ESG PERFORMANCES ACROSS FINANCIAL SECTORS IN INDIA: A COMPARATIVE STUDY

Abstract

In recent years, Environmental, Social, and Governance (ESG) performance has become a significant benchmark for assessing corporate sustainability, investor confidence, and long-term financial strength. This study examines ESG practices within India's financial sector using a quantitative approach. The analysis is based on secondary data sourced from CRISIL-ESG ratings for the financial year 2024–25. By applying descriptive statistics and one-way ANOVA, the study evaluates differences in ESG performance across six major financial sectors in India. The results indicate that companies in the banking sector record the highest ESG scores, consistently outperforming the other sectors in all three dimensions of environmental, social and governance aspects. These insights hold value for regulators, policymakers, and investors who are striving to promote sustainable practices and improve ESG accountability within the financial ecosystem. Overall, the study highlights the growing importance of ESG integration in shaping a more responsible, transparent, and resilient financial system in India.

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INTRODUCTION

The term "ESG" itself was popularized following a 2004 initiative by the United Nations, which invited major financial institutions to integrate sustainability into corporate performance. ESG encompasses three dimensions of non-financial performance: the "E" for environmental factors; the "S" for social factors; and the "G" for governance factors. While earlier approaches like Corporate Social Responsibility (CSR) emphasized ethical behaviour and philanthropy, ESG places emphasis on how environmental, social and governance issues may affect a company's financial performance, risk profile and long-term viability. For corporations, integrating ESG means not only reporting on environmental and social metrics, but also embedding governance mechanisms, stakeholder engagement and sustainability strategy into the core business model. Poor environmental practices, weak social safeguards and governance failures can produce credit losses, litigation, reputational damage and regulatory interventions. Conversely, strong ESG practices can reduce idiosyncratic risk, improve stakeholder trust and support long-term returns. The present study aims to test the credibility of the ESG scores in determining the performances across different financial sectors in India. The study can act as a guide to the investors to examine the ESG performances of corporate entities before making any investment decisions.

LITERATURE REVIEW

Adhikari and Ghosh (2022) analyzed CRISIL ESG scores of Indian companies in the cement, financial, and metal sectors for the year 2021. The results revealed a significant variation in ESG performance across the three sectors. *Chipalkatti et al. (2025)* examined the impact of ESG disclosures on the key financial metrics (Return on Equity, market risk, cost of funds and credit risk) of Indian banks. The analysis was carried out on a sample size of 29 Indian banks consisting of both public and private-sector banks during the period 2013–2023. The study has found no significant association between ESG scores and ROE, indicating that ESG integration has not yet translated into measurable profitability improvements for Indian banks. *Sila and Cek (2017)* examined the influence of ESG dimensions of CSR on an organization's economic performance. They have used the Thomson Reuters ASSET4 annual ESG dataset on Australian firms covering the period from 2010 to 2016. The results showed that social performance factors consistently lead to improved economic performance but environmental performance factors and governance performance factors did not show any significant improvement on the economic performances of the selected firms. Tarmuji et al. (2016) investigated the impact of Environmental, Social and Governance (ESG) practices on economic performance based on Thomson Reuters ASSET4 ESG annual database from the period 2010 to 2014. The results showed that only social and governance practices significantly influenced the firm's economic performance.

METHODOLOGY

Objectives

1. To assess the Environmental (E), Social (S) and Governance (G) scores of companies operating in the country's financial sectors for the financial year 2024-25.
2. To examine and compare the overall ESG scores of companies operating in the country's financial sectors for the financial year 2024-25.
3. To identify the specific financial sectors that is significantly different from each other using the Tukey's HSD (Honestly Significant Difference) test.

Sample Selection

The data has been obtained from CRISIL ESG Ratings 2024-25. Out of eighteen sectors, only the financial sectors have been selected for the study using the purposive sampling method. The six financial sectors were insurance, banking, non-banking financial companies (NBFCs), financial institutions and financial services company. From each of these six financial sectors, five companies have been randomly selected for the study. Thus, the study was carried out using the component-wise and overall ESG scores of fifteen companies across six financial sectors.

Hypotheses

$H_{01:}$ Environmental (E), Social (S) and Governance (G) scores do not significantly differ across the six financial sectors.

H_{02}: Overall ESG scores do not significantly differ across the six financial sectors.

Against the Alternate Hypotheses (H_A):

H_{A1}: Environmental (E), Social (S) and Governance (G) scores significantly differ across the six financial sectors.

H_{A2}: Overall ESG scores significantly differ across the six financial sectors.

FINDINGS AND ANALYSIS

Prior to conducting inferential statistical analyses, the assumptions of normality were examined for all study variables. Given the relatively small sample size (n = 30) greater emphasis was placed on the Shapiro–Wilk test, as it is considered more powerful and appropriate for samples smaller than 50. The results of both the tests reported p-values greater than 5 percent significance level, as shown in Table-1. Hence, the assumptions of normality were satisfied and the study proceeded with the parametric analyses using one-way ANOVA technique.

Table – 1: Normality Tests for E, S, G and overall ESG scores

Dimensions	Sample size	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
		Statistic	d.f.	Sig.	Statistic	d.f.	Sig.
E	30	.132	30	.194	.956	30	.241
S	30	.145	30	.108	.955	30	.235
G	30	.150	30	.082	.919	30	.056
ESG	30	.106	30	.200*	.976	30	.710

a. Lilliefors Significance Correction
****This is a lower bound of the true significance***
Source: Calculated

Table 2 given below presents the mean scores for the three ESG dimensions across all six financial sectors. The banking sector demonstrates the strongest performance in environmental, social, and governance initiatives, indicating a higher level of ESG commitment. Furthermore, the greatest variability in ESG scores was observed in case of insurance sector for environmental initiatives, NBFCs and Investment Companies for social initiatives, banks and financial institutions for governance initiatives.

Table – 2: Environmental, Social and Governance (ESG) Scores of Financial Sectors

Financial Sectors	Environmental scores (E)			Social scores (S)			Governance scores (G)		
	Mean	*S.D.*	*CoV*	*Mean*	*S.D.*	*CoV*	*Mean*	*S.D.*	*CoV*
Banks	62.8	3.3	5.3	64.4	5.1	7.9	71.4	9.9	13.8
Insurance	44.2	9.4	21.2	61.2	2.9	4.7	66.0	5.6	8.5
NBFCs	52.8	6.2	11.7	50.4	10.2	20.3	68.6	4.4	6.4
Investment Company	45.6	9.3	20.4	52.0	10.7	20.5	63.4	7.7	12.1
Financial Institution	55.6	4.9	8.9	56.0	5.5	9.9	53.4	8.9	16.7
Financial Services	52.2	6.1	11.6	54.0	6.9	12.8	74.2	2.8	3.7
F VALUE	4.87			2.69			5.46		
P VALUE	0.0032			0.0457			0.0017		

Source: Calculated

Table-2 further revealed the p-values for environmental, social, and governance dimensions below the threshold level of 0.05. This provides sufficient statistical evidence to reject the null hypothesis and confirms that ESG performance varied significantly across companies operating in Banks, Insurance, NBFCs, Investment Companies, Financial Institutions, and Financial Services sectors.

Table-3 illustrated the mean ESG overall scores of the six financial sectors considered in the study. The results clearly revealed that companies in the banking sector demonstrated the highest average ESG score relative to their counterparts; indicating that banking institutions were more proactive and consistent in adopting and implementing environmental, social, and governance initiatives. The financial services sector exhibited the lowest variation in ESG scores, suggesting a more uniform approach to ESG implementation across companies in this sector. Table 3 further revealed that the p-value was less than 5 percent significance level across the financial sectors, leading to the rejection of the null hypothesis. Therefore, it can be inferred that ESG initiatives are not uniform across the different financial sectors.

Table – 3: Overall ESG Scores of Financial Sectors in India

Financial Sectors	ESG scores		
	Mean	*S.D.*	*CoV*
Banks	66.6	4.3	6.4
Insurance	57.2	4.8	8.3
NBFCs	58.4	4.6	7.8

Investment Company	54.4	8.3	15.2
Financial Institution	54.8	6.5	11.9
Financial Services	61.4	2.3	3.7
F VALUE	3.54		
P VALUE	0.0154		

Source: Calculated

Table 4 presented the sector-wise pair of means showing significant differences from each other in all the three counts. Banks showed significantly higher environmental scores than insurance and investment companies. Banks have also significantly outperformed NBFCs on social metrics. Banks, insurance companies and NBFCs showed stronger governance practices than financial institutions.

Table – 4: Differences in ESG Dimension across Financial Sectors in India

ESG Dimensions	Sector-wise Pairs	Mean Differences	HSD Critical Value	p-value	Significance ($\alpha = 0.05$)
Environmental (E)	Banks – Insurance	18.4	11.9	$p < 0.05$	Significant
	Banks – Investment Company	17.2	11.9	$p < 0.05$	Significant
Social (S)	Banks – NBFCs	13.9	12.6	$p < 0.05$	Significant
Governance (G)	Banks – Financial Institution	18.1	11.8	$p < 0.05$	Significant
	Insurance – Financial Institution	12.6	11.8	$p < 0.05$	Significant
	NBFCs – Financial Institution	15.2	11.8	$p < 0.05$	Significant
	Financial Institution – Financial Services	21.1	11.8	$p < 0.05$	Significant
ESG (Overall)	Banks – Insurance	9.4	9.32	$p < 0.05$	Significant
	Banks – Investment Company	12.2	9.32	$p < 0.05$	Significant
	Banks – Financial Institution	11.8	9.32	$p < 0.05$	Significant

Source: Calculated

CONCLUSION

The banking sector exhibited the highest ESG scores among the six financial sectors examined. Banking institutions consistently outperformed their counterparts in the insurance, NBFC, investment, financial institution, and financial services sectors across all three pillars of ESG. In contrast, investment companies recorded the weakest performance, displaying low scores across environmental, social, and governance dimensions. Additionally, the high standard deviation observed in this sector indicates substantial variation in ESG commitment and implementation among investment companies, suggesting a lack of uniformity in ESG adoption. A key challenge contributing to this inconsistency is the absence of standardized reporting guidelines and uniform evaluation criteria for measuring ESG performance in India. Due to varying disclosure practices and the lack of clearly defined metrics, companies may find it difficult to report their ESG initiatives in a comparable and consistent manner. Moving forward, the development of comprehensive regulatory guidelines and a standardized methodology for ESG score computation by relevant authorities is imperative. Establishing such a structured framework will not only enhance transparency and comparability across sectors but also help organizations realize the long-term benefits of integrating ESG principles ultimately benefiting businesses, investors, and society at large. MA

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