financial analysts and investors to make critical investment decisions (Al-Ramahi & Binsaddig, 2024).

Comparability: Users can compare the performance of a bank with their competitors and in the timeframe of their choice. Financial information is more comparable and clearer for stakeholders when income statements are redesigned based on the uniform global standards, like IFRS 18 (Zainy & Al-Rubaye, 2025). Moreover, poor accounting comparability is a red flag; companies that are on the verge of financial trouble tend to have poor accounting practices when compared to other healthy companies (Islam et al. 2023).

Financial Reporting Transparency: Transparency in financial reporting is beneficial to ensure that all transactions relating to the environmental, social, and financial effects of the company are visible, thus minimizing the risk of company obfuscation and information asymmetry (Lassoued et al., 2025). Incorporating sustainable reporting and digital transformation go hand in hand, boosting financial transparency, efficiency, and profitability (Alroud, 2025). It is therefore crucial to ensure high transparency to safeguard financial stability in normal times and during economic crises (Abu Salim et al., 2024).

Disclosure quality: relates to the level of disclosure and its clarity – both mandatory and voluntary – to the public, such as key audit matters and operational resilience factors (Alshdaifat et al., 2025; Mansour et al., 2026). A set of comprehensive disclosures helps to reduce opportunistic reporting and provide investors with comfort about the bank's governance and stability (Alshdaifat et al., 2025). Finally, effective disclosure mechanisms can help increase investor confidence, close information gaps, and foster capital market efficiency (Rawal et al., 2025).

Measuring Financial Reporting Quality

Financial reporting quality is assessable in various aspects such as corporate readability and transparency, compliance with regulations, etc. (Keskin et al., 2026; Jayachandran et al., 2026). In the banking industry, the "corporate readability" of financial disclosures, defined as how readable and understandable they are for stakeholders, is an important indicator for the firm's financial disclosures, regulatory compliance, and institutional credibility (Keskin et al., 2026). Meanwhile, there is a frequent "readability gap" between the complexity of the corporate financial disclosures and the understanding of those disclosures by the stakeholders (Keskin et al., 2026). Reporting quality is now assessed in emerging markets by considering the quality of the required disclosures, such as the new BRSR requirement in India (Jayachandran et al., 2026). Additionally, new metrics for reporting quality are emerging from the use of modern technology, such as blockchain, which provides a more transparent and trustworthy environment for financial reporting, thereby naturally ensuring more transparency and trustworthiness (Sheeba et al., 2026).

Relationship Between Reporting Quality and Financial Performance

The overall financial performance of banking institutions can be affected by the quality of corporate reporting and overall governance (Das, Sahoo & Beher, 2026). The connection is often evaluated by comparing the corporate governance effectiveness, including transparency and accountability, with the performance measures such as Return on Equity (ROE) and shareholder wealth creation (Das, Sahoo & Beher, 2026). Appropriate and veridical reporting can enhance the efficiency in allocation of resources, reduce fraud and transaction cost, thus boosting the financial ecosystem (Das & Pradhan, 2026; Sheeba et al., 2026). Moreover, transparent and user-friendly corporate disclosures contribute to the development of trust and long-term relationships between institutions and stakeholders, fostering market stability and financial strength (Keskin et al., 2026).

Evidence from Indian Banking

The evidence obtained from the Indian banking sector shows that there are huge differences in the impact of reporting quality and governance on financial performance (Das, Sahoo & Beher, 2026). The results of the comparative study of Indian banks suggest that the corporate governance variables are closely and significantly associated with ROE for private sector banks and that private sector banks with better corporate governance have higher ROE as the level of transparency and corporate governance is enhanced (Das, Sahoo & Beher, 2026). This relationship, however, is not significant in the Indian PSX, thereby indicating the need for the PSX to enhance its governance framework and committee efficiencies to enhance financial performance (Das, Sahoo & Beher, 2026). When it comes to sustainability reporting, banking and financial corporations (BFCs) in India are significantly ahead of manufacturing companies in terms of regulatory compliance and overall reporting practices under BRSR (Jayachandran et al., 2026). The overall financial development in India is still marred by inefficiencies and a lack of access to financial institutions; there is a need for unbiased monitoring systems and specific regulatory actions to improve the transparency of the financial system (Das & Pradhan, 2026).

TABLE 1 DIMENSIONS OF FINANCIAL REPORTING QUALITY AND THEIR IMPACT ON BANK PERFORMANCE: EVIDENCE FROM RECENT LITERATURE

Dimension	Definition	Major Findings	Performance Impact	Key Implication	References
Overall reporting quality	Quality financial reporting reduces information asymmetry.	Better reporting improves valuation and investor confidence. Poor reporting increases financial risk.	Higher profitability, cost efficiency, and Tobin's Q.	Transparent reporting strengthens banking stability.	(Rawal et al., 2025; Alshdaifat et al., 2025; Almasri et al., 2025; Alroud, 2025)
Financial reporting quality	Financial statements accurately reflect economic performance.	High-quality reporting limits earnings management. IFRS and cloud accounting improve reporting quality.	Better stakeholder decisions and governance.	Standardized reporting increases credibility.	(Al-Ramahi & Binsaddig, 2024; Jin & Wu, 2023; Alfartoosi & Mohsin, 2025; Shahwan et al., 2025)
Accuracy	Reports are free from material errors.	Digital accounting improves accuracy and reliability.	Better compliance and institutional reputation.	Accurate data supports sound decisions.	(Alfartoosi & Mohsin, 2025; Shahwan et al., 2025)
Timeliness	Financial information is released promptly.	Reporting delays reduce usefulness. Frequent revisions signal a higher risk.	Faster decisions and improved market efficiency.	Timely reporting enhances relevance.	(Siyanbola et al., 2020; Guettler et al., 2024)
Reliability	Information faithfully represents actual performance.	Reliable reports improve stakeholder confidence.	Better investment and operational decisions.	Reliable information reduces uncertainty.	(Oudah et al., 2025; Al-Ramahi & Binsaddig, 2024)
Comparability	Reports can be compared across firms and periods.	IFRS improves comparability. Low comparability indicates financial distress.	Better benchmarking and performance evaluation.	Standardization improves consistency.	(Zainy & Al-Rubaye, 2025; Islam et al., 2023)
Transparency	Financial information is openly disclosed.	Transparency lowers information asymmetry. Sustainability reporting improves openness.	Higher profitability and financial stability.	Transparency strengthens investor confidence.	(Lassoued et al., 2025; Alroud, 2025; Abu Salim et al., 2024)
Disclosure quality	Mandatory and voluntary disclosures are comprehensive.	Better disclosure reduces opportunistic reporting.	Higher market efficiency and governance quality.	Comprehensive disclosure builds trust.	(Alshdaifat et al., 2025; Mansour et al., 2026; Rawal et al., 2025)
Readability	Measures ease of understanding reports.	Higher readability improves credibility. Readability gaps remain common.	Better stakeholder comprehension.	Simple reports improve transparency.	(Keskin et al., 2026)
Sustainability reporting	Evaluates ESG and BRSR disclosures.	BRSR is an emerging reporting quality measure.	Improves accountability and ESG performance.	Sustainability reporting supports transparency.	(Jayachandran et al., 2026)

Blockchain reporting	Uses immutable digital records.	Blockchain improves transparency and trust.	Better reporting reliability.	Technology enhances reporting quality.	(Sheeba et al., 2026)
Governance relationship	Reporting quality supports effective governance.	Better governance increases ROE and shareholder value. Fraud and transaction costs decline.	Improved profitability and resilience.	Governance strengthens long-term performance.	(Das, Sahoo & Beher, 2026; Das & Pradhan, 2026; Sheeba et al., 2026; Keskin et al., 2026)
Private sector banks	Governance positively affects ROE.	Strong governance improves shareholder returns.	Higher financial performance.	Private banks benefit more from governance reforms.	(Das, Sahoo, & Beher., 2026)
PSX	The governance-performance relationship is weaker.	Governance reforms remain necessary.	Limited improvement in ROE.	Stronger committees are needed.	(Das, Sahoo & Beher, 2026)
BRSR adoption	Banks show higher reporting quality than manufacturing firms.	Banking sector leads BRSR compliance.	Better transparency and compliance.	The banking sector is ahead in sustainability reporting.	(Jayachandran et al., 2026)
Financial development	Institutional inefficiencies persist.	Better monitoring improves financial development.	Greater sustainability and efficiency.	Regulatory reforms remain essential.	(Das & Pradhan, 2026)

Compliance Costs, Disclosure Practices, and Financial Performance

Good regulation, disclosure, and financial performance are deeply intertwined in today's banking world. Striking the balance between compliance with stringent regulations and achieving profitability remains a challenge that demands strategic alignment and good corporate governance in Figure 2.

Compliance Costs and Profitability

The direct effect of compliance costs due to strict financial regulations on a bank's profitability has a multi-faceted effect. Too much regulation, and the cost of compliance, can restrict lending, inhibit innovation, and reduce profitability (Hornbeck, 2011). For example, the implementation of compliance to Enterprise Risk Management (ERM) requirements in the highly regulated banking industry did not reveal any significant positive relationship with firm value, meaning that compliance does not necessarily lead to an increase in a firm's value in the eyes of investors (Fauziah, Ningsih & Rushami Zien, 2026). But better regulation can also bring positive economic benefits; globally, tight capital requirements and robust information disclosure laws have been found to have a very significant and positive effect on profits (Mahmud, 2022). Moreover, the technological innovations, including AI and RegTech, can significantly cut compliance expenditure by up to 30%, thereby positively impacting the profitability, operational efficiency, and tackling the burden of regulations. (Kulkarni, 2025)

Compliance Costs and Operational Efficiency

The efficiency of operations is closely connected to the management and automation of compliance obligations of financial institutions. The quality of internal control over financial reporting (ICFR) is an important factor; Internal control is an important complement to bank regulations and enhances the efficiency of the banks, while banks with poor internal controls have a negative correlation with efficiency (Lai & Liu, 2026). Advanced technologies are being popularly embraced by banks to reduce compliance complexity and cost. AI-powered analysis tools streamline the process of compliance reporting, tackle the complexity of regulatory compliance, and minimize human error, significantly improving both the efficiency of operations and the accuracy of decision-making (Rana et al., 2025). Explainable AI (XAI) models have also been created to be used specifically in banking regulatory compliance audits, which would involve AML and consumer compliance. XAI models would have to achieve the desired level of predictive performance while not compromising regulatory transparency, thereby maximizing operational efficiency (Desai, 2025).

Disclosure Quality and Investor

Investor trust is a requirement for both the building and maintenance of quality and transparent disclosure. Rigorous implementation of the internal audit function and the proper implementation of internal control and governance will lead to discipline and will not give investors reasons for losing their trust in the company due to corporate scandals (Al-Matari, Hassan, & Alaaraj, 2016). In contrast, the absence of an accurate story of the underlying realities in financial reporting threatens trust; high-quality corporate governance disclosures must reassure readers of financial reports that they are trustworthy (Abraham, Deo & Irvine, 2008). In Islamic banking, the powerful Sharia disclosure is a branding tool that enhances the trust and market discipline of the banking system, even in countries with weak regulatory systems (Khomsatun et al., 2021). Likewise, the development of beneficial ownership disclosure practices, supported by digital verification, has been demonstrated to increase responsibility, boost investor confidence, and improve a country's image in the fight against financial crimes (Nauli, Mohamed, & Sultan, 2023).

Transparency and Market-Based

There is a link between the process of Performance Transparency (via full disclosure) and improved market-based measures of performance. Non-financial information reporting and good governance disclosure increase the transparency of companies, which translates into benefits like higher credit ratings, lower risk exposure, and lower debt costs (Barone et al., 2026). Besides, when the accounting comparability is high, the transparency of financial reporting increases, and the information asymmetry decreases, helping stakeholders assess a bank's sustainable performance and earnings persistence (Nour et al., 2026). Voluntary risk disclosure has also been recorded to lower the price of equity capital, as potential stakeholders acquire higher information and gain confidence in business operations (Nahar, Azim, & Jubb, 2016). In terms of the organizational level, the implementation of a well-designed audit committee comprising independent directors fosters transparency and is consistent with sustainable development objectives, which in turn results in a greater market value in terms of Tobin's Q (Karim et al., 2024). Lastly, bank operating efficiency (Barth et al., 2013) is positively related to market monitoring of banks through mandated financial transparency.

Short-Term vs Long-Term Financial Effects

Costs of compliance and disclosure can vary by time horizon. In the short term, the creation of frameworks such as the Basel Accords can involve extra risk calculations and can lead to

an investment demand shortage for financial assets (Ozun, 2007). In the long run, however, the cost of such a financial system failure is more than compensated for by the costs of lower efficiency or less lending that may be associated with weaker regulation (Hornbeck, 2011). The long-term benefits of regulations have also been noted in the risk premiums, as emerging markets can reduce their risk premium over a long time horizon due to the increase in transparency and the improvement in risk measurement methods (Ozun, 2007). Forward-looking measures, including frontloading ESG risks and benefits for the current capital charge, can encourage the adoption of long-term green financing and motivate a firm's profit-maximizing activities to be sustainable financial transitions (Ozdemir, 2023). Similarly, a managerial approach to accounting conservatism will boost long-term financial sustainability by reducing the risk of litigation and providing accurate and transparent financial statements over time (Adam et al., 2025).

Evidence from Emerging

Economic Research on emerging economies shows that the institutional setting plays a significant role in the success of compliance and disclosure. A Middle East and North Africa (MENA) study revealed a positive, but non-linear, relationship between the dimensions of ESG disclosures and bank profitability, suggesting that strategies to accommodate the specific needs of emerging markets must be developed to see how ESG compliance can become a competitive advantage for banks (Mateev, Sahyouni & Moudud-Ul-Huq, 2026). For Vietnam, empirical evidence indicates that the adoption of Basel II standards further enhances the benefits of digital transformation measures for financial performance (Bui & Duong, 2025). In Indonesia, which has a very regulated banking sector, however, CSR motivations may vary, as the disclosure of CSR is more influenced by the financial capacity and institutional scale of the banking institution than in serving as a means to create value through sustainability strategy (Nabella, Raharjo, & Hakim, 2026). Based on the indications from the comparative studies of Basel III implementation in United Arab Emirates (UAE) and India, it can be concluded that the size of bank and profitability of banks is the most important factor that determines compliance with bank disclosure, which urges the need to dedicate more resources to full adherence to Basel III in emerging markets (Thomas, Bansal, & Ahmed, 2023). In addition, emerging economies facing corruption can effectively curb the incidence of non-performing loans (NPLs) through robust banking laws and regulations and by introducing Fintech innovations that boost transparency in banking operations (Mohammed, 2025).



FIGURE 2 THE RELATIONSHIP BETWEEN REGULATORY COMPLIANCE, DISCLOSURE, AND FINANCIAL OUTCOMES

Comparative Evidence Across Indian Commercial Banks

Based on the empirical findings, it can be found that the mechanisms of corporate governance and voluntary ESG disclosures and liquidity policies have differential influences on bank performance, stability, and efficiency among commercial banks in India (Sain & Kashiramka, 2024). The different effects of these factors depend largely on the ownership of banks (Lokeshwari & Shruthi, 2026).

Public Sector Banks

The role of ESG disclosures is significant in the Indian PSX, as they showed a positive correlation between ESG scores and ROE when compared to their private sector bank peers, as reported by Lokeshwari and Shruthi (2026). They also reveal greater gains from voluntary disclosures of AI implementations, which have a positive impact on customer deposit behaviors and increase customer confidence (Venugopala Rao et al., 2025).

But there are some corporate governance challenges that are particular to PSX. For instance, the bigger the board size and the greater the ownership of promoter(s), the lower their overall performance (Sain & Kashiramka, 2024). A detailed analysis of the State Bank of India (SBI), a major public sector bank, reveals that ownership structure and audit committee have significant positive effects on business performance (represented by ROA, ROE, and Tobin's Q) while the general nature of the board of directors has an insignificant effect (Chahal & Kumari, 2013).

Private Sector Banks

The private sector banks in India are found to have a positive relationship with the ROE; however, the magnitude of the relationship is weaker in the case of PSX (Lokeshwari & Shruthi, 2026). Moreover, if private banks take the initiative to report their AI projects, the positive effect on customer deposits is reduced due to a lack of credibility (Venugopala Rao et al., 2025). In the context of internal governance mechanisms, the private sector banks'

financial performance is adversely affected by the CEO duality, which is a unique hindrance that doesn't exist in the public banks (Sain & Kashiramka, 2024).

Comparative Compliance

Burden Banks India is confronting evolving compliance pressures, especially from new liquidity regulations such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Practitioners in the industry suggest that in the beginning, as banks adjust to follow the LCR guidelines with low liquidity, their profits take a hit (Sidhu et al., 2024). In addition, it has been universally demonstrated that the NSFR negatively affects bank profits (Sidhu et al., 2024). But, banks are well motivated to voluntarily comply with higher corporate governance standards as there is a measurable gain in the financial performance of banks that follows the framework of best practices (Kaur & Vij, 2018).

Comparative Financial Reporting Practices

The Indian banking sector has become more dependent on voluntary non-financial disclosures in financial reporting, thus transmitting transparency messages to the market. There is a consistent pattern of positive and significant association between ESG disclosure and bank profitability (Sain & Kashiramka, 2024). Likewise, disclosures of AI projects in annual disclosures serve as a signaling mechanism directly leading to customer trust (Venugopala Rao et al., 2025). Furthermore, the institutional ownership and board independence are strict corporate governance features that reduce the profitability of unethical reporting and insider trading among South Asian banks, including those in India (Alawi, 2025).

Comparative Financial Performance

In the case of commercial banks of India, there is a significant and positive correlation between a strong Corporate Governance Index (CGI) and financial performance (Return on Assets (ROA), Tobin's Q, and Economic value added (EVA)) (Kaur & Vij, 2018). Another factor that also affects performance and efficiency is liquidity ratios. The relationship between the LCR and the technical efficiency of banks is non-linear and positive up to a certain value of the LCR, after which it decreases (Sidhu et al., 2023). Though compliance with LCR may affect the profitability in the short-term, maintaining adequate liquidity buffers helps to positively impact the profitability of banks in the long run and Non-Performing Asset (NPA) levels (Sidhu et al., 2024).

Reasons for Performance Differences

One of the major causes of the difference in performance between the Indian commercial banks is due to the difference in the ownership structure of the commercial banks (Lokeshwari & Shruthi, 2026).

Ownership Stakes: The efficiency impact of liquidity is generally stronger with higher stakes by the promoters, while the influence of institutional investors and technology sometimes is counterproductive in terms of efficiency (Sidhu et al., 2023; Sidhu et al., 2024).

Governance Shortcomings: Structurally distinct governance defect also contributes to the difference in performance of private and public banks: the lack of separation between the CEO and the management in private banks, and oversized boards and promoter ownership in public banks (Sain & Kashiramka, 2024).

Customer Perception: Financial growth (deposit behavior) is dependent on the difference in perceived trust, with public banks having a history of credibility that is more

effective in converting voluntary disclosures into financial returns than private banks (Venugopala Rao et al., 2025).

Integrated Assessment of Regulatory Reforms and Financial Sustainability

Technological innovation and regulatory frameworks have profoundly reshaped the financial services landscape, making regulatory compliance an integral part of financial sustainability. To meet increasingly rigorous transparency and reporting obligations and to stay competitive, financial institutions are increasingly turning to cutting-edge technologies, including AI, blockchain, and Regulatory Technology (RegTech) (Grassi & Lanfranchi, 2022). As the demand for sustainability and ESG standards grows, the intersection of ESG and digital innovations has emerged as a vital component in maintaining operational efficiency and securing long-term sustainability, transforming regulatory compliance from a legal obligation into a strategic competitive advantage (Mateev et al., 2026; Shrinag et al., 2024).

Financial Reporting Quality and Compliance Costs: An Integrated Perspective

High-quality financial reporting needs to be balanced with the costs of regulatory compliance. IFRS has a positive relation with a company's strong corporate governance, which has a positive impact on the quality of financial reporting (Gardi et al., 2023). This adoption not only helps to boost the quality of reporting and decision-making but also boosts a firm's reputation and regulatory compliance (Gardi et al., 2023). There are, however, significant compliance expenses to traverse these frameworks, and standardization of cost accounting is challenging in diverse institutional contexts (Ayam, 2024). Evidence suggests that positive stock market reactions suggest that the potential benefits of disclosure regulations, such as the Securities and Exchange Commission (SEC's) proposed disclosure regulations for short-term borrowing, may be more significant than any cost from the investor side of the disclosure compliance equation. (Chamberlain, Khokhar & Sarkar, 2016) However, the so-called "one-size-fits-all" perspective on the regulation is not always desired due to the fact that the regulatory costs and benefits among various types of financial institutions can be vastly different (Chamberlain, Khokhar & Sarkar, 2016).

Impact of Post-2015 Regulatory Reforms

In order to keep pace with the rapid digital transformation, modern regulatory changes have required institutions to overhaul their compliance approaches. The upcoming EU AI Act, the General Data Protection Regulation (GDPR), the Digital Operational Resilience Act (DORA), Basel III, and Revised Payment Services Directive (PSD2) all mandate financial institutions to globally harmonize technology deployments and ensure compliance with high-risk mitigation and data privacy laws (Divadari & Khang, 2025; Botunac, Parlov & Bosna, 2024). The modern requirements include embedding XAI and secure frameworks into models to make them transparent, traceable, and free from discriminatory biases (Botunac, Parlov, & Bosna, 2024). In addition, there is a need for reproducible, fair models to identify financial crimes while minimizing the number of false alerts (Mazumder, 2026) that are required by the AML protocols and Bank Secrecy Act/ Financial Action Task Force (FATF) guidance. To cope, banks are increasingly leveraging RegTech and multi-agent systems to pull and report data directly and efficiently, satisfying these post-2015 demands (Grassi & Lanfranchi, 2022).

Long-Term Financial Sustainability

For banking, financial sustainability is more and more closely tied to strategic integration of financial performance with ESG aspects and inclusive practices. Empirical evidence shows that the ESG dimensions have a positive, albeit non-linear, relationship with banks' financial performance, which underscores the importance of plugging-in solutions to each model of banks (Mateev et al., 2026). Digital technologies play a critical role here, in particular, blockchain and Information and Communication Technologies (ICT) enable transparent, secure, and efficient ESG compliance and reporting (Shrinag et al., 2024). In addition, technologies that foster financial inclusion, such as Islamic FinTech, which leverages AI and blockchain for efficient social welfare fund administration and Sharia compliance, have their role in sustainable growth (Zafar & Yasin, 2026; Shukri et al., 2026).

Operational Efficiency

For financial institutions looking to streamline their operations and stay compliant, technological adoption is the main tool. When AI-enabled analytics is integrated with banks, it can enable real-time processing of data, automate compliance reporting, and help minimize compliance-related human errors and the cost of compliance (Rana et al., 2025; Boddu et al., 2025). For example, Albanian commercial banks showed that the implementation of AI-driven automation led to a 25% decrease in operational expenses and a 20% improvement in fraud detection accuracy (Hallunovi & Dragusha, 2025). Furthermore, cloud computing ecosystems allow for the creation of strong data ingestion capabilities, automated orchestration of data pipelines, and secure real-time access, directly increasing operational resilience and business intelligence (Vásquez et al., 2026).

Market Valuation and Investor Perception

The relationship between investor perception and market valuation is complex and multifaceted, and is closely tied to regulatory compliance and transparency. Surprisingly, regulatory compliance is not always found to be important to the increase in the market value of a firm, as one study on the banking industry in Indonesia found that ERM disclosures had no significant impact on the value of the firm, but rather, investors focus on tangible financial results (Fauziah et al., 2026). On the other hand, when regulatory transparency is thought to reduce systemic risk – such as when the SEC votes on disclosure requirements – investors tend to respond positively, increasing stock prices of the firms complying with the regulation (Chamberlain, Khokhar & Sarkar, 2016). The adoption of predictive tools, like machine learning systems to identify bankruptcies with high precision, contributes to the trust of the market and to the protection of investors by providing early warning of the fiscal soundness of a company (Selvamani et al., 2025).

Synthesis of Empirical Findings

The modern banking environment seems to move beyond check-boxing on regulations. Empirical evidence suggests that moving through the modern banking environment goes beyond check-boxing. Contrary to popular belief, it has been found that meeting governance and regulatory requirements does not automatically lead to better profit efficiencies, but it does bring positive externalities to banks with lower efficiencies (Gulati, 2023). The findings of the global analysis suggest that prudential regulations (capital adequacy and LCR) play a strong role in banking stability and profitability, while the adoption of new regulatory technologies (RegTech) has positive but mixed results, and needs to be further scaled to achieve significant profitability benefits (Mustafa, 2025). Focusing instead on governance, therefore, the intersection of advanced technology and governance needs to be strategically adopted rather than only reactively used, in order to maximize the benefits at the institutional level (Grassi & Lanfranchi, 2022).

Research Gaps and Future Research Directions

Although there are strong pieces of literature on financial technology and financial regulation, there are some gaps. Current research on the scalability, interoperability, and regulatory compliance of Decentralized Identifier (DID) systems, such as Electronic Know Your Customer (eKYC) solutions on blockchain, is limited and fails to consider Internet of Things (IoT) integrations (Ahmed et al., 2025). Future work also needs to include cross-sectoral empirical research outcomes on algorithmic transparency checks, the social effects of integration of big data, and the introduction of responsible AI data governance (Sophocleous & Masouras, 2026). Furthermore, researchers have suggested examining the potential of using AI for dynamic stress testing, climate risk analysis, and human-AI collaboration, as well as ensuring that AI technology is both ethical and sustainable in terms of financial returns (Dewasiri et al., 2024; Carbó-Valverde & Rodríguez-Fernández, 2025).

CONCLUSION

Regulatory changes, including the Basel Accords and the IFRS regulations, have reshaped the evolution of the Indian banking sector, influencing financial reporting and compliance regulations. The Indian banking sector has undergone significant changes in its regulatory framework, including the Basel Accords and the IFRS, which have impacted financial reporting and compliance procedures. These stipulations greatly increase compliance costs with strict AML, ESG, and cybersecurity regulations, but are essential for the long-term systemic stability. Increased value to the bank and investor confidence through high-quality financial reporting, which is accurate, timely, and transparent. Moreover, empirical studies show that different performance results are attributed to different ownership structures, indicating that ESG and disclosures of technology are important tools for PSX to gain the trust of its clients. To be financially sustainable in the long-term, however, this isn't about doing the right things to tick off the boxes—the right things are what make the difference. Banking institutions need to proactively embrace cutting-edge technologies and solutions, such as AI and RegTech, to meet growing compliance requirements and ensure efficient operations. This technological match-up makes regulatory compliance a competitive edge for today's banks, instead of an expensive legal requirement.

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