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# Legal Evaluation of ESG (Environmental, Social, Governance): Integration in Indian Banking Lending Policies

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*This article presents a comprehensive legal analysis of how Environmental, Social, and Governance principles are increasingly being embedded into the lending practices of Indian banks. It examines the evolving regulatory landscape shaped by the Reserve Bank of India and the Securities and Exchange Board of India, highlighting key frameworks such as emerging climate-risk disclosure norms, ESG-linked debt securities, and the mandatory Business Responsibility and Sustainability Report. The discussion also explores how major Indian banks are attempting to integrate ESG considerations into credit appraisal and risk-management processes, noting the potential financial and reputational advantages of sustainable lending. At the same time, it underscores persistent challenges, including the absence of standardised metrics, insufficient data quality, and high compliance costs that disproportionately affect smaller institutions. Although progress has been significant, the article argues that a fragmented regulatory regime continues to hinder uniform adoption. It concludes by recommending a more coherent legal architecture through harmonised legislation, clearer supervisory mandates, and enhanced institutional capacity building to better align the banking sector with India's long-term sustainability and climate-transition objectives.*

**Keywords:** *sustainable finance, banking regulation, climate risk disclosures.*

## INTRODUCTION

What is environmental, social, and governance in Banking? ESG criteria are an extensive assessment system for assessing the sustainability and social responsibility of financial systems outside the conventional financial indicators.[1] In banking, ESG integration is used to refer to the systematic inclusion of environmental sustainability, social responsibility and governance criteria into the lending decisions, process of risk assessment and general operations of the bank.[2] The environmental aspect includes climate risk management, financing renewable energy, social aspect, financial inclusion and community development, and the governance aspect, which includes the composition of the board, transparency, and anti-corruption policy.[3]

Evolution and Significance The adoption of ESG principles in the Indian banking industry has been especially significant since 2020, with the ensuing rise in the adoption of green bonds and sustainability-linked loans, as well as broad-based ESG reporting frameworks.[4] State Bank of India (SBI), HDFC Bank, ICICI Bank and Axis Bank are some of the major Indian banks that have officially encompassed the ESG policies in their governance framework and credit assessment procedures.[5] In 2023, SBI introduced its ESG Financing Framework, which introduced mandatory ESG ratings of borrowers who had exposure of more than Rs 100 crores (listed) and over Rs 500 crores (unlisted). In 2021, HDFC Bank has a formal Sustainable Finance Policy and promised to be carbon neutral by 2031-32, and ICICI Bank has an ESG Office, and a Social and Environmental Management Framework is embedded in lending decisions.[6]

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[1] 'What Is ESG in Banking?' (*UniCredit,* 05 November 2025) <https://www.unicreditgroup.eu/en/one-unicredit/articles/2024/october/what-is-esg-in-banking.html> accessed 05 November 2025

[2] 'What is ESG? A guide for businesses' (*British Business Bank*) <https://www.british-business-bank.co.uk/business-guidance/guidance-articles/sustainability/what-is-esg-a-guide-for-smaller-businesses> accessed 08 November 2025

[3] 'An Introduction to ESG: Environmental, Social, and Governance Issues' (*WBDG*) <https://www.wbdg.org/resources/intro-esg-issues> accessed 05 November 2025

[4] Anisha Saini et al., 'The Impact of Esg Integration on Financial Performance in Indian Banking: Assessing Profitability' (2025) 5(3) Journal of International Economics Research <https://doi.org/10.52783/jier.v5i3.3644> accessed 05 November 2025

[5] Dr Ravindra Sangvai, 'ESG Implementation in Financial Institutions: Status in India' (2025) 10(7) International Journal of Research and Innovation in Applied Science <https://doi.org/10.51584/IJRIAS.2025.100700043> accessed 05 November 2025

[6] *Ibid*

The results obtained through empirical evidence show that there is a strong positive correlation between ESG practices and financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE) and market valuation indicators.[7]

**Regulatory Framework:** The regulatory environment in ESG integration in the banking sector in India has experienced significant development, which has mainly been facilitated by the Reserve Bank of India and the Securities and Exchange Board of India. It would apply to all the scheduled commercial banks (other than local area banks, payments banks, and regional rural banks), tier-IV primary urban cooperative banks, All-India Financial Institutions, and top and upper-layer NBFCs.[8]

In June 2025, SEBI announced the all-encompassing Framework on Environment, Social and Governance Debt Securities, providing a set of elaborate regulatory obligations of social bonds, sustainability bonds and sustainability-linked bonds.[9] This framework will require third-party validation and open disclosure conditions to avoid the so-called purpose-washing or false ESG statements.[10] Also, the Business Responsibility and Sustainability Report (BRSR) framework of SEBI requires all top 1,000 listed entities to disclose ESGs, and top 250 listed entities by FY 2024-25 and top 500 listed entities by FY 2025-26.[11]

**Implementation Pains:** Although it has regulatory momentum, the implementation of ESG in the Indian banking institutions is at different levels of maturity. Although large banks in the public and private sectors have formal ESG structures, only a small proportion of them follow rigorous global reporting standards, like the Global Reporting Initiative. The cost of

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[7] Dr Chand Tandon, '"Sustainability in Indian Banking Sector: Moving Towards ESG Framework"' (2025) 31(5) Metallurgical and Materials Engineering Journal <https://doi.org/10.63278/mme.vi.1667> accessed 05 November 2025

[8] 'Embracing climate-resilience: A new era of disclosure for Indian financial entities' (*PwC*) <https://www.pwc.in/blogs/disclosure-framework-on-climate-related-financial-risks-2024.html> accessed 05 November 2025

[9] 'Framework for Environment, Social and Governance (ESG) Debt Securities' (*SEBI,* 05 June 2025) <https://www.sebi.gov.in/legal/circulars/jun-2025/framework-for-environment-social-and-governance-esg-debt-securities-other-than-green-debt-securities-_94424.html> accessed 05 November 2025

[10] *From compliance to confidence: SEBI's ESG bond framework explained* (Grant Thornton India, 2025)

[11] Melissa Cyrill, 'BRSR Reporting in India: Key Changes to ESG Disclosures Introduced by SEBI' (*India Briefing,* 20 February 2025) <https://www.india-briefing.com/news/brsr-reporting-in-india-key-changes-to-esg-disclosures-introduced-by-sebi-36261.html/> accessed 05 November 2025; 'SEBI – Ease of Doing Business for ESG, Assurance, and Green Credit Disclosures' (*Probe42*, 03 April 2025) <https://resources.probe42.in/regulatory-updates/sebi-updates/esg-disclosure-updates-2025/> accessed 05 November 2025

implementation to big banks is in the multiplication of several crores per year in terms of disclosure systems, governance, and employee training.[12]

The main challenges are the lack of standardised ESG measures, the lack of stakeholder awareness, the lack of regulatory requirements, and the unwillingness to change as a result of a lack of clarification on the integration guidelines.[13] CRISIL Sustainability Yearbook 2022 reports that most Indian financial institutions were not reporting on their own Scope 3 emissions, and banks are not keeping up with Banking Sector Banking Responsibility and Net Zero commitments.[14]

**Research Scope and Objectives:** The proposed research project will be focused on the legal assessment of ESG integration in the banking lending policies in India in the context of changing regulatory frameworks, implementation issues, and implications on financial performance. The main aim of the study is to assess the legal environment of the principles of ESG integration in the banking lending policies in India and determine whether it is effective or not in supporting sustainable finance practices. Since India is working towards the realisation of ambitious sustainability goals such as 500 GW of renewable energy capacity by 2030 and net zero emissions by 2070, the role of the banking sector in funding this transition becomes very critical.[15]

## REGULATORY STRUCTURE AND POLICY DEVELOPMENT

The regulatory system on ESG in India is characterised by a multi-layered system that consists of the Reserve Bank of India, the Securities and Exchange Board of India and the Companies Act of 2013.[16] However, unlike most jurisdictions, which have integrated ESG law, the Indian methodology is fragmented and diffuses through industry-specific laws, disclosure frameworks, and compulsory reporting provisions, which cumulatively define the

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[12] Sangvai (n 5)
[13] *Ibid*; Sanat Rao, 'Esg in Indian Banking Sector: An Equation of Growing Importance' (*Finacle*) <https://www.finacle.com/insights/blogs/esg-in-indian-banking-sector-an-equation-of-growing-importance/> accessed 05 November 2025
[14] *Ibid*
[15] 'Green Finance in India – ESG & Clean Energy related Finance' (*ILO Consulting*, 07 October 2025) <https://www.iloconsulting.in/knowledge-center/green-finance-india-esg> accessed 05 November 2025
[16] Dr Monica Kharola et al., 'Mandatory ESG Reporting in India: Legal Obligations and Management Strategies' (2025) 2(2) Journal of Marketing & Social Research <https://www.jmsr-online.com/article/mandatory-esg-reporting-in-india-legal-obligations-and-management-strategies-63> accessed 05 November 2025

legal landscape of integration of ESG in banking.[17] This fragmented, but holistic form is symptomatic of India moving gradually towards voluntary sustainability efforts and mandatory compliance systems as dictated by global standards.[18]

**RBI Climate Risk Disclosure Framework:** On February 28, 2024, RBI published its draft Disclosure Framework on Climate-related Financial Risks, 2024, which is a milestone in the sustainable finance system in India.[19] This framework requires climate-related disclosures by commercial banks of scheduled (except in local area banks, payments banks, and regional rural banks), tier-IV primary urban cooperative banks, All-India Financial Institutions, and top and upper layer NBFCs.[20]

The framework is organised into four thematic pillars based on the Task Force on climate-related financial disclosures standards, namely governance, strategy, risk management and measures and targets. Banks are required to report the board-level supervisory practices, responsibilities of the management under the governance pillar, and the incorporation of climate risks in the organisational culture. The policy pillar involves the disclosure of risks and opportunities relating to climate in the short, medium and long-term outlooks, such as the scenario analysis as well as resilience plans.[21]

**SEBI's ESG Debt Securities Framework:** SEBI ESG Debt Securities Framework SEBI introduced a comprehensive Environment, Social and Governance Debt Securities Framework (other than the green debt securities) on June 5, 2025, under Regulation 12A of the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021. This framework acknowledges and regulates three types of ESG-labelled debt instruments: social bonds, sustainability bonds, and sustainability-linked bonds.[22]

[17] Anjan Dasgupta et al., 'Overview of the ESG framework in India' (*Law Asia,* 05 June 2024) <https://law.asia/esg-compliance-overview/> accessed 05 November 2025

[18] Sehar Sharma et al., 'INDIA'S NEW DISCLOSURE FRAMEWORKS BY RBI AND SEBI' (*Nishith Desai Associates,* 04 June 2024) <https://nishithdesai.com/fileadmin/user_upload/Html/Hotline/Yes_Governance_Matters_June0424-M.html> accessed 05 November 2025

[19] Embracing climate-resilience: A new era of disclosure for Indian financial entities (n 8)

[20] Draft Disclosure framework on Climate-related Financial Risks 2024

[21] Saini (n 4)

[22] 'SEBI Introduces Framework for ESG Debt Securities' (*Saraf and Partners,* 23 July 2025) <https://sarafpartners.com/sebi-introduces-framework-for-esg-debt-securities> accessed 05 November 2025

In the case of social bonds, the construct requires that proceeds fund solely those projects that provide positive social consequences in accordance with established guidelines like ICMA Social Bond Principles or Climate Bonds Initiative definitions. SEBI establishes six priorities, which include affordable basic infrastructure, access to basic services, creation of jobs, food security, socioeconomic development, and empowerment.[23] Issuers have to reveal the aim of the projects, the target population, the decision-making process on project eligibility, and the process of proceeds deployment tracking.[24]

**BRSR Framework and Corporate Obligations of SEBI:** SEBI has created a BRSR Framework and Corporate Obligations as part of its Listing Obligations and Disclosure Requirement Regulations, 2015, requiring the top 1,000 listed companies by market capitalisation to disclose ESG information starting in fiscal year 2022-23. BRSR is an improved version of the previous Business Responsibility Report and is consistent with the global reporting standards such as GRI, SASB, and TCFD.[25] The companies are expected to answer 140 questions in 98 essential indicators (forced) and 42 leadership indicators (optional). As of fiscal year 2024-25, BRSR Core KPIs of the top 150 listed entities will require undertaking reasonable assurance, and value chain reporting will be required of the top 250 listed entities.[26]

**Companies Act and CSR Provisions:** Section 135 of the Companies Act, 2013, introduced a mandatory framework on Corporate Social Responsibility in India, with every company having financial requirements in terms of financial stability to invest 2 per cent of the mean net profit (over a period of three years) of the company in CSR activities.[27] The CSR

[23] 'India's ESG Bond Revolution: Inside SEBI's New Framework for Social, Sustainability, and Sustainability-Linked Bonds' (*The ESG Institute,* 16 June 2025) <https://www.the-esg-institute.org/blog/india-esg-bond-revolution-inside-sebis-new-framework-for-social-sustainability-and-sustainability-linked-bonds> accessed 05 November 2025

[24] Mark Segal, 'India Launches New Regulations for Social, Sustainability, Sustainability-Linked Bonds' (*ESG Today,* 09 June 2025) <https://www.esgtoday.com/india-launches-new-regulations-for-social-sustainability-sustainability-linked-bonds> accessed 05 November 2025

[25] 'India's Business Responsibility and Sustainability Reporting' (*EcoVadis*) <https://ecovadis.com/regulations/india-business-responsibility-and-sustainability-reporting-brsr> accessed 05 November 2025

[26] 'bringing India's BRSR into focus' (*AMCS*, August 2025) <https://www.amcsgroup.com/resources/blogs/bringing-india-s-brsr-into-focus> accessed 11 November 2025

[27] Melissa Cyrill, 'Corporate Social Responsibility in India' (*India Briefing,* 14 August 2025) <https://www.india-briefing.com/news/corporate-social-responsibility-india-5511.html> accessed 05 November 2025

provisions refer to the companies whose net worth is more than 500 crore, a turnover is more than 1000 crore, or a net profit is more than 5 crore in the current or previous financial year.[28]

Section 166 defines fiduciary obligations of the directors to act in the best interest of the company, members, shareholders, the community and the environment, breach of which leads to fines. Section 134(m) requires such companies to have the reports on energy conservation contained in annual financial statements, which have been expanded under Rule 8(3)(A) of the Companies (Accounts) Rules 2014.[29] These requirements set a legal requirement on banks to incorporate ESG requirements into their governance systems and decision-making frameworks.

**THE ESG IMPLEMENTATION AND RISK MANAGEMENT IN LENDING**

**ESG-Based Credit Risk Assessment:** The Indian banks have increasingly incorporated the ESG factors in their credit assessment systems in an effort to evaluate and reduce the risks posed by climate and sustainability. HDFC Bank has a risk assessment practice that is based on the ESG, where wholesale borrowers with direct customer exposure of over Rs 100 crore are subjected to comprehensive Environmental and Social (E&S) due diligence, and also exposures between 50-100 crore are subjected to a cut-down assessment.[30] ICICI Bank has also come up with sector-specific ESG risk assessment instruments in 20 sectors, such as construction, real estate, iron and steel, power generation and chemicals and the borrower is assessed based on ESG maturity and the risk involved in doing business.[31] The ESG Financing Framework at SBI requires that borrowers having above 100 crores (listed) and 500 crores (unlisted) of exposure to the Bank must have ESG ratings.[32]

These frameworks evaluate the environmental and social maturity indicators, such as the emission targets, environmental certifications, occupational safety history, social impact

[28] Kharola (n 16)

[29] CS Sandhya Nair, 'CSR AND ESG: THE KEY DIFFERENCE' (*CS Sandhya Nair & Associates*, 17 June 2024) <https://www.sandhyanair.com/post/csr-and-esg-the-key-difference> accessed 05 November 2025

[30] Sangvai (n 5)

[31] Bhaskar Dutta, 'ESG-compliant risk assessment in focus for HDFC Bank' *The Economic Times* (15 September 2024) <https://economictimes.com/industry/banking/finance/banking/esg-compliant-risk-assessment-in-focus-for-hdfc-bank/articleshow/113369173.cms> accessed 05 November 2025

[32] 'Climate and ESG Risk Management' (*ICICI Bank*) <https://www.icicibank.com/ms/aboutus/annual-reports/2024-25/esg/climate-and-esg-risk-management.html> accessed 05 November 2025

initiative and risk parameters, assessing physical climate exposure, decarbonization initiative, and regulatory fines.[33]

**Green Lending Products and Sustainable Finance:** Indian banks have also opened specialised green lending products to encourage sustainable investments. The Green Car Loan programme offers SBI with lower rates on the financing of electric vehicles and green mortgages for buildings that use less energy and have been certified through LEED or GRIHA.[34] HDFC Bank has funded more than 6,110 MW of renewable energy and has more or less 940 green-certified branches. Through schemes such as the organic farming financing of NABARD, banks provide green loans on renewable energy projects, pollution control systems, water treatment plants and sustainable agriculture projects.[35]

These products lead to savings in operation with a smaller number of papers being used, more digital processes and obligatory Priority Sector Lending with a 40 per cent distribution of loans to small farmers, students, low-cost housing, as well as entrepreneurs.[36]

**Implementation Challenges and Risks:** Indian banks face considerable challenges in implementing ESG despite the advancement. Indian banks, particularly the ones that are more demanding like the Global Reporting Initiative, are only complied with by about 14 per cent of the banks in India.[37] Among the major challenges, it is possible to note a lack of standardised ESG indicators, a lack of stakeholder knowledge, inadequate regulation of the mandatory lending that should be based on the ESG, and poor enforcement tools. Cost The implication on large banking institutions pits ESG data tracking systems, training of staff and governance infrastructure at multiple crores every year, with little counter-balancing incentives.[38]

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[33] bringing India's BRSR into focus (n 26)

[34] Pavan Teja Desai, 'Sustainable and Responsible Banking in India: A Pathway to a Greener Future' (*LinkedIn*, 31 October 2024) <https://www.linkedin.com/pulse/sustainable-responsible-banking-india-pathway-greener-desai-gmkic> accessed 05 November 2025

[35] *Ibid*

[36] Samiksha Kashyap et al., 'The ESG Imperative: Transforming Risk Management in the Age of Sustainable Finance in the Indian Banking Industry' (2025) 33(3) NMIMS Management Review <https://journals.sagepub.com/doi/10.1177/09711023251356167> accessed 05 November 2025

[37] Desai (n 34)

[38] Climate and ESG Risk Management (n 32)

Besides, banks also indicate difficulties in tracking Scope 3 emissions, quantifying Scope 3 emissions, and meeting international Net Zero commitments. There are physical climate risks, such as vulnerability to floods and cyclones, which subject the banks active in the geographies subject to them to credit concentration risks, which demand greater stress testing skills. Both legal and administrative risks are the uncertainty in the regulations as to whether ESG-based lending exclusions are enforceable, and the possibility of the breach of the ESG implications, prompting early redemption in ESG-linked bonds.

## IMPACT ASSESSMENT AND CASE STUDY

**Financial Performance Effects:** It has been empirically found that ESG practices are positively related to financial performance indicators. Banks that have high ESG ratings have increased Return on Assets, Return on Equity and better risk management practices, and the best effect on profitability was by the governance (G). The ESG integration enhances the trust of stakeholders, operational efficiency, and the market valuation metrics, and the disclosure on green loans is positively associated with bank market value. Nevertheless, there are diverse correlations among individual banks and ESG dimensions showing a different level of implementation maturity.[39]

**State Bank of India:** In 2023, it introduced its ESG Financing Framework, which requires ESG ratings to be mandatory on designated borrowers. The framework sets explicit exposure limits and incorporates climate financing by partnering with the Agence Française de Développement with a $100 million climate finance loan. In 2020, SBI issued green bonds to the tune of 100 million dollars, allocated to renewable energy and energy-saving projects.[40]

**HDFC Bank:** In 2021, it adopted a Sustainable Finance Policy with an aim of carbon neutrality commitment by 2031-32. The bank has an elaborate E&S Risk Management Framework in which the wholesale loans that have more than Rs 100 crore are assessed extensively for ESG, and special focus on environmental compliance is a lending requirement. HDFC had raised one billion of green deposits to fund clean environment projects in renewable energy, waste management and clean transport.[41]

[39] *Ibid*
[40] Desai (n 34)
[41] *Ibid*

**ICICI Bank:** Reflecting on a special ESG Office with sector-specific risk assessment tools in 20 sectors. The bank funds about 21 per cent of lending in sustainable industries and incorporates BRSR requirements, IFRS regulations, CDP reporting, and GRI principles in borrower assessment models.

**Regulatory Impact and Market Development:** The Climate Risk Disclosure Framework of RBI and the ESG Debt Securities Framework of SEBI have stimulated market development, and Indian banks have been issuing an increasing number of green bonds and sustainability-linked bonds. The frameworks require third-party verification and impact reporting, as BRSR requirements establish transparency among the largest 1,000 listed companies. The resulting regulatory trends have placed pressure on ESG implementation, where Domestically Systemically Important Banks can be seen as the first movers in ensuring the rest of the banking system follows suit.

## CONCLUSION

The legal framework for ESG integration in banking lending policy has evolved significantly in India, from voluntary guidelines to mandatory disclosure mechanisms covering RBI climate risk frameworks, SEBI's ESG debt securities regulations, BRSR reporting requirements, and provisions under the Companies Act on CSR. Major banks have implemented structured ESG assessment frameworks with measurable financial and risk management benefits, though implementation maturity remains heterogeneous across the banking sector.

**Identified Legal Gaps:** The fragmented regulatory architecture at RBI, SEBI, and the Companies Act creates compliance complexities and overlapping requirements. Regulatory ambiguity about compulsory ESG-based lending standards limits effectiveness in enforcement, while the absence of standardised ESG metrics makes comparability impossible among financial institutions. Transition from voluntary to mandatory has created uncertainty on implementation issues like measurement methodologies and alignment with international regimes.[42]

[42] Sangvai (n 5)

## RECOMMENDATIONS

**Common Legislative Framework:** Develop consolidated ESG legislation that gives the basis for harmonised reporting standards, minimum thresholds for mandatory ESG assessments, and uniform metrics across all banking supervisory authorities.[43]

**Improved Clarity of Rules:** Issuance of binding regulations that clearly communicate the procedures for mandatory ESG assessments, minimum required scores to ensure economically sustainable lending above specified exposure limits, and sanctions for non-compliance with explicit timelines.

**Capacity Building:** Mandatory registration of third-party ESG rating providers; standardisation of the ESG assessment methodologies with the TCFD and GRI frameworks; and regulatory support in terms of staff training and investment in technology infrastructure in banks.

**Multi-stakeholder Coordination:** Facilitating multi-stakeholder engagement among regulators, banks, investors, and civil society for setting industry standards, best practice dissemination, and development of collaborative frameworks related to measurement challenges and enforcement mechanisms.[44]

This makes the development of a solid legal framework for ESG integration in banking very instrumental, as it would help align financial intermediation with sustainability objectives while maintaining financial system stability and investor protection against the background of net-zero emissions by 2070 and a renewable energy capacity of 500 GW.

[43] Climate and ESG Risk Management (n 32)
[44] Dutta (n 31)