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Research Article

Sustainable Green Banking and ESG Performance: Insights from Bank Customers

Biju, M.[1*] and Shanmugha Priya Pon[2]
[1]Research Scholar, Department of Commerce, PSG College of Arts and Science, Coimbatore, India
[2]Assistant Professor, Department of Commerce (Foreign Trade), PSG College of Arts and Science, Coimbatore, India

***Corresponding Author**
Biju, M.
(bijupzr@gmail.com)

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Abstract: The banking sector plays a major role in the world economy and especially for sustainability. However, the banking industry faces challenges, including customer awareness of green banking practices, changes in Environmental, Social and Governance and the implementation of sustainable practices in society. Customer awareness is a key task for the banking sector, as it helps convey its services to society. It is necessary to implement sustainable development through various initiatives and to consider the environmental, social and economic factors that support it. Green banking initiatives promote sustainability and protect the environment and society. The customer's insights about the ESG factors and the sustainable development through green banking are the major contributions to this study. Through incorporating green banking and ESG practices, the banking sector contributes to the development of the country and also provides services to the public effectively. The study examines the sustainable green banking practices and ESG performance of the banks' customers in the country from the insights of the customers in the banking sector.

Keywords: Sustainability, Green Banking, ESG, Bank Customers

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INTRODUCTION

Sustainable development meets the current trends and future developments. The various industries contribute to sustainable development in the country through various initiatives and technological advancements. Public and private sector industries together contribute to society through the initiatives of the government. Through the initiatives of the government, the industry sector addresses the Environmental, social and governance importance and the ESG factor linked with their products and services. The green banking initiatives for sustainable development plays major role and facilitate the customer's convenience for the services. Sustainability is the global agenda to protect the environment and for future developments. The banking sector provides most of its services online and customers easily access the information at any time. With the help of government funds and initiatives, the banking services can provide better services to all areas in the country. The Green Banking practices consist of three areas, i.e. Environmental, Social and Governance, allowing the construct optimal depth of coverage and complexity [1]. The public sector is leading in green banking services and ESG initiatives and practices. Public sector banks demonstrate a positive relation between the environmental score and return on equity [2]. India is the third largest emitter of carbon dioxide worldwide in the year 2024-25 and the power sector is the largest contributor to emissions, followed by industry. Many countries are changing their approach towards sustainability by promote environmental friendly products and services. The sustainable outcome, green financing and positively influenced by the green bank practices [3] and the practices are more equitable and sustainable finance system [4].

Review of Literature

The concept of Green Banking is necessary in the context of present pollution and the negative effects of global warming [5]. The movement of green finance in India is quite noticeable but not completely sufficient in the present situation; it

needs more awareness among the people and the government should initiate necessary steps to remove the barriers that are affecting the environment [6]. The conventional variables of bank profitability are not pertinent to briefing the major profits made by sustainable banks. This indicates the rise of a new paradigm about the sustainability factors that influence the profitability of the bank [7]. The huge cost of adoption and absence of uniformity in the sustainable policies have been considered as the major issues in planning and execution of the banking strategies by the banks [8].

MATERIALS AND METHODS

ESG awareness has a big impact on young bank customers in the era of sustainable finance, especially Millennials and Generation Z, who prioritise sustainability [9]. Overcoming the recent trends in the banking sector application of ESG shows a clear shift towards transparency, increased stakeholder involvement and the use of sustainable financing techniques [10]. The importance of developing precise and consistent ESG standards to encourage better adoption and adherence [11]. The managerial aspects of banks require sustainable governance as a framework to assess the sustainable finance action plan and build a sustainable business strategy. This will make the banks manage environmental, social and governance risk in addition to the economic risk too [12]. Banks with strong ESG policies contribute on average to all three factors of Environmental, Social and Governance [13]. ESG performance has a higher risk-mitigating impact in nations with greater sustainability scores [14]. To optimise the lending strategies, the banks should create specialised financial products and improve ESG and technology-based credit evaluation. The government should introduce incentive schemes for sustainable finance, promote digital transformation and uniform ESG reporting standards across the emerging market [15]. Using integrated and comprehensive methods can promote efficiency, enabling banks to develop necessary methods to improve the performance of their customer [16].

The present study used a convenience sampling technique carried out in various cities in India. The research study includes the major public and private sectors in India. The major banking sector was selected based on the market capitalisation. The interview schedule was prepared and questions were asked about green banking and ESG to the customers of public sector banks. A sample of 200 was collected from the respondent of different cities in the States of Karnataka, Kerala and Tamil Nadu. Tools used for the study, correlation and Structural Equation Model were used to analyse the data.

Objective of the Study:

- To examine the customer awareness about Green banking and ESG
- To study the effect of Environmental, Social and Governance factors on Sustainable Green Banking
- To study the correlation between Environmental, Social and Governance factors

Hypothesis of the Study:

- **H1:** High ESG Performance in the banking sector positively impacts Sustainable Green Banking
- **H2:** There is a relation between the Environmental, Social and Governance factors and the bank customers are aware of ESG Performance

Theoretical Framework

Green Banking: Green banking promotes sustainable development through various banking practices of the industry. Paperless transactions, sustainable financing facilities, carbon offset programs, green bonds, risk assessment and various policies of the industry help the industry to maintain sustainable developments. Through the ESG factors and the implementation of banking practices, the country is in more sustainable development. The banking sector is considered environmentally friendly [17]. By implementing the green banking practices, the customer enjoys the benefit of online services with cashback, access to banking transactions, online banking, electronic bill payments, e-statements, etc. Green banks employs environment friendly practices to reduce the carbon emissions and enhance sustainable developments [18].

Daily operation of green banking promotes sustainability and adopts sustainability in daily practices [19-21]. The service offered by the banking sector, especially online services, helps to include green finance and benefits society. Banks are implementing environment-friendly projects and energy efficiency technologies, which promote customer inclusion in green finance. The green lending and deposits service is available to the public by the bank to promote sustainability. The banking services are easy to understand and provide support for the completion of online transactions. Online banking and specific mobile banking applications support real-time accessibility. The bill payment, real-time account balance check, investment and deposits and other financial and non-financial requests are the key services offered by the banks to the customer. Reliability and credibility of transactions on the Green

banking are commendable. The shift towards digital and technological advancement reduces human errors and improves operational efficiency. The digital platform of the banks has secure technology and is technically reliable, which builds the banks' trust and reputation in the industry. The banking industry encourage to transfer the fund through online and offers various services to customers for online transfers.

Environmental, Social and Governance (ESG)

ESG is the framework used to measure the industry's sustainable development. Environmental, social and governance factors promote sustainable development by implementing various policies and procedures. ESG concerns are considered when measuring the ESG performance [22].

Environmental Factors

Government initiatives and policies promote environmentally friendly practices implemented through various industries, especially through the banking sector. The banking sector supports renewable energy and green banking initiatives, which lead to environmentally friendly implementation of projects and policies. The bank's efforts in the reduction of carbon emissions and waste management policies create a clean environment.

Social Factors

Support of financial inclusion and community development by the government of India promotes sustainability. The availability of affordable financial products at a reasonable price helps businesses and individuals to promote sustainable growth in the country. Promoting social responsibility and ethical business practices is mandatory for the industries. Banking sectors establish a code of ethics for customers and employees and providing training to the employees helps them make ethical decisions. Banking service in the rural population is one of the major parts of financial inclusion, especially public sector banks have the service in rural areas for green finance inclusion.

Governance Factors

Green corporate sustainability performance refers to corporate governance's ESG dimensions, particularly in the context of comprehensive and sustainable management practices [23,24]. The regulatory policy should be transparent, which makes trust among the investors [25]. The transparent governance structure of the bank ensures transparency and accountability, which protects the interests of the investors. A clear and accessible report of the banks shows the transparency of the banking services. The banking sector provides priority in regulatory compliance and builds public trust.

RESULTS

Data Analysis and Results

The Table 1 states that Fit indices of the data. The RMSEA value is <0.05 and the RMSEAp value is >0.05, which is a good fit and the SRMR value is <0.08, which represent excellent fit of the model. The RMSEA and SRMR demonstrate the discrepancy between the models. The data shows an excellent fit.

Table 2 indicates the user model versus the baseline model. The CFI value is >0.95 (0.99) and TLI is >0.95 (0.991), which is considered an excellent fit. The NNFI, RNI, NFI, RFI and IFI are >0.90, which represent goodness of fit and quality of data. The PNFI value is >0.50 (0.770), which represents an excellent fit.

Figure 1 represents the path diagram of Environmental, Social and Governance factors with various elements and Sustainable Green Banking with various elements. It shows the relation between the ESG factors and Sustainable Green Banking factors.

One of the elements in the objective is to study the impact of ESG on Sustainable Green Banking. The researcher carried out a study to check the impact of ESG on Sustainable Green Banking and the following hypothesis was developed:

H1: High ESG Performance in the banking sector positively impacts Sustainable Green Banking.

With the test result, it is stated that there is a positive effect of ESG on Sustainable Green Banking. Table 3 represents the parameter estimates of Sustainable Green Banking and ESG. The study is significant and the p value is <0.001. Which states that there is a positive relationship among the factors of ESG to Sustainable Green Banking. The environmental factor shows a positive effect on Sustainable Green Banking. The Bank provide promote environment friendly initiatives and practices which lead to a positive effect on sustainable green banking. The banking sector support renewal energy and green banking initiatives and also implements necessary steps to reduce carbon emissions. In the social factors, banks support financial inclusion in rural areas through community education programs at various levels.

Table 1: Fit Indices of the Data

Type	SRMR	RMSEA	RMSEA p
Classical	0.046	0	1
Robust	0.037	0.015	0.87
Scaled	0.037	0.021	0.968

Table 2: User Model Versus Baseline Model

CFI	TLI	NNFI	RNI	NFI	RFI	IFI	PNFI
0.99	0.991	1.01	1.008	0.987	0.983	1.007	0.77

Table 3: Parameter Estimates of Sustainable Green Banking and ESG

Dep	Pred	Estimate	SE	β	z	p
Sustainable Green Banking	Environmental Factor	0.460	0.0742	0.406	6.20	<0.001
Sustainable Green Banking	Social Factor	0.562	0.0938	0.509	5.99	<0.001
Sustainable Green Banking	Governance Factor	0.398	0.0854	0.333	4.66	<0.001

Table 4: Correlation between Environmental, Social and Governance factors

	E1	E2	E3	S1	S2	S3	G1	G2	G3
E1	1								
E2	0.559	1							
E3	0.399	0.545	1						
S1	0.161	0.150	0.171	1					
S2	0.197	0.218	0.199	0.463	1				
S3	0.150	0.120	0.168	0.479	0.357	1			
G1	0.095	0.219	0.234	0.195	0.137	0.139	1		
G2	0.149	0.193	0.177	0.194	0.229	0.229	0.428	1	
G3	0.178	0.247	0.259	0.237	0.190	0.264	0.487	0.508	1

*E1-Promotion of environmental friendly practices, *E2-Support of renewal energy and green banking initiatives, *E3-Efforts in reduction of carbon emissions, *S1-Support of financial inclusion and community development, *S2- Promote social responsibility and ethical business practices, *S3-Banking service in rural population, *G1-Transparent governance structure of bank, *G2-Clear and accessible report, *G3-Priority in regulatory compliance

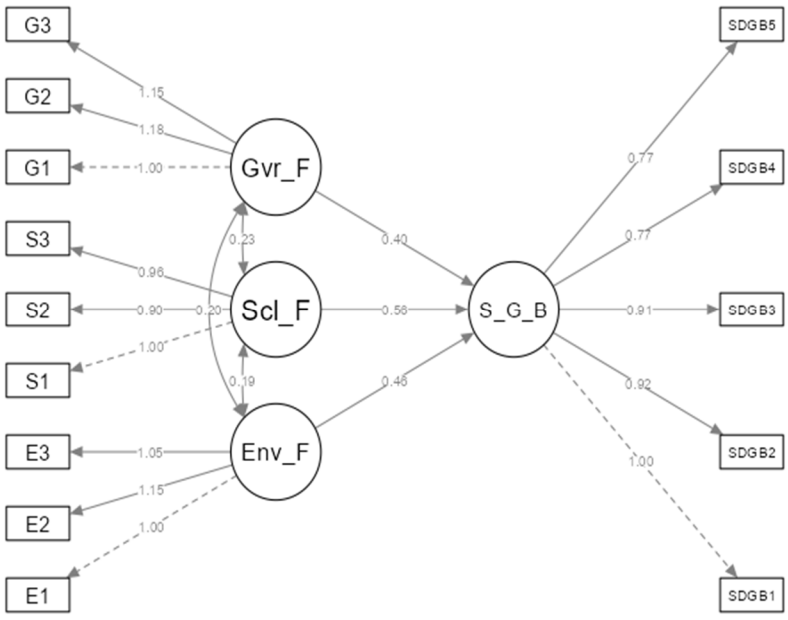


Figure 1: Path Diagram of ESG and Sustainable Green Banking
Source: Jamovi Path Diagram

The banking sector raises awareness among customers about socially responsible programs and ethical business practices. The service of accessibility in rural area promote this financial inclusion, which gradually promotes sustainable green banking in rural areas. In Governance factors, the bank has a transparent governance structure for the benefit of customers and provide clear, accessible ESG report on its activities. The regulatory compliance has given priority to good governance. The banking sector play major role in sustainability and the services provided by the banks are easy to understand and customers can easily access the service. The bank works on the ease of online transactions.

The banking sector is given major importance for the reliability and credibility of transaction on green banking. The banking sector encourages online transactions by providing services to its customers.

Since the objective is to examine the prevalence of ESG and various factors, the following hypothesis is formulated:

H2: There is a relation between the Environmental, Social and Governance factors and the bank customers are aware of ESG Performance.

With the test result in Table 4, $r \neq 0$ and p value is <0.05 (0.00). Hence, the inference is that there exists a significant correlation among the factors of Environmental, Social and Governance factors. It shows that there is a positive relation between the Environmental, Social and Governance factors. The environmental factor is linked to the Social and Governance factors. The use of environmentally friendly products and the implementation of programs help society achieve sustainable development. The community education programs and social welfare schemes help the development of society. Governance factors such as governance policy, employee enhancement programs help the society for development.

Challenges

The activities of ESG may reduce the profitability of the bank and adopting the ESG standards could increase the cost while decreasing the profitability. However, for the long term, ESG activities can help to improve the bank's performance [26]. Most of the banks in India adopted sustainable banking practices; however, some of the banking industries not yet adopted the sustainable practice fully [27]. The government fund, policy implementation and programs necessary in the banking sector are helpful for public sector and private sector banks. The involvement of ESG in banking factor require more investments, digital transformation and innovation so as to promote the banking sector's role in achieving the sustainability goals [28]. Private sector banks are facing challenges for sustainable development because of fund but at the same time private sector is introducing green banking practices in different ways to promote the customers. Green washing is one of the major challenges due to overstating the environmental credentials and misleading the market through false terms, labels and materials. It happens through the various promotional techniques of the industry and it is difficult to identify a reliable product from the customer's perspective. Skilled professionals in the field of ESG and Sustainable green banking are necessary in the modern world and the absence of these professionals leads to improper implementation in the products and services.

DISCUSSION

The finance sector purely focuses on profit-driven motives and for the growth of the industry, but through the green banking practices, the finance sector change in to environmental friendly practices with long term sustainable development. The banking sector in India promote the customer centric services by considering environmentally friendly practices, which serve society long-term as per the requirements of the customers. Implementing the green banking practices requires a huge investment, but at the same time, it is beneficial for the long term projects. Banking services are transforming from traditional offline services to online services by technological advancements. The inclusion of green finance among the customers, the bank and the customers enjoy the service and save time in the long term. Green products, Green bonds and Green lending promote sustainability in the country. The digitalisation and paperless services offered by the banks attract customers and promote sustainable development. The green infrastructure facilities built with environmentally friendly and eco-friendly standards are necessary in the present world. Fund allocation should include the long term green infrastructure, which facilitate long term sustainable development in the industry. The lack of universal standards make technical gap, including risk factor also. Initial investment for green infrastructure and services is huge, but at the same time, it is a benefit for long term profitability and future developments. The ESG performance can be measured not only from the customer perspective, but also from the regulatory data of the banking sector. The government initiated various regulatory measures for the promotion of sustainable developments. Financial literacy and financial inclusion play a major role in the sustainable green banking and ESG performance in rural areas. The young customers perform well in green banking and ESG promotion, but it is necessary for the financial education to old people for green banking products and online services.

CONCLUSION

Environmentally friendly activities are required in the present world in all industries, especially in the banking industry. The present world is promoting online services and environmentally friendly services offered by the industry. The banking sector plays a major role in the sustainable development of each country. The various factors of Environmental, Social and Governance factors affecting the sustainable development in the country through green banking practices

and initiatives. The financial inclusion and community education programs help to promote sustainable development in rural areas. The digitalisation of banking services integrated with ESG plays a major role in the sustainable development of the country. The government also implemented subsidies for electric vehicles and renewable energy, which promote sustainable development in the country. The fair employment and wage payment system, ethical management system and employee benefit practices strengthen the governance factors in the country. The study states that the ESG factors promote the Sustainable Green Banking practices and the customers are using the products offered by the banks very effectively. The Environmental, Social and Governance factors are related to each other and the green banking initiative is closely related to these factors.

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