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## In sustainability, a mega opportunity for Indian banks

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Indian banks have started on the ESG journey but there still is a long way to climb towards capitalising on the benefits

### SUMMARY

- *RBI's and Sebi's focus on steering substantial funding into sustainable avenues presents a multi-billion-dollar opportunity for domestic financial institutions*

As India passes the reins of the G20, it has signalled an unwavering dedication to combating global environmental and sustainability challenges. The G20 sustainability working group meetings have spotlighted key pillars: harnessing climate finance, embracing the sustainability development goals (SDGs), and nurturing the financial ecosystem's capacity.

In parallel, India's nationally determined contribution commitments to reduce greenhouse gas emissions and the ambitious 2070 net zero emissions target unveil a grand vision of fortifying climate resilience and nurturing sustainable growth.

The big gap: funding the shift to a greener future

Nevertheless, there is a considerable gap between the financial requisites for these ambitions and the current landscape—making for a significant opportunity for India's banking sector to tap into.

Take, for instance, the stark reality of the staggering annual deficit for meeting the SDGs, especially the tremendous need for scaling climate finance mechanisms in India. With the Reserve Bank of India and the Securities and Exchange Board of India both directing their efforts towards steering substantial funding into sustainable avenues, this financial challenge presents a multi-billion-dollar opportunity for financial institutions.

This would also involve luring foreign capital pools, which mandates adherence to stringent environment, social and governance (ESG) frameworks, particularly in the realm of sustainable finance.

The G20 Leaders declaration emphasises unlocking the potential of sustainable finance through comprehensive measures, opening up avenues for the financial sector. Some of the key areas of considerations in the declaration specifically indicate six compelling needs:

About \$6 trillion in funding for developing countries pre-2030;

Blended finance instruments;

Concessional resources;

Universal social protection;

Decarbonising hard-to-abate sectors; and

Reforming multilateral institutions.

While these would require global orientation and alignment, India's banking sector could glean some learnings from how global peers are scaling up the ante.

Global precedence

A quick analysis of global banks suggests that the integration of sustainability in business has been accelerating. This is reflected in the tone from the top, in policy and stakeholder engagement, in scaling investments across sustainable sectors, and leveraging ESG for effective risk management.

Several global banks have made strong commitments ranging from \$100 billion to \$1 trillion for financing sustainability requirements. Many of these have pledged to no longer provide financing towards certain sectors such as development of new oil and gas fields, and coal-based power plants.

At the same time, banks are aiming to tap opportunities to grow credit exposure to production of low-carbon energy. Many global banks have announced their intention to be net zero and are gearing their lending portfolios to tap green, social and transition avenues.

Several large banks have drawn up strategies to design instruments and products specifically targeted at tapping opportunities in renewable energy, clean technology, and sustainable infrastructure projects to transition towards low-carbon portfolios.

Use of such innovative sustainable finance products such as green bonds, sustainability linked loans, and transition loans has been growing. This will gradually become the new norm for deploying finance with sustainability as a criterion to access preferential and designated capital for borrowers.

Global banks are leveraging artificial intelligence and cloud-based technology to expand their coverage to a larger base of customers. Some are increasing cloud adoption rate for services, thereby lowering their carbon footprint. Others are promoting innovation through networks of startup accelerators, promoting entrepreneurship and local businesses.

These apart, banks are using ESG-based decision metrics in key business matters across management compensation, narrowing pay and gender gaps and capability development.

The road ahead for Indian banks

In comparison, the financial sector in India is at a crossroads on the sustainability agenda. The debate often is cost versus return on investment, especially given the developmental needs of a growing nation. Global precedence and India's stance at G20 give a clear direction on ensuring that ESG is leveraged for value-creation for banks.

But while Indian banks have started on the ESG journey, there still is a long way to climb towards capitalising on the benefits. There are clear learnings and opportunities, however, that can be leveraged.

A proactive and comprehensive strategy to tap the sustainability opportunity would not only open up newer avenues for domestic banks but also propel India towards meeting its aspirations on climate resilience, social transformation, and sustainability development goals.

By seamlessly integrating sustainability and climate considerations and leveraging tech-enabled decisionmaking, banks could emerge as a vanguard for positive environmental and social transformation within India's financial sector, a testament to India's global sustainability leadership.

In essence, Indian banks have the responsibility to scale up on a trifecta of catalysing social transformation, enabling achievement of national goals, especially India's net zero commitment, and delivering on the business agenda to grow the lending book.

These are not only complementary but also interdependent.

The trajectory that can propel Indian banks towards achieving these goals depends on their ability to tap into global capital pools and ensuring growth capital and deploying innovation products for newer segments to drive asset book expansion.

These would need leveraging digital means extensively, scaling up stakeholder and climate governance, as well as integrating ESG factors in credit and risk decisioning. If done well, Indian banks will not only excel on financial outcomes but also become beacons of the much-needed transition.

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