

Study on Sustainable Financial Practices by Indian Banking Sector

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Abstract:

The purpose of the study is to analyze the extent of literature on the various environmental sustainable finance and climate risk management by public, private and foreign banks towards sustainable development goals. In 2015 with the India and other countries have collaborated and brought with new concept called sustainable development goals all over the world to achieve environmental, social, and economical welfare. It will help to protect our climate and environment development that meets the needs of present without compromising the ability of future generation to meet their needs, simultaneously reduce the poverty level and access basic resources and services for all. To achieve this giant capital is essential by various financial institutions especially banks. Therefore, this study is mainly concentrated on understanding the adoption factors of climate risk management and evaluation of environmental sustainability finance by public, private and foreign banks which are established in India. The study is conducted for the periods of one month and found the majority public and foreign sector banks have been implemented sustainable accounting practices compared to the private banks.

Keywords: *Sustainable Development, sustainable accounting practices, Public, Private and Foreign banks, environment accounting practices*

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I. Introduction:

In 2015 the international community adopted the 2030 agenda for 17 Sustainable goals that underpin it. Set the goals all over the world with ambitious and universal of 15 year agenda. In India also sustainable development goals have been implemented in 2015 which are applicable to all kinds of industries in leading banking sectors.

Sustainability in banking involves strategic planning and execution of banking operations and business activities while taking into consideration the environmental, social and governance (ESG) impacts. Banks stand to play a major role in achieving the sustainable development goals.

Environmental sustainability aims to protect the natural balance of the planet, while limiting the impact of human activities on the environment.

Many Indian public, private and foreign banks have initiated and concentrated on investment of environment sustainable financial practices and undertaken climate risk management process and evaluation.

Statement Of The Problem:

Government of India has implemented Sustainable Development Goals by 2030. To achieve SDG it's important to consideration of sustainability in the entire sector is emphasized to protect our environment for present and future generation. Banking sector is one of among those, because banks play essential role in providing giant capital to achieve sustainability in all other sectors. Many public, private and foreign banks are concentrated and initiated investment towards environment sustainable finance and under taken separate risk management called climate risk management. This is possible only through the practice of sustainable accounting. Due to the lack of awareness about the sustainability, the study have been undertaken to find level of adoption of sustainable accounting practices and climate risk management among public, private and foreign banks established in India.

Objectives:

- To understand the adoption of sustainable accounting practices for climate risk management in Indian banking sector.
- To evaluate the environment sustainable financial practices in Indian banking sector.

II. Review Of Literature:

- 1) Ajai Prakash, Kishore Kumar and Ankit Srivastava (2018) in their research on “**Consolidation in the Indian Banking Sector: Evaluation of Sustainable Development Readiness of the Public sector banks in India**”. The main aim of the study is to analyze the issues pertaining to consolidation activities in the banking industry and tests the level of sustainable development adoption of Indian banking industries. The study also revealed that only public sector banking industry in India primarily lies in the defensive and preventive banking stage and follows the adoption of the regulatory norms compared to the others banks.
- 2) Kishore Kumar and Ajai Prakash (2018), in their study on “**Developing a frame work for Assessing Sustainable Banking Performance of the Indian Banking Sector**”. The study concentrated on level of adoption of sustainable banking tools the extent to which banking institutions practices, the same in India and the result was that adoption of the international sustainability code of conduct is still in its nascent stage. Banks are more focused on addressing social dimension of sustainability in banking rather than important dimensions of sustainable banking.
- 3) Saeed Nosratabadi, Gergo Pinter, Amir Mosavi and Sandor Semperger (2020) in their study on “**Sustainable Banking: Evaluation of the European Business Models**”. The research is focused on evaluation of sustainability performance of sixteen banks from eight European countries and result was found that the comparison of the banks studied by each country disclosed that the sustainability of the Norwegian and German banks business model is higher, Hungary and Spain came in second, UK, Poland and France ranked third, finally in the sustainability of their business models.

III. Research Methodology:

Research design:

The research design used in this study is a descriptive type of research.

Methods of data collection:

The study is utilized only Review of Literature and secondary data available in the annual reports of banks, RBI bulletins and RBI sustainability survey report of 2022 and other websites.

Analysis of data:

The study is analyzed by using tables, graphs, charts and percentage form conceptual analyses have been done.

Limitation of the study:

- a) The study is limited only to India and information available.
- b) The study is restricted only on various sustainable accounting practices and sustainable climate risk financial management and environment sustainable accounting practices in Indian banking sector.
- c) Time constrain for study is very limited, that is a period of one month. So the result may vary.
- d) The result of the study cannot be generalized for entire sustainability concept.
- e) The data selected for the study is period of 2022 year. The SDGs program came into existed in the year 2015, the RBI analyzed among various banks sustainability accounting practices for period of 2015 to till 2022 this will help for the study to understand various accounting practices in different category of banks.

IV. Data Analysis And Interpretation:

Understand the adoption of sustainable accounting practices for climate risk management in Indian banking sector.

Key observations from the study of banks sustainable report and sustainability report of RBI 2022.

- **Board –level engagement and responsibility:** Board – Level engagement on climate risk financial management is inadequate. Few banks were overseeing initiatives related to climate risk financial management. Furthermore, only a few banks have included climate risk related key performance evaluation indicators (KPI) in the evaluation of their top management.
- **Strategy:** only few banks were have strategies for climate risk financial management and principals in their business in their business, scaling up their sustainable financial portfolio in incorporating climate risk management into their existing risk management framework

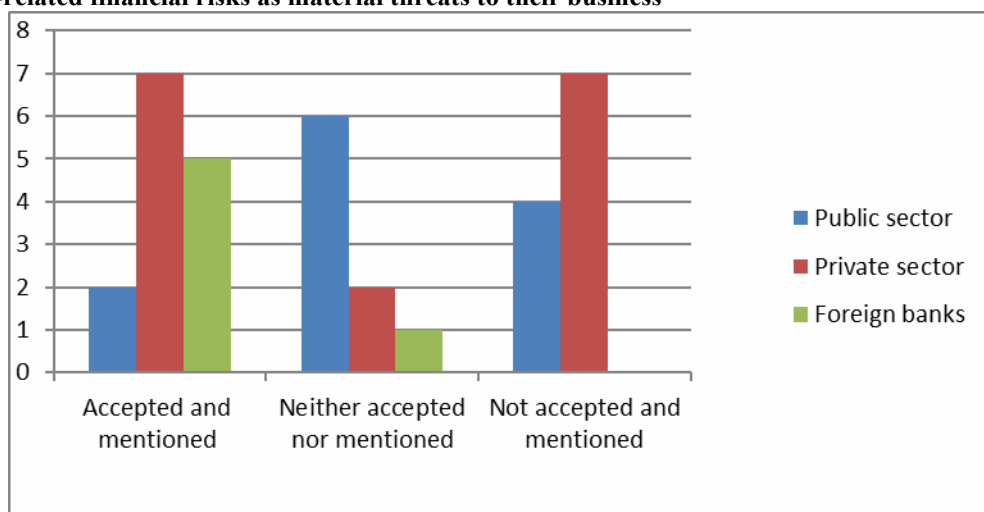
- **Risk management:** Almost all banks were recognized climate risk is one of material and physical threats to their business but few were not considered climate risk is not very important than social and economic governance.
- **Transition to low-carbon exposure:** Most of the banks have decided to gradually reduce the exposure to high carbon emitting / polluting business in the coming years. A few banks have either mobilized new capital to scale up green lending and investment on climate risk finance.
- **Moving towards a low-carbon environment in banking operations:** Most banks have planned to decrease the absolute carbon emissions arising from their operations and increase the proportion of renewable energy in their total sourced electricity. Few banks announced the climate risk financial management plans which are implementing over next 12 months to become carbon – neutral.
- **Capacity building and data gaps:** Most banks are looking at capacity building to better understand the financial implications of climate risk. Further, most of banks felt that the available data was insufficient for an appropriate assessment of climate related financial risks.
- **Climate related financial disclosure:** A majority of the banks have not aligned their climate – related financial disclosure with any internationally accepted frame work.

Evaluate the environmental sustainable financial practices by Indian banking sectors.

Table: 3.2.1 table showing climate-related financial risks as material threats to their business

Banks	Accepted and mentioned	Neither accepted nor mentioned	Not accepted and mentioned	Total
Public sector	2	6	4	12
Private sector	7	2	7	16
Foreign banks	5	1	0	06
Total	14	09	11	34

Climate-related financial risks as material threats to their business



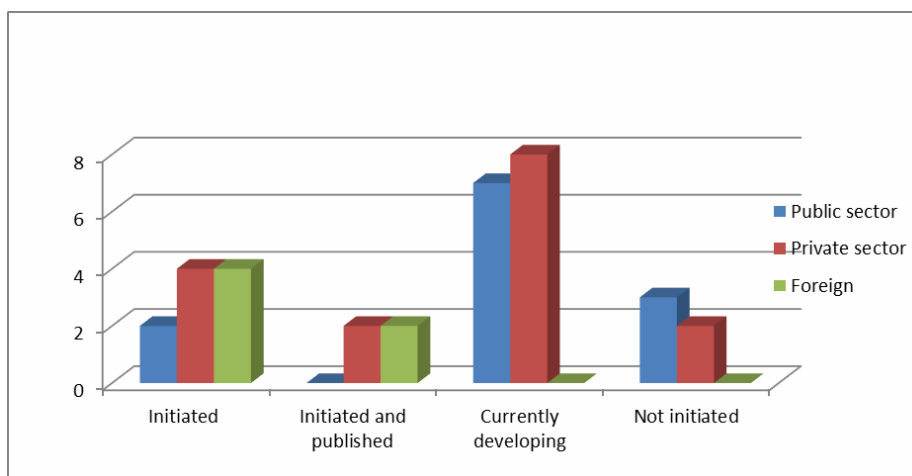
Source: Sustainability survey reports of RBI 2022

Interpretation:

Out of total 34 banks, 12 and 06 public sectors and foreign banks have been accepted the climate related financial risks as material threats to their business. But private banks are in condition of neither accepted not mentioned.

Table: 3.2.2 showing banks which have initiated to integrate climate risk into their main management framework.

Banks	Initiated	Initiated and published	Currently developing	Not initiated	Total
Public sector	2	0	7	3	12
Private sector	4	2	8	2	16
Foreign	4	2	0	0	06
Total	10	04	15	05	34



Source: Sustainability survey reports of RBI 2022

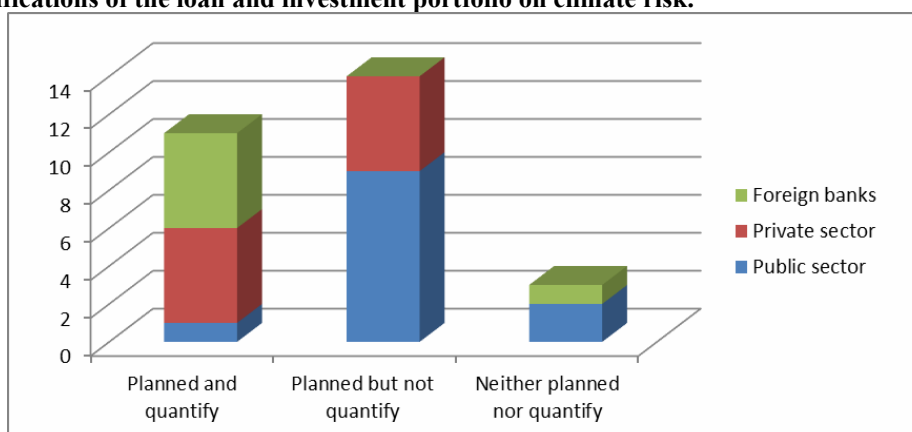
Interpretation:

Public sector banks have initiated and published to integrate climate risk decision into to their main management framework. But foreign and private sectors banks are currently developing framework by integrate climate risk into their main framework.

Table: 3.2.3 showing banks response on qualifications of the loan and investment portfolio on climate risk.

Banks	Planned and quantify	Planned but not quantify	Neither planned nor quantify	Total
Public sector	1	9	2	12
Private sector	5	5	0	10
Foreign banks	5	0	1	06
Totals	11	14	03	28

Banks qualifications of the loan and investment portfolio on climate risk.



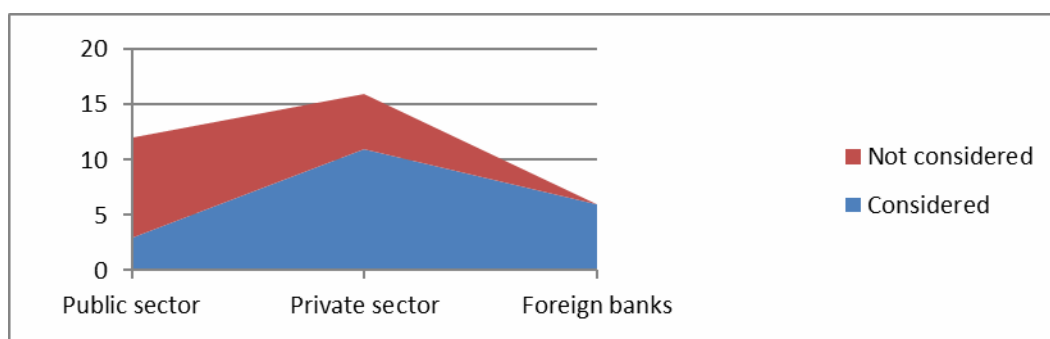
Source: Sustainability survey reports of RBI 2022

Interpretation:

Private sector banks are planned and quantify of the loan and investment portfolio on climate risk. Few public and foreign banks are planned but not quantify the investment on climate risk, but remaining banks are not concentrated on investment on climate risk.

Table: 3.2.4 showing climate and sustainability related risks and opportunities

Banks	Considered	Not considered	Total
Public sector	3	9	12
Private sector	11	05	16
Foreign banks	06	00	06
Total	20	14	34



Source: Sustainability survey reports of RBI 2022

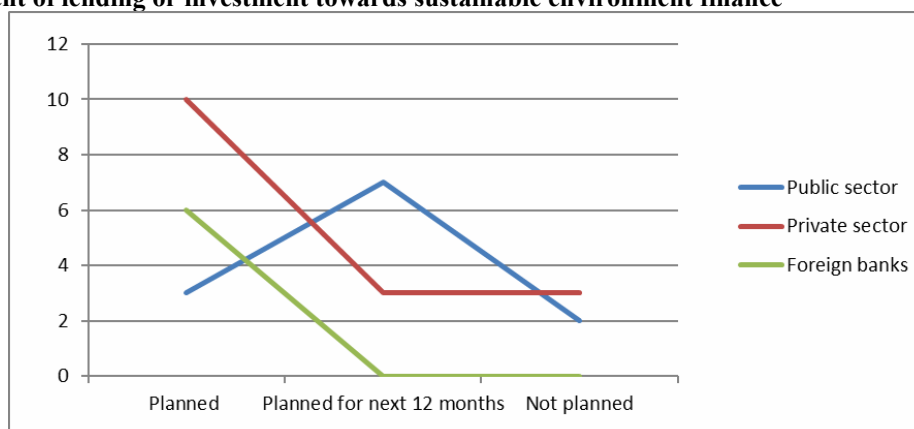
Interpretation:

Both private and foreign banks are completely considered that climate and sustainability related risks and opportunities and investment on that, but few public banks were considered remaining is not.

Table 3.2.5: Showing enhancement of lending or investment towards sustainable environment finance.

Banks	Planned	Planned for next 12 months	Not planned	Total
Public sector	03	07	02	12
Private sector	10	03	03	16
Foreign banks	06	00	00	06
Total	19	10	05	34

Enhancement of lending or investment towards sustainable environment finance



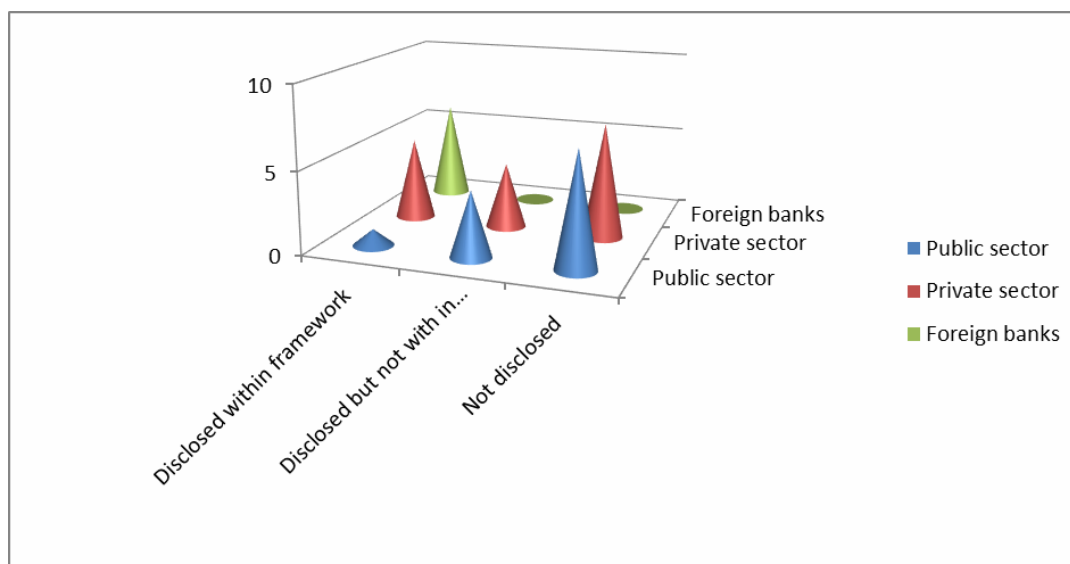
Source: Sustainability survey reports of RBI 2022

Interpretation:

Out of 12 public sector banks only 3 were planned for lending towards sustainable environment finance remaining were planning in next 12 months, but private and foreign banks were fully planned towards lending on sustainable environment finance.

Table 3.2.6: showing climate related financial disclosure

Banks	Disclosed within framework	Disclosed but not with in framework	Not disclosed	Total
Public sector	01	04	07	12
Private sector	05	04	07	16
Foreign banks	06	00	00	06
Total	12	08	14	34



Source: Sustainability survey reports of RBI 2022

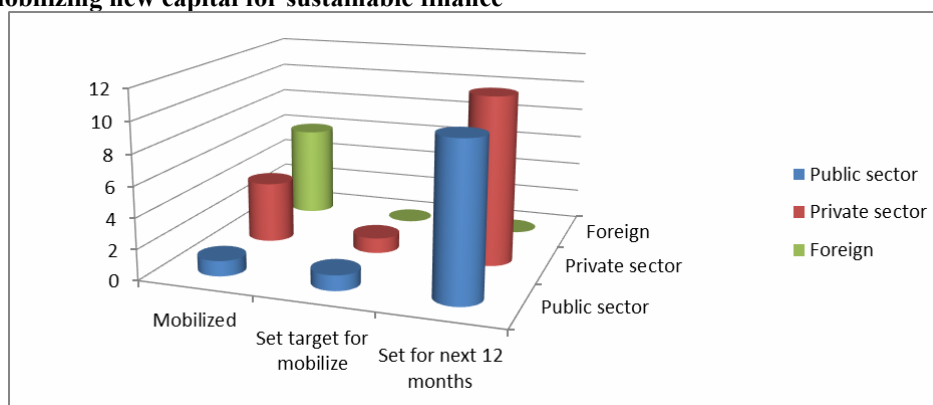
Interpretation:

Out of 12 public banks only 5 banks were disclosed climate risk financial disclosures, out of 16 private 9 were disclosed and all the foreign banks were fully disclosed as per the framework.

Table 3.2.7: Showing mobilizing new capital for sustainable finance

Banks	Mobilized	Set target for mobilize	Set for next 12 months	Total
Public sector	01	01	10	12
Private sector	04	01	11	16
Foreign	06	00	00	06
Total	11	02	21	34

Showing mobilizing new capital for sustainable finance



Source: Sustainability survey reports of RBI 2022

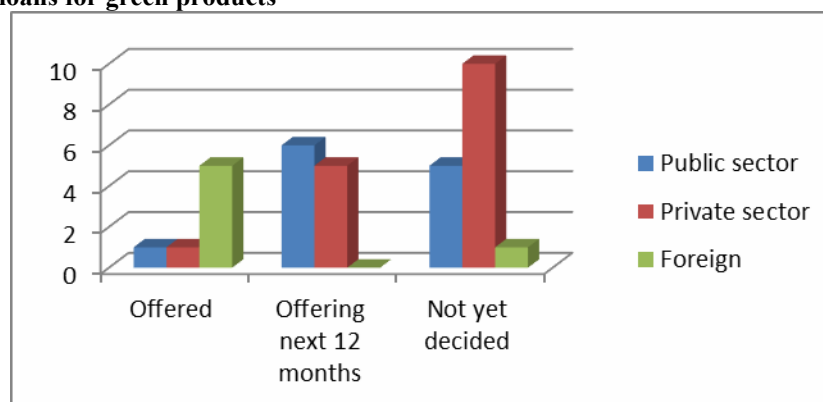
Interpretation:

Mobilization of new capital for sustainable finance all the foreign banks have done comparatively public and private banks.

Table: 3.2.8 showing banks offering loans for green products

Banks	Offered	Offering next 12 months	Not yet decided	Total
Public sector	01	06	05	12
Private sector	01	05	10	16
Foreign	05	00	01	06
Total	07	11	16	34

Banks offering loans for green products



Source: Sustainability survey reports of RBI 2022

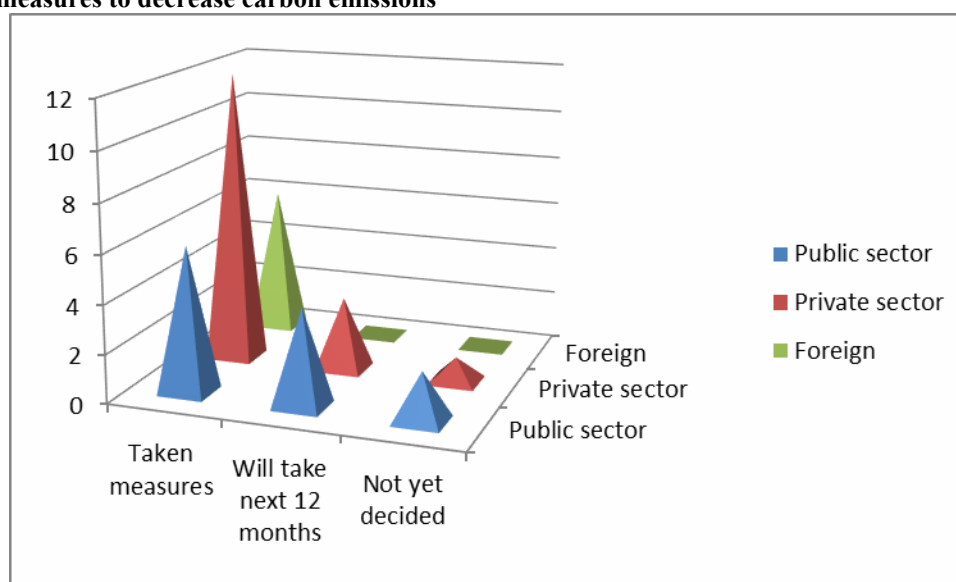
Interpretation:

Foreign banks are offered loans for green products, but public and private banks are not completely involved for offering loans to the green product.

Table: 3.2.9 showing measures to decrease carbon emissions

Banks	Taken measures	Will take next 12 months	Not yet decided	Total
Public sector	06	04	02	12
Private sector	12	03	01	16
Foreign	06	00	00	06
Total	24	07	03	34

Showing measures to decrease carbon emissions



Source: Sustainability survey reports of RBI 2022

Interpretation:

Almost all the private and foreign banks are taking measures to reduce carbon emission but only 06 public banks are adopted this policy out of 12 banks.

Total number of banks participated to the RBI sustainability report survey

Category of Banks	No of Banks
Public sector banks	12
Private sector banks	16
Foreign Banks (Having a major presence India)	06
Total	34

V. Findings:

- The study found that there is lack of involvement by board or top level management for overseeing and scaling up initiatives relating to climate risk and sustainability.
- The study revealed that there is no integrate of climate risk management aspects into their main framework of management.
- The study found that many banks were not yet decided to disclose separately climate related financial disclosures.
- The result of the study is that few banks were not initiated proper measures to reduce carbon-emission from their own operations.
- The study says that there is lack of human resources and capacity building staff on climate risk, ESG and sustainable environment finance.

VI. Suggestions:

- Already foreign banks and many public sector banks are framed the policies at top-level management but its suggested to implement same in private banks.
- Foreign banks and public sector banks have integrated the climate risk management process into their main framework of management but it is suggested to adopt same into other few private sector banks.
- All the banks need to align their sustainable accounting disclosure with an internationally accepted framework to improve the consistency and accountability of the disclosure.
- It is suggested to invest significantly in the capacity building of their staff on climate risk management, ESG and sustainable accounting practices.
- It is suggested to all category of banks consider mobilizing new capital to scale up green lending and investment or need to set target incremental lending for sustainable accounting practices.

VII. Conclusion

Sustainability is present and future oriented concept towards achieving the sustainable development goals of UNs in our country. It important understands the concept, execution and successful implementation of sustainability concept in all the area especially in business. Since banks are contributing a huge required capital to achieve these SDGs it important to understand in their what is level of adoptability of sustainable financial practices. The study aims to understand the sustainability level in different banks such as private, public and foreign banks. Since study found that almost all foreign and public banks of our country are adhere to the guidelines and following the same as per the RBI survey but private banks are logging behind for this concept with mindset of non-profit concept need lots of study and research to implement and lack of involvement of management. If all these problems or negative concepts or resolved by implementing easy methodology for sustainability then 100% achievement is possible in banking sectors for sustainable financial practices.

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