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Sustainable banking in India: A study of practices, challenges and strategic pathways

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Abstract

Today, sustainable finance and green investments have become the priority across nations. India has been practicing sustainability banking and making efforts to overcome the challenges through the adoption of sustainability-driven banking models. In India, the Environmental, Social, and Governance (ESG) framework enables banks to integrate sustainability into their operations through rational and strategic processes. ESG framework encourages banks to adopt eco-friendly policies, support sustainable projects and promote digital and paperless transactions.

The literature on sustainable banking in India highlights many contemporary studies that illustrate the current practices which are adopted by the banks to integrate the Environmental, Social, and Governance (ESG) framework into their operations. Therefore, the present study seeks to examine how sustainability practices can be effectively embedded within the Indian banking system. The existing studies point to critical gaps in the sector that must be addressed by the regulators and financial institutions. In response, this research investigates the key challenges restricting the integration of sustainability into banking operations efficiently and provides the recommendations to overcome them. The objective of the study is to examine how Indian banks are practicing sustainability banking and what are the challenges which are being faced by them and finally the solution is proposed. The study concludes with prevailing practices, structural barriers and the future pathway of sustainable finance in India. Its findings highlight the more adoption of sustainable financial practices, with particular emphasis on technological innovation and financial training as essential tools for building a resilient and inclusive banking ecosystem.

Keywords: Banking Ecosystem, Sustainable Finance, RBI, SEBI, IBA, Business Strategies

1. Introduction

Actually, sustainable banking refers to environmentally conscious practices that aim to advance sustainable development by reducing the ecological footprint of banking operations. Indian banks, under the guidance of the Reserve Bank of India (RBI) and the Indian Banks' Association (IBA), have promoted sustainability into their business strategies through policies, products, and operational frameworks. The RBI has been playing a vital role in making the regulatory foundation for sustainable finance. In 2024, it issued draft guidelines on Climate Risk Management and Disclosure, for aligning Indian banking practices with global standards and also growing resilience against climate risks. The Securities and Exchange Board of India (SEBI) requires listed companies to provide ESG-related information through its Business Responsibility and Sustainability Reporting (BRSR) framework to ensure transparency and accountability. The Indian Banks' Association (IBA) has introduced model green banking guidelines, to motivate the banks to integrate sustainability into lending decisions, resource management and customer engagement. These regulatory and institutional measures have set sustainability into India's financial system. Hence, it enables banks to innovate with products such as green credit facilities and sustainable investment instruments. By linking consumer choices with sustainable finance, these initiatives accelerate India's transition toward a low-carbon and climate-resilient economy. Its benefits extend across multiple dimensions like environmental, economic and social to name a few. Together, these initiatives make sustainable banking as a foundation of India's broader sustainable development goals.

Although Indian banks are continuously setting sustainability into their governance, lending practices, product innovation and reporting guidelines. However, the pace and depth of

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adoption of sustainability practices differ across banks, with private banks generally moving faster than public sector banks. The banks are showing progress in fixing sustainability in banking, still there are many structural and operational challenges in practicing the ESG framework.

2. Research Questions

1. How are Indian banks practicing green banking initiatives?
2. What are the challenges in promoting sustainable banking practices?
3. The recommendations for the growth of sustainable banking in India.

3. Review of Literature

In India, the evolution of sustainability banking has been gradual but significant. It is influenced by global pressure as well as domestic needs. The evolution shows clearly the changing beliefs of society, regulatory framework and market forces over the years. In the beginning, the steps were often featured as charity initiatives or compliance with basic environmental regulations; however, in recent years, systematic and intentional research shows a more significant strategic shift.

Kumar, D. (2025) ^[13]: “The evolving landscape of sustainability in Indian banking”. The study notes that governance frameworks are well established but execution-level ownership varies across banks. Also, there are gaps which say about the weak alignment between financial planning and climate risk. Overall, the study contributes in providing the progress and challenges in sustainable banking practices.

Chauhan V., & Dhall A. (2025) ^[12]: “Current trends and practices in ESG in the banking sector”. The study has stressed the need for standardized ESG reporting frameworks. It notes that there is a need to balance profitability with the sustainability commitments and regulatory compliance across diverse fields. In essence, the study provides a regulatory perspective on ESG adoption in Indian banking, highlighting both opportunities and gaps.

Kumar R., Goel R., and co-authors (2024) ^[14]: “Sustainable finance factors in Indian Economy: Analysis on policy of climate change and energy sector”. The paper observes that economies worldwide are transitioning toward low-carbon development due to climate change and highlights the importance of sustainable finance in supporting the green practices and aligning them with international commitments. The study concludes with the suggestion that stronger regulatory frameworks and incentives are needed to attract sustainable investments to accelerate the transition to a low-carbon economy.

Thapliyal et al. (2024) ^[19]: “Measuring the impact of green banking practices on banks’ environmental performance and sources of green financing: A study on Indian Banks”. The study provides empirical measurement of green banking outcomes to find that the Green Banking Practices (GBP) influence both the Environmental Performance of Banks (BEP) and their Sources of Green Financing (SGF). The findings prove that green banking practices significantly improve environmental performance by reducing waste and

using resources efficiently. The banks that adopt GBP are better positioned to mobilize green financing sources and therefore, supporting renewable energy and sustainable projects. There is a measurable positive correlation between GBP and both environmental outcomes and financial sustainability. The research concludes with empirical evidence that green banking is not only environmentally beneficial but also financially viable. Hence, it recommends the wider adoption of sustainable finance across Indian banks.

Shamshad et al. (2018) ^[17]: “Identifying critical success factors for sustainable growth of Indian Banking Sector: Using Interpretive Structural Modelling (ISM)”. The objective of the study is to identify the Critical Success Factors (CSFs) that enable sustainable growth in the banking system of India. According to the study, regulatory and policy support is the most important factor. Technological innovation and human resource development and training act as the linking factors that enable operational sustainability. Overall, the research provides a structured model for policymakers and banks to prioritize sustainability factors that helps to build a resilient and inclusive financial ecosystem.

4. Sustainability Practices in Indian Banking

Indian banks are steadily fixing sustainability into their governance, lending, product innovation and reporting frameworks. However, the pace and depth of adoption differ across banks, with private banks generally moving faster than public sector banks. Some of the key practices are:-

- **Governance:** By the year 2025, most leading banks are ready to establish ESG committees and adopt sustainability policies. However, it is observed that linking ESG targets to executive performance needs attention. It is limiting accountability at the leadership level.
- **Lending Practices:** Private banks are increasingly using ESG scoring models to evaluate borrowers. Some have introduced sectoral exclusions (e.g., coal financing) and ESG-linked loans. They are rewarding borrowers who meet sustainability criteria.
- **Product Innovation:** Financial innovation continues with the initiatives of green deposits, sustainability-linked bonds and eco-friendly loan products. These investment instruments are now mainstream products, flowing capital toward renewable energy, clean transportation, and water management.
- **Reporting:** Leading banks such as SBI, HDFC and ICICI publish annual ESG and sustainability reports. However, third-party verification of disclosures remains limited. Therefore, it raises concerns about transparency and credibility.
- **Capacity Building:** Partnerships with global institutions (e.g., UNEP FI, IFC) are strengthening ESG expertise. Several banks have launched internal systems to train employees in sustainability practices and climate risk management.
- **Public Sector Banks:** Adoption among public sector banks is slower due to legacy systems and limited infrastructure. Yet, regulatory pressure from RBI and SEBI is pushing to gradual improvements as ESG disclosures become mandatory for listed entities.

Table 1: Comparative Sustainability Practices in Indian Banking (2025)

Dimension	Private Sector Banks	Public Sector Banks
Governance	Almost established ESG committees; sustainability policies integrated into strategy; limited linkage to executive performance.	ESG committees emerging; policies exist but slower integration into governance structures; minimal linkage to executive performance.
Lending Practices	Use ESG scoring models; sectoral exclusions (e.g., coal financing); ESG-linked loans offered to motivate sustainable borrowers.	ESG integration in lending is growing; traditional credit models dominate; regulatory pressure pushing gradual adoption.
Product Innovation	Active in adopting green deposits, sustainability-linked bonds, and eco-friendly loan products; innovation is market-driven.	Fewer product innovations; focus mainly on government-mandated schemes; adoption slower due to legacy systems.
Reporting	Publish annual ESG/sustainability reports; disclosures improving but third-party verification limited.	ESG reporting less consistent; disclosures often basic; third-party verification rare.
Capacity Building	Partnerships with UNEP FI, IFC, and global institutions; internal systems for ESG training and climate risk management.	Capacity building slower; limited training infrastructure; rely on regulatory guidance and external workshops.
Regulatory Compliance	Proactive in aligning with RBI/SEBI ESG disclosure mandates; often exceed minimum requirements.	Compliance largely reactive; adoption driven by RBI/SEBI mandates rather than voluntary initiatives.

5. Challenges and Gaps in Sustainable Banking

Despite progress in embedding sustainability into banking operations, several structural and operational challenges continue to hinder the full integration of ESG principles in India’s financial sector. A number of challenges are as:

- **Regulatory Fragmentation:** In the year 2025, India still lacks a unified ESG taxonomy though SEBI has mandated Business Responsibility and Sustainability Reporting (BRSR Core) for the top 1,000 listed companies. There are overlapping mandates from regulators such as the RBI, SEBI, Ministry of Corporate Affairs (MCA) and Ministry of Finance. This creates inconsistencies and compliance complexity. Due to this, banks face difficulties in aligning reporting and compliance with multiple frameworks and hence slowing the adoption process.
- **Data Limitations:** ESG data remains inconsistent and shattered, with different disclosure standards across institutions. The third-party verification is also limited. Thus, it reduces the reliability of sustainability reporting across banks. Though SEBI’s BRSR framework has improved comparability, many banks still rely on self-reported metrics, reducing investor confidence in disclosures.

- **Institutional Capacity:** There is a shortage of professionals trained in ESG risk assessment and sustainable finance. Strategic ownership of ESG practices is often weak, with sustainability treated as a compliance requirement rather than a core business priority. Although private banks have partnered with institutions like UNEP FI and IFC for training, public sector banks lag due to legacy systems and resource constraints.
- **Financial Constraints:** Many banks continue to prioritize short-term profitability. Incentives for green lending remain limited and the absence of concessional financing mechanisms discourages large-scale investment in sustainable projects. Sovereign Green Bonds introduced by the GOI in Financial Year 2025 have mobilized capital, but concessional credit lines and blended finance structures remain underdeveloped.
- **Technology Barriers:** Adoption of ESG analytics, AI-driven risk modelling, and fintech integration is still moving slowly. While some private banks are experimenting with digital ESG scoring models, public sector banks face challenges due to outdated IT infrastructure.

Comparative Table 2: Challenges and Recommendations in Sustainable Banking, India, 2025

Challenge	Current Status (2025)	Recommendations
Regulatory Fragmentation	No unified ESG taxonomy; overlapping mandates from RBI, SEBI, and MCA create compliance complexity.	Develop a national ESG taxonomy; harmonize reporting standards across regulators.
Data Limitations	ESG data inconsistent; disclosures vary; limited third-party verification reduces credibility.	Introduce standardized metrics; mandate independent third-party assurance of ESG reports.
Institutional Capacity	Shortage of ESG-trained professionals; sustainability treated as compliance rather than strategic priority.	Launch capacity-building programs; establish ESG academies; link ESG goals to executive Key Performance Indicators.
Financial Constraints	Banks prioritize short-term profitability; limited incentives for green lending; concessional finance underdeveloped.	Provide concessional credit lines, blended finance structures, and government-backed incentives.
Technology Barriers	Low adoption of ESG analytics; fintech integration limited; PSBs constrained by legacy IT systems.	Invest in AI-driven ESG analytics, fintech partnerships, and IT modernization programs.

The data given in table 2 shows that India’s ESG banking ecosystem in 2025 is policy-strong but practice-weak. Private banks are experimenting with ESG scoring and product innovation, while public sector banks lag due to

legacy systems and resource constraints. Filling these gaps requires regulatory harmonization, credible data, skilled professionals, financial incentives and digital modernization.

6. Recommendations

To bridge the existing gaps and accelerate the transition toward sustainable banking in India, the following measures are recommended:

[A]-Develop a Unified ESG Taxonomy

- Establish a national framework that harmonizes ESG definitions and reporting standards across RBI, SEBI, Ministry of Finance and the Ministry of Corporate Affairs.
- Ensure alignment with international benchmarks (EU taxonomy, ISSB standards) while adapting to India's developmental priorities.

[B]-Mandate Third-Party Verification of ESG Reports

- Require independent assurance of sustainability disclosures to enhance credibility and comparability.
- Encourage rating agencies and accredited auditors to build expertise in ESG verification.

[C]-Strengthen Capacity Building and Training

- Launch national ESG academies in collaboration with global institutions (UNEP FI, IFC).
- Integrate ESG modules into banking curricula and executive training programs to build long-term institutional capacity.

[D]-Introduce Financial Incentives for Green Lending

- Provide concessional credit lines, blended finance structures and tax incentives for banks that expand green lending portfolios.
- Encourage priority sector lending norms to consider climate-conscious infrastructure, sustainable farming and renewable energy.

[E]-Accelerate Technology Modernization

- Support fintech partnerships and AI-driven ESG analytics to improve risk assessment and monitoring.
- Modernize IT infrastructure in public sector banks to enable seamless integration of sustainability tools.

By implementing these measures, Indian regulators and banks can move beyond fragmented compliance toward a cohesive, future-ready financial system. This will not only strengthen India's banking sector but also align financial flows with the nation's 2070 net-zero target and the broader Sustainable Development Goals (SDGs).

7. Concluding Remarks

To conclude, it can be pointed out that sustainability is no longer optional. It is essential for the future of Indian banking. As the country moves toward climate and development goals, banks must shift from reactive compliance to proactive leadership in sustainable finance. In Indian banking, sustainability is gaining momentum in lending, product innovation, governance but challenges remain in regulations, data and capacity. Regulatory fragmentation, inconsistent ESG data, limited institutional capacity and technology barriers continue to slow progress. Public sector banks, constrained by legacy systems, lag behind private institutions in adopting ESG frameworks. It is observed that the pace and depth of adoption differ across institutions.

A comprehensive strategy which is grounded in policy

reform, institutional development, technological advancement and market incentives is required. It can transform banks into key drivers of India's green and inclusive growth. By aligning financial flows with sustainability outcomes, the banking sector can help in shaping a resilient and equitable future. A systematic roadmap with short term, medium term and long term goals by the policymakers can provide a progression from immediate actions to systemic transformation towards full sustainability in Indian banks.

The regulatory pressure from the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI), alongside global partnerships with UNEP FI and IFC, is gradually bridging these gaps. The circulation of the sovereign green bonds in Financial Year 2025 and the expansion of green deposits and ESG-linked loans demonstrate that sustainable finance is no longer experimental but increasingly mainstream.

Looking ahead, sustainable banking will grow further in aligning the financial system of India with its 2070 net-zero target and the United Nations Sustainable Development Goals (SDGs). The pathway requires harmonized ESG taxonomies, standardized reporting with third-party assurance, capacity-building programs to train professionals in climate risk and digital modernization to ESG analytics into everyday banking. By pursuing these steps, Indian banks can move beyond compliance to become strategic enablers of national progress.

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