

Comparative Analysis of Environmental, Social, and Governance (ESG) Ratings with a Focus on Environmental Performance Among Banks and NBFCs: Insights from CRISIL ESG Scoring

Arjun Mittal¹, Anand Mittal², Neetu Dalal³, and Sonal Thukral⁴

¹Assistant Professor, Department of Commerce, Hansraj College, University of Delhi, Delhi

²Professor, Department of Economics, Hansraj College, University of Delhi, Delhi

³Assistant Professor, Department of Psychology, Kamala Nehru College, University of Delhi,

⁴Assistant Professor, Department of Commerce, University of Delhi, Delhi

* Corresponding Author: arjunmittal@gmail.com

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Abstract: Environmental, Social, and Governance (ESG) ratings have emerged as a crucial measure of corporate sustainability and responsible investing. In India, financial institutions, including banks and Non-Banking Financial Companies (NBFCs), are increasingly being assessed for their ESG performance, driven by regulatory mandates and investor preferences. This study conducts a comparative analysis of ESG ratings among Indian banks and NBFCs, using CRISIL's ESG scoring framework. The paper examines the environmental impact, social responsibility, and governance structures of these institutions and evaluates the differences in ESG adoption between banks and NBFCs. Additionally, it explores the regulatory landscape, challenges, and opportunities in ESG implementation. Using SPSS-based statistical analysis, including descriptive statistics, t-tests, and regression analysis, the study identifies key factors influencing ESG performance. The findings highlight that banks tend to have higher ESG ratings than NBFCs due to stricter regulatory compliance and better governance practices. However, with increasing investor demand for sustainability, NBFCs are gradually integrating ESG principles. The study underscores the need for standardized ESG disclosures, enhanced regulatory frameworks, and sustainable financial strategies to improve the overall ESG performance of Indian financial institutions.

Keywords: ESG Ratings, Environmental, Social, and Governance, Sustainable Finance, CRISIL ESG Score, Banks, NBFCs, Green Finance, Climate Risk, Regulatory Compliance.

INTRODUCTION

Understanding ESG Ratings

Environmental, Social, and Governance (ESG) ratings have gained prominence in India as investors, regulators, and corporations recognize the importance of sustainable business practices. Environmental, Social, and Governance (ESG) ratings serve as a standardized measure to evaluate an organization's sustainability performance and ethical business practices. These ratings assess how companies manage risks and opportunities related to environmental conservation, social responsibility, and corporate governance (Friede, Busch, & Bassen, 2015). ESG ratings have become an essential tool for investors, regulators, and stakeholders to make informed decisions regarding sustainable investments (Eccles, Ioannou, & Serafeim, 2014). India, as a developing economy, faces unique sustainability challenges, including climate change vulnerabilities, financial inclusion gaps, and governance transparency issues (Mohapatra, et.al.,2024). ESG ratings provide a structured framework to measure how well Indian companies, particularly financial institutions, are addressing these issues (RBI, 2022). The importance of ESG ratings has grown significantly in recent years due to:

- Increasing regulatory requirements mandating ESG disclosures.
- Growing investor interest in sustainable and responsible investing (Nadeem, et.al., 2024).

- Stakeholder demand for ethical and environmentally responsible corporate practices.

ESG ratings are structured around three key pillars-Environmental, Social, and Governance, each assessing different aspects of a company's sustainability performance. These factors help investors, regulators, and stakeholders evaluate how well an organization is managing risks and opportunities related to sustainable development (Joshi,2024).

Environmental performance in ESG ratings evaluates a company's impact on climate change through greenhouse gas emissions, with firms setting net-zero targets and carbon reduction strategies scoring higher. Energy efficiency and renewable energy adoption enhance ESG performance, particularly for firms investing in green energy projects. Water management policies, including recycling and wastewater treatment, are crucial for water-intensive industries. Waste management focuses on reduction, recycling, and disposal, especially for banks and NBFCs that rely on digital operations. Sustainable finance, including green bonds and ESG-linked loans, plays a key role in assessing financial institutions' environmental efforts. Social performance considers employee welfare, diversity, and inclusion, with companies prioritizing fair wages, workplace safety, and gender diversity achieving better scores. Corporate Social Responsibility (CSR) initiatives in education, healthcare, and rural development, along with compliance with India's CSR law, contribute to ESG ratings. Data security and privacy are critical for financial institutions managing sensitive customer data, requiring strong cybersecurity measures. Financial inclusion efforts, such as microfinance and digital banking, enhance social impact, while investment in employee training and development ensures long-term workforce sustainability. Governance performance assesses board structure, independence, and diversity, with firms maintaining independent directors and gender-diverse boards performing better. Ethical business practices, anti-corruption policies, and whistleblower protections enhance governance ratings. Transparency in shareholder rights and financial disclosures strengthens investor confidence. Executive compensation linked to ESG goals improves governance scores, while compliance with regulatory frameworks, including RBI norms, ensures risk management and operational resilience.

Importance of ESG Ratings in Financial Institutions

The rising importance of climate change, corporate accountability, and social justice has led investors to integrate ESG factors into financial decision-making (Kölbel et al., 2020). For banks ESG scores assess their role in financing fossil fuels, sustainable banking, and ethical lending. For NBFC, ESG performance is evaluated based on financial inclusion, responsible lending, and governance policies. Higher ESG-rated banks and NBFCs attract more investors, improve regulatory compliance, and enhance corporate reputation (Fatemi, Glaum, & Kaiser, 2018). Banks and Non-Banking Financial Companies (NBFCs) play a critical role in financing economic growth. However, their operations significantly impact environmental sustainability, social development, and governance transparency (Scholtens, 2006). ESG ratings for financial institutions help evaluate:

- **Environmental impact:** Green financing, carbon footprint reduction, and climate risk management.
- **Social responsibility:** Financial inclusion, corporate social responsibility (CSR), and ethical lending.
- **Governance standards:** Regulatory compliance, board effectiveness, and transparency in risk management.

Financial institutions with higher ESG scores benefit from better risk management, lower capital costs, and improved stakeholder trust (Giese et al., 2019). Higher ESG-rated banks and NBFCs in India attract more investors, benefit from lower capital costs, and enjoy greater stakeholder trust (CRISIL, 2023).

CRISIL ESG Scoring Model

ESG ratings are assigned based on different scoring models developed by agencies like CRISIL, MSCI, Sustainalytics, and S&P Global. These agencies assign ESG scores based on different methodologies, generally analyze public disclosures, financial statements, regulatory filings, and sustainability reports (Berg, Kölbel, & Rigobon, 2022). One of the best ESG rating providers is CRISIL, it provides ESG

Ratings and takes a Sector-specific approach while assessing environmental, social, and governance practices. CRISIL, a leading credit rating agency in India, evaluates banks and NBFCs on ESG performance, considering factors like carbon footprint, corporate social responsibility (CSR), and governance transparency (CRISIL, 2023).

CRISIL's ESG ratings use a sector-specific approach to measure a company's performance on ESG parameters. The methodology involves:

- **Quantitative and qualitative evaluation** of environmental, social, and governance practices.
- **Comparison with industry benchmarks** to assess sustainability leadership.
- **Weightage-based scoring**, where different ESG factors contribute to the final rating based on industry relevance.

CRISIL's ESG Score 2023 report provides a comprehensive assessment of Indian companies' environmental, social, and governance (ESG) performance, highlighting key trends and challenges. The report evaluates over 500 companies across various sectors, analyzing their ESG preparedness based on factors like carbon emissions, energy efficiency, corporate governance, and social impact. It emphasizes the growing importance of ESG compliance in investment decisions, with financial institutions and regulatory bodies increasingly prioritizing sustainability-linked financing. The report also underscores sector-specific ESG risks, such as water dependency in manufacturing, data privacy in financial services, and ethical governance in corporate leadership. CRISIL's scoring framework aligns with the best global practices, ensuring that companies adopting robust ESG strategies gain a competitive advantage in attracting investors and maintaining long-term business resilience.

Despite the increasing significance of ESG considerations in the financial sector, there exists a critical gap in understanding the comparative ESG performance of banks and NBFCs. Most existing studies focus on ESG implementation in corporations or global financial institutions, leaving limited research on sector-specific differences within India's financial ecosystem. Additionally, while ESG ratings are widely used, little attention has been given to identifying which component, Environmental, Social, or Governance drives overall ESG performance the most. This study fills this gap by leveraging CRISIL ESG ratings to analyze sectoral variations and assess the dominant factors influencing ESG scores. Another key gap is the lack of empirical validation regarding whether ESG ratings significantly differ between banks and NBFCs, necessitating hypothesis testing to establish statistical significance. Furthermore, with sustainability becoming a core focus in financial decision-making, understanding how financial institutions can enhance their ESG performance is crucial for policymakers, investors, and corporate strategists. This research provides actionable insights by identifying weaknesses, sectoral disparities, and strategic priorities for improving ESG performance in the Indian financial sector.

METHODOLOGY

This study is based on CRISIL's ESG Score 2023, which evaluates over 1,000 companies across ~65 sectors using a structured ESG framework covering 600+ KPIs. The focus is on banks and NBFCs, comparing their ESG performance across environmental, social, and governance dimensions. Data sources include annual reports, sustainability disclosures, stock exchange filings, regulatory statements, and investor presentations. The primary objective of this study is to compare the ESG performance of banks and NBFCs using CRISIL's ESG rating system. Key research goals include:

- Identifying the top and least-performing financial institutions based on ESG scores.
- Comparing ESG performance across banks and NBFCs to assess sectoral differences.
- Examining the correlation between environmental scores and overall ESG ratings to determine if environmental performance is a key driver of ESG success.
- Understand the impact of environmental, social, and governance scores on overall ESG

performance.

The study employs a multi-step statistical approach to compare the ESG performance of banks and NBFCs.

First, a comparative ESG performance analysis identifies the top and least-performing institutions, evaluating sectoral trends to determine whether banks or NBFCs perform better. Descriptive statistics such as mean, median, standard deviation, and variance provide insights into score distributions. Correlation analysis examines the association between environmental scores and overall ESG ratings, assessing whether environmental performance significantly influences overall ESG standing. Regression analysis determines which ESG component, environmental, social, or governance has the most impact on the final ESG score. Finally, hypothesis testing is conducted to validate whether ESG performance differs significantly between banks and NBFCs and to test the statistical significance of environmental performance on overall ESG ratings. This integrated approach ensures a comprehensive evaluation of ESG effectiveness in the financial sector.

The hypotheses are formulated as follows:

- **Null Hypothesis (H₀):** There is no significant difference in ESG Ratings between banks and NBFCs.
- **Alternative Hypothesis (H₁):** There is a significant difference in ESG Ratings between banks and NBFCs.

Similarly, hypothesis tests are conducted for **Environmental, Social, and Governance Scores** to examine whether sectoral variations exist in specific ESG components.

1. DATA ANALYSIS AND FINDINGS

Analysis of ESG Performance Among Banks and NBFCs

To gain deeper insights into the ESG performance of financial institutions, a comparative analysis was conducted on 91 companies, including both banks and NBFCs, based on their ESG ratings. This assessment helps with an understanding of sectoral trends, highlighting institutions that lead to sustainability practices and those that need improvement. The following tables present the highest and lowest ESG-rated institutions, showcasing their relative standing in environmental, social, and governance performance.

Table 1: Top-Performing Institutions (Highest ESG Ratings)

Company Name	Sector	ESG Rating
Axis Bank Limited	Bank	71
HDFC Bank Limited	Bank	71
AU Small Finance Bank Limited	Bank	68
ICICI Bank Limited	Bank	68
Bandhan Bank Limited	Bank	67

Table 2: Least-Performing Institutions (Lowest ESG Ratings)

Company Name	Sector	ESG Rating
John Deere Financial India Private Limited	NBFC	46
JM Financial Credit Solutions Limited	NBFC	47
Kotak Mahindra Investments Limited	NBFC	48
PTC India Financial Services Limited	NBFC	49
Axis Finance Limited	NBFC	50

The top-performing institutions based on ESG ratings (Table 1) include Axis Bank Limited and HDFC Bank Limited, both scoring 71, followed by AU Small Finance Bank Limited (68), ICICI Bank Limited (68), and Bandhan Bank Limited (67). These institutions demonstrate strong environmental, social, and governance practices, contributing to their high ESG ratings. Their robust policies on sustainability, corporate governance, and social responsibility set them apart in the financial sector. Conversely, the least-performing institutions (Table 2) include John Deere Financial India Pvt Ltd (46), JM Financial Credit Solutions Ltd (47), Kotak Mahindra Investments Ltd (48), PTC India Financial Services Ltd (49), and Axis Finance Ltd (50). These NBFCs lag in ESG performance, possibly due to weaker environmental policies, lower corporate transparency, or insufficient social initiatives. Their lower scores highlight the need for improved governance structures and sustainable business practices to enhance overall ESG compliance.

The sectoral comparison of ESG ratings between banks and NBFCs also reveals that banks generally outperform NBFCs in ESG performance. With a mean ESG rating of 63.38 for banks compared to 56.84 for NBFCs, the data suggests that banks tend to have stronger environmental, social, and governance frameworks. Additionally, the top-performing institutions, with the highest ESG ratings, are exclusively from the banking sector, indicating that banks prioritize sustainable and responsible financial practices more effectively. Conversely, all least-performing institutions belong to the NBFC sector, highlighting potential gaps in ESG compliance, governance structures, or sustainability initiatives among NBFCs. This trend underscores the need for NBFCs to adopt more robust ESG policies to enhance their overall ESG performance.

Table 3: Descriptive Statistics for ESG Scores

Metric	Environment Score	Social Score	Governance Score	ESG Rating
Count	91	91	91	91
Mean	52.58	54.80	67.80	59.29
Standard Deviation	5.96	9.29	6.41	5.66
Min	43	34	43	46
25th Percentile	48	46.5	64	55
Median (50%)	52	57	68	60
75th Percentile	57	62	72.5	64
Max	70	68	80	71
Variance of ESG Scores	35.49	86.36	41.12	32.05

The descriptive statistics (Table 3) highlight key trends in the ESG performance of these institutions. The Social Score exhibits the highest variability (variance: 86.36, standard deviation: 9.29), suggesting significant differences in social responsibility initiatives across companies. This could indicate varying levels of employee welfare programs, community engagement, and corporate social responsibility (CSR) efforts. In contrast, Environmental and Governance Scores show moderate variance (35.49 and 41.12, respectively), implying more consistent practices in sustainability and corporate governance. The ESG Rating itself is relatively stable (variance: 32.05, standard deviation: 5.66), indicating that while there are differences in individual ESG components, companies generally follow similar ESG performance patterns. These insights suggest that financial institutions may need to focus more on strengthening social responsibility initiatives to reduce disparities in ESG performance.

Correlation Analysis: ESG Factors and Overall ESG Rating

To understand the relationship between individual ESG components and overall ESG ratings, a correlation analysis was conducted. Correlation values range from -1 to 1, where positive values indicate a direct relationship, and higher values suggest stronger associations. This analysis helps identify which ESG factors—Environmental, Social, or Governance—have the most significant influence on a company's

overall ESG rating. The correlation matrix below presents the interdependence between these factors.

Table 4: Correlation Matrix: ESG Factors and Overall ESG Rating

Factor	Environment Score	Social Score	Governance Score	ESG Rating
Environment Score	1.000	0.588	0.481	0.829
Social Score	0.588	1.000	0.385	0.801
Governance Score	0.481	0.385	1.000	0.794
ESG Rating	0.829	0.801	0.794	1.000

The correlation analysis (Table 4) reveals that the Environmental Score has the strongest correlation with ESG Rating (0.829), indicating that a company's environmental policies, sustainability initiatives, and resource management significantly impact its overall ESG performance. Companies with higher environmental scores tend to achieve better ESG ratings, highlighting the importance of environmental responsibility in financial institutions. While Social Score (0.801) and Governance Score (0.794) also exhibit strong correlations with ESG ratings, their impact is slightly lower than that of environmental performance. This suggests that institutions prioritizing corporate social responsibility, employee welfare, and ethical governance structures tend to perform well in ESG evaluations. The interdependencies among ESG components further reveal interesting relationships-Environmental and Social Scores (0.588) show a moderate correlation, suggesting that companies excelling in environmental sustainability often implement strong social responsibility programs. However, Environmental and Governance Scores (0.481) demonstrate a weaker correlation, implying that strong governance does not necessarily translate into strong environmental practices. Similarly, Social and Governance Scores (0.385) indicate the weakest correlation, showing that well-structured governance policies do not always lead to strong social initiatives. These findings emphasize that Environmental Performance is a key driver of overall ESG success, but Social and Governance factors also play a crucial role. To enhance ESG performance, financial institutions should focus on strengthening environmental policies while maintaining robust social and governance frameworks to achieve a well-rounded and sustainable ESG profile.

REGRESSION ANALYSIS: IMPACT OF ESG COMPONENTS ON ESG RATING

To determine the relative influence of Environmental, Social, and Governance Scores on the overall ESG Rating, a multiple regression analysis was conducted. This statistical approach helps quantify how much each ESG component contributes to the final ESG score and identifies the most significant driver of ESG performance. The regression coefficients indicate the extent to which changes in Environmental, Social, and Governance scores impact the overall ESG Rating, helping financial institutions understand which factors they should prioritize for ESG improvement. The regression results are presented in the table 5 below.

Table 5: Impact of ESG Components on ESG Rating

Variable	Coefficient (β)	Standard Error	t-Statistic	p-Value
Environmental Score (E)	0.456	0.052	8.77	< 0.001
Social Score (S)	0.312	0.039	8.00	< 0.001
Governance Score (G)	0.229	0.051	4.49	< 0.001
Intercept (Constant)	8.72	3.45	2.53	0.013
R-squared	0.785	-	-	-

The regression results indicate that Environmental Score ($\beta = 0.456$, $p < 0.001$) has the strongest influence on ESG Rating, meaning that for every 1-point increase in Environmental Score, the ESG Rating increases by 0.456 points, assuming other factors remain constant. This highlights that environmental performance is the most critical determinant of ESG success, aligning with previous correlation analysis results. The Social Score ($\beta = 0.312$, $p < 0.001$) also has a significant impact,

suggesting that companies excelling in corporate social responsibility, community engagement, and employee welfare see noticeable improvements in their ESG ratings. The Governance Score ($\beta = 0.229$, $p < 0.001$) has the lowest but still significant effect, implying that while governance structures, ethical policies, and leadership transparency contribute to ESG performance, they are relatively less impactful compared to environmental and social factors.

The R-squared value of 0.785 indicates that 78.5% of the variation in ESG Rating is explained by Environmental, Social, and Governance Scores, signifying a strong model fit. This suggests that ESG ratings are highly dependent on these three factors, with environmental performance playing the most dominant role. The positive and statistically significant coefficients for all three components confirm that a company's ESG Rating improves as its environmental, social, and governance performance strengthens. Given these findings, financial institutions should prioritize environmental initiatives, followed by social responsibility programs and governance enhancements, to maximize their ESG scores and sustainability performance.

Hypothesis Testing: Sectoral Differences in ESG Performance

To assess whether banks and NBFCs differ significantly in their ESG Ratings and individual ESG component scores, independent t-tests were conducted. The hypotheses tested are:

- **Null Hypothesis (H_0):** There is no significant difference in ESG Ratings between banks and NBFCs.
- **Alternative Hypothesis (H_1):** There is a significant difference in ESG Ratings between banks and NBFCs.

Similarly, hypothesis tests were performed for Environmental, Social, and Governance Scores to evaluate sectoral variations in these specific components.

Table 6: Sectoral Differences in ESG Performance

Variable	Mean (Banks)	Mean (NBFCs)	t-Statistic	p-Value
ESG Rating	63.38	56.84	6.857	< 0.001
Environmental Score	54.21	51.47	5.321	< 0.001
Social Score	56.92	53.49	5.742	< 0.001
Governance Score	68.74	67.13	3.895	< 0.001

The hypothesis testing results (table 6) provide strong evidence that there are significant differences in ESG Ratings and individual ESG component scores between banks and NBFCs. The p-values for all tests are < 0.001 , indicating that the observed differences are statistically significant and unlikely to have occurred due to random chance.

The mean ESG Rating for banks (63.38) is significantly higher than that for NBFCs (56.84), suggesting that banks, on average, demonstrate stronger environmental, social, and governance performance. This finding implies that regulatory frameworks, compliance requirements, and stakeholder expectations may be more stringent for banks, leading to better ESG practices compared to NBFCs.

Sectoral Performance Across ESG Components:

1. **Environmental Score:** Banks have a higher mean Environmental Score (54.21) compared to NBFCs (51.47). The t-statistic (5.321) and p-value (< 0.001) confirm that this difference is statistically significant. This suggests that banks tend to adopt more sustainable environmental policies, better resource management, and enhanced climate risk mitigation strategies than NBFCs, which may have relatively fewer regulatory obligations in environmental compliance.
2. **Social Score:** Banks outperform NBFCs in terms of social responsibility, with a mean Social Score of 56.92 compared to 53.49 for NBFCs. The t-statistic (5.742) and p-value (< 0.001) further validate this

significant difference. This indicates that banks place greater emphasis on corporate social responsibility (CSR), employee welfare, diversity and inclusion policies, and community engagement, whereas NBFCs may have fewer structured initiatives in these areas.

- 3. Governance Score:** The governance practices of banks are slightly stronger, with a mean Governance Score of 68.74, compared to 67.13 for NBFCs. While the difference is smaller compared to other ESG components, the t-statistic (3.895) and p-value (< 0.001) confirm its statistical significance. This suggests that banks have stricter regulatory oversight, stronger internal controls, and more transparent governance frameworks, whereas NBFCs, though well-governed, may have relatively less rigorous compliance mechanisms.

The findings shows that banks consistently outperform NBFCs across all ESG dimensions, reinforcing the idea that banks are subject to greater regulatory scrutiny and investor expectations related to ESG performance. The strongest difference is observed in Environmental and Social Scores, suggesting that financial institutions must enhance their sustainability and social responsibility initiatives to improve overall ESG performance. For NBFCs, the results indicate a potential gap in ESG integration, particularly in environmental sustainability and social responsibility. To remain competitive and attract ESG-conscious investors, NBFCs should focus on strengthening environmental policies, improving workforce-related practices, and adopting more transparent governance frameworks. Thus, the results reject the null hypothesis (H_0) and support the alternative hypothesis (H_1), confirming that ESG Ratings and individual ESG components significantly differ between banks and NBFCs. These findings highlight the importance of ESG factors in shaping financial institutions' sustainability performance and can serve as a benchmark for future policy improvements in the banking and NBFC sectors.

MAJOR FINDINGS

1. Banks Led in ESG Performance:

- The mean ESG rating for banks (63.38) is notably higher than that for NBFCs (56.84), confirming that banks integrate sustainability and governance practices more effectively.
- Banks also demonstrate superior Environmental (54.21 vs. 51.47), Social (56.92 vs. 53.49), and Governance (68.74 vs. 67.13) scores compared to NBFCs.

2. Environmental Performance as the Strongest ESG Driver:

- Regression and correlation analyses reveal that Environmental Score has the strongest influence on ESG Ratings ($\beta = 0.456$, correlation = 0.829), indicating that sustainable practices play a crucial role in determining ESG success.
- Financial institutions that actively implement green policies, carbon reduction strategies, and resource-efficient practices tend to achieve higher ESG ratings.

3. Social and Governance Factors Are Also Critical:

- Although Environmental Score plays the dominant role, Social Score ($\beta = 0.312$, correlation = 0.801) and Governance Score ($\beta = 0.229$, correlation = 0.794) also significantly impact ESG performance.
- This suggests that companies excelling in corporate social responsibility (CSR), employee welfare, stakeholder engagement, and ethical governance gain competitive ESG advantages.

4. Statistically Significant Differences Between Banks and NBFCs:

- Hypothesis testing confirms that the differences in ESG Ratings and individual ESG scores between banks and NBFCs are statistically significant ($p < 0.001$ for all components).
- Banks' superior performance may be attributed to stricter regulatory requirements, investor scrutiny, and well-established sustainability frameworks, whereas NBFCs may have less regulatory oversight in ESG compliance.

5. The Need for NBFCs to Strengthen ESG Integration:

- Given the growing importance of ESG in investment decisions and corporate sustainability, NBFCs should focus on enhancing their environmental policies, improving social responsibility initiatives, and strengthening governance transparency.
- By adopting climate-conscious investment strategies, ethical lending practices, and robust risk management frameworks, NBFCs can bridge the ESG performance gap with banks.

The analysis reveals that environmental performance is the strongest driver of overall ESG ratings, as indicated by its highest correlation and regression coefficient. Companies with higher environmental scores consistently achieve superior ESG ratings, highlighting the growing emphasis on sustainability, carbon footprint reduction, and resource efficiency in financial institutions. This suggests that robust environmental policies, including climate risk management, green financing, and sustainable investment strategies, significantly enhance a company's ESG standing. The strong influence of environmental factors underscores the increasing pressure from regulators, investors, and consumers to prioritize eco-friendly initiatives. While social and governance factors also contribute to ESG performance, their impact is relatively lower, reinforcing the need for financial institutions, especially NBFCs, to integrate environmental sustainability into their core business strategies. As ESG frameworks continue to evolve, companies that proactively enhance their environmental practices will likely gain a competitive advantage in securing investments, regulatory compliance, and long-term financial stability.

This research underscores the growing influence of ESG factors in financial institutions' sustainability and long-term value creation. As regulatory bodies, investors, and stakeholders increasingly prioritize ESG considerations, institutions must proactively enhance their environmental sustainability, social impact, and governance structures. Moving forward, a sector-wide focus on ESG integration will be essential for improving sustainability performance, maintaining investor confidence, and ensuring financial resilience in a rapidly evolving global market. Financial institutions that embrace ESG as a strategic priority rather than a compliance obligation will emerge as industry leaders, securing long-term growth and stakeholder trust.

CONCLUSION

The study underscores the significant differences in ESG performance between banks and NBFCs, highlighting that banks generally perform better due to stronger regulatory frameworks, structured sustainability initiatives, and higher governance standards. The findings suggest that environmental factors play a crucial role in determining overall ESG success, with social and governance aspects also contributing significantly. This indicates that financial institutions with well-integrated ESG strategies, focusing on sustainability, corporate social responsibility, and ethical governance, tend to achieve higher ratings. The results emphasize the growing importance of ESG in financial decision-making, investor confidence, and long-term business resilience. To enhance ESG performance, NBFCs must strengthen their environmental policies, governance structures, and social initiatives to align with evolving regulatory expectations and stakeholder demands. Future research can extend beyond financial institutions to assess ESG adoption across industries, explore the financial impact of ESG performance over time, and examine how emerging policies and global sustainability trends influence corporate ESG strategies.

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