

The Role of Financial Institution in Promoting Responsible Investing

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Abstract—Financial institutions play a pivotal role in promoting responsible investing by integrating environmental, social, and governance (ESG) factors into their investment decisions and ownership practices. This integration not only aligns financial returns with societal and environmental benefits but also enhances long-term portfolio performance by identifying and mitigating potential ESG related risks. The Principles for Responsible Investment (PRI), supported by the United Nations, provide a global framework for financial institutions to incorporate ESG issues into their investment processes. As of December 2024, over 5,000 signatories from more than 80 countries, representing approximately US\$128 trillion in assets under management, have committed to these principles. The United Nations Environment Programme Finance Initiative (UNEP FI) further underscore the financial sector's commitment to sustainability. Established in 1992, UNEP FI collaborates with over 400 financial institutions worldwide to promote sustainable finance, offering guidance and tools to align financial practices with sustainable development goals.

Index Terms—Financial institutions, Responsible investing, Sustainable finance Environmental, Social, and Governance (ESG), Impact investing, Ethical investing, Risk management, Transparency, Fiduciary duty Stakeholder engagement, Long-term value

I. INTRODUCTION

Background of the Study:

“THE ROLE OF FINANCIAL INSTITUTION IN PROMOTING RESPONSIBLE INVESTING”

Financial institutions play an instrumental role in promoting responsible practices and ethical conduct within Indian companies, acting as both catalysts and enforcers of corporate accountability. In recent years, as the global focus on environmental, social, and governance (ESG) issues intensifies, Indian financial

institutions have increasingly aligned their services and funding models with these priorities. One of the key ways they influence companies is through promoting sound corporate governance.

The Role of Financial Institutions in Promoting Responsible Investing - Bajaj Finance Limited
Financial institutions play a pivotal role in promoting responsible investing by guiding capital towards sustainable, ethical, and socially responsible projects. This approach aligns financial returns with environmental, social, and governance (ESG) criteria, ensuring that investments not only yield profits but also contribute positively to society. Over the years, there has been a growing awareness among investors and regulatory bodies about the importance of sustainable investment practices. Consequently, financial institutions are increasingly integrating ESG criteria into their investment strategies to align with global sustainability goals.

Bajaj Finance Limited, one of India's leading non-banking financial companies (NBFCs), has shown a commitment to this trend. Established in 1987 and headquartered in Pune, Bajaj Finance Limited operates as a diversified financial services company. It offers a wide range of financial products, including consumer finance, SME lending, commercial lending, and wealth management services. The company's extensive reach, innovative product offerings, and emphasis on technology have helped it grow significantly, becoming a key player in the Indian financial landscape.

The study focuses on examining Bajaj Finance Limited's role in promoting responsible investing and how it aligns its products and services with ESG

principles. This includes an evaluation of its sustainable finance offerings, risk management strategies, and efforts to educate investors about responsible investing. Furthermore, the study explores how Bajaj Finance Limited positions itself as a catalyst for social impact by supporting green projects, inclusive finance, and other initiatives that contribute to the broader goal of sustainable economic development. By understanding Bajaj Finance Limited's approach, the study aims to shed light on the critical role NBFCs and other financial institutions play in fostering a culture of responsible investing, which is vital for achieving long-term sustainability in the financial sector.

Problem statement of study:

The increasing competition in the non-banking financial services (NBFC) sector, evolving consumer preferences, and rapid technological advancements are exerting pressure on Bajaj Finance Limited to sustain its market leadership. Despite its robust presence in consumer finance, SME lending, and commercial lending, the company faces challenges related to customer acquisition, retention, and operational efficiency. Additionally, the risk management strategies need to evolve to mitigate the rising defaults and economic uncertainties. This study aims to analyze the effectiveness of Bajaj Finance Limited current business model, customer engagement strategies, and digital transformation efforts to identify potential areas for improvement in achieving long-term growth and sustainability.

"This problem statement can be adapted based on the specific focus of your study", whether it's customer satisfaction, financial performance, risk management, or another area of interest within Bajaj Finance Limited.

II. OBJECTIVES OF THE STUDY

- I. To Analyze the Role of Financial Institutions in Responsible Investing.
- II. To Evaluate Bajaj Finance Limited's Approach to Responsible Investing.
- III. To Assess the Impact of Responsible Investing on Financial Performance.
- IV. To Identify Opportunities and Challenges in Promoting Responsible Investing.
- V. To Provide Recommendations for Enhancing Responsible Investing Practices.

Hypothesis:

*H₀ (Null Hypothesis): *: financial institution has a responsible for investing policy.

*H₁ (Alternative Hypothesis): *: financial institution has not responsible investing policy.

Statistical Test Applied:

A Chi-Square test was conducted to determine financial institution have a responsible for investing policy and significantly impact their views on banks.

Findings:

Critical value at 0.05 significance level for df = 1: 3.841 Since 3.841 > 82.515185 therefore H₀ is accepted.

H₀: financial institution has a responsible for investing policy.

III. LITERATURE REVIEW

1. "The Role of Financial Institutions in the Global Economy" (2022) by Franklin Allen and Elena Carletti. This paper examines the role of financial institutions in the global economy and discusses the importance of regulation in ensuring financial stability.

2. Kantawala, (1997), in his study "Financial Performance of Non-Banking Finance Companies in India", examined the performance of non-banking financial companies for the period from 1985-86 to 1994-95. Based on secondary data collected from different RBI bulletins regarding financial and investment companies, the study concluded that there was a significant difference in the profitability ratios, leverage ratios, and liquidity ratios of various categories of NBFCs. When two categories were compared, the selected ratios were not statistically different from each other in majority of the cases.

3. "Financial Inclusion: A Review of the Literature" (2021) by Maria Ana Lugo and Michael R. Carter. This review paper examines the literature on financial inclusion, which is the process of ensuring that individuals and businesses have access to affordable financial services.

4. Jain, A., & Joshi, M. (2021). "A Study on the Impact of Covid-19 on Indian NBFCs." The study

analyzes the impact of the Covid-19 pandemic on Indian NBFCs and finds that they faced significant challenges, including liquidity risk, asset quality deterioration, and reduced.

5. "The Relationship between Financial Ratios and Stock Returns: Evidence from the Tehran Stock Exchange" by Salehi and Bagheri (2021) – This study analyzed the relationship between financial ratios and stock returns in the Tehran Stock Exchange. The authors found that certain financial ratios, such as earnings per share and return on assets, were significantly related to stock returns in the Tehran Stock Exchange.

6. Agarwal, R. K., & Goyal, S. (2020). "Non-Banking Financial Companies (NBFCs) and Their Role in Indian Economy." The paper discusses the role of NBFCs in the Indian economy and their contribution to economic growth, financial inclusion, and job creation.

7. Khan, (2010) in his study on "Non-Banking Financial Companies (NBFCs) in India: Functioning and Reforms" discussed the financial system in India emphasizing on the activities of Non-Banking Financial Companies (NBFCs). The study covered the financial intermediaries including commercial banks, regional rural banks, cooperative banks and NBFCs in India and made a comparative analysis of their activities.

8. Dr. K. Prince Paul Antony and D. Bharath, (2022), Their study focused on financial performance of Bajaj Finserv. The main objective of this study is to measure the financial performance and to know the profit ability of the company. The study is based on the financial position of the firm by using ratio analysis, financial statements help the management to analyse profit, solvency, liquidity and efficiency. The study concluded that the company is in a good trend.

9. P. Bhaskar Yadav and Dr. K. Haritha, (2022), Their study focused on a Study on Ratio analysis of Bajaj Finserv with Reference to Sriram Bajaj. The main objective of the study is to study the Liquidity position of the company and profitability position of

the company. Secondary source of data was used. The study concluded that the current ratio is in standard position, debtor's turnover ratio is efficient and the financial performance of the company is in standard position.

10. K. Sai Dakshayani and Dr. P. Viswanath, (2022), Their study focused on a Study on Profitability analysis at Bajaj Finserv Ltd. The main objective of the study is to analyse the profitability in terms of sales and to examine the relationship of net profit and total assets efficiency. Secondary source of data was used for study. The study concluded that the growth of profitability of the company can be considered stable.

IV. RESEARCH METHODOLOGY

Study Design

This research follows the conclusive research methodology which is based on the quantitative data that is already collected by someone for different purpose. For an effective result from the research the study should be done with the secondary sources of the data. The main sources for these secondary data is annual reports of the company. The reference from the books like financial management, management accounting or any other standard textbooks can be used. Statistical and non-statistical tools can be used for the analysis of data. Additionally, in order to achieve the efficiency of financial analysis the conventional tools can also be used.

Data Collection Methods

Primary Data Collection:

Primary Data: This project is based on secondary data. Hence primary data is not required.

Secondary Data: Secondary data refers to the information or facts already collected. Such data are collected with the objective of understanding the past status of any variable or the data collected and reported by some source is accessed and used for the objective of the study. The secondary data was collected through following sources.

Data Analysis

Statistical tools Excel were used to analyze quantitative data, while thematic analysis was customer for qualitative responses.

Particular	Satisfied(C1)	Dissatisfied(C2)	Total
Male (R1)	25	83	108
Female (R2)	74	8	82
Total	99	91	190

ELEMENTS	OBSERVED	EXPECTED	DIFFERENCE	SQUARE OF DIFFERENCE	CHI SQUARE
C1R1	25	56.273684	31.273684	978.0433109	17.3801187
C1R2	74	42.726315	31.273685	978.0433734	22.8908899
C2R1	83	51.726315	31.273685	978.0433734	18.9080427
C2R2	9	39.273684	30.273684	916.4959429	23.3361337
					82.515185

$$\begin{aligned}
 DF &= (R-1) * (C-1) \\
 &= (2-1) * (2-1) \\
 &= 1 * 1 \\
 &= 1
 \end{aligned}$$

H0: financial institution has a responsible for investing policy.

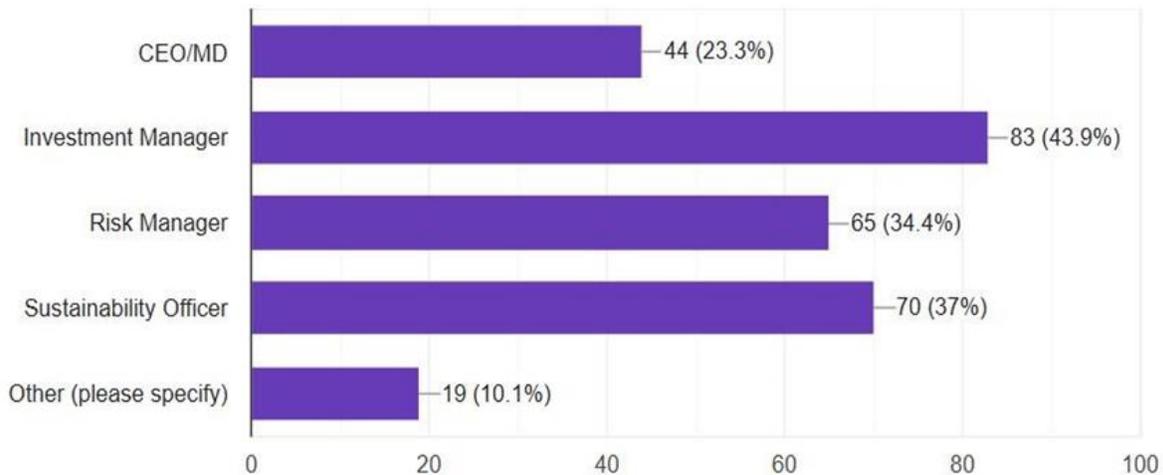
V. RESULTS AND DISCUSSION

Critical value at 0.05 significance level for df = 1: 3.841 Since 3.841 > 82.515185 therefore H0 is accepted

Demographic Analysis:
Gender distribution: 66.8% male, 33.2% female respondents. Industry representation: Finance

Data analysis and Interpretation

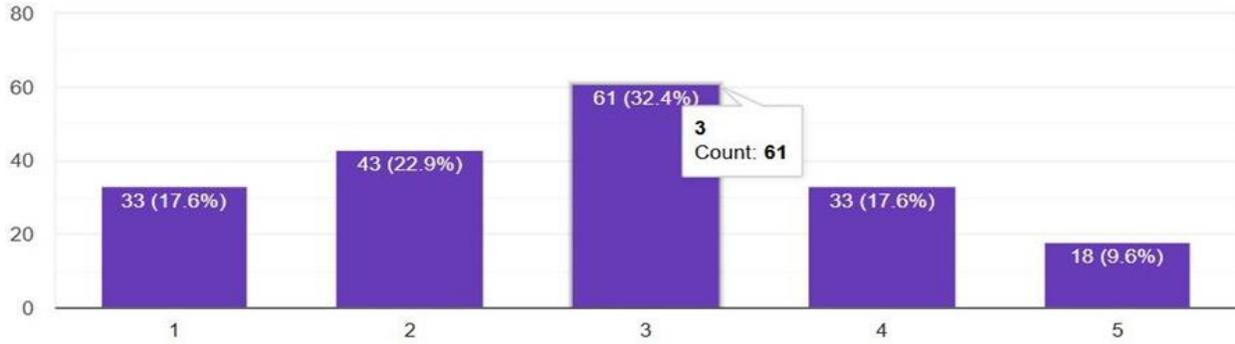
1. What is your role in the financial institution?



the most common role is "Investment Manager" (43.9%), followed by "Sustainability Officer" (37%),

"Risk Manager" (34.4%), and "CEO/MD"(23.3%). "Other" roles make up 10.1% of responses.

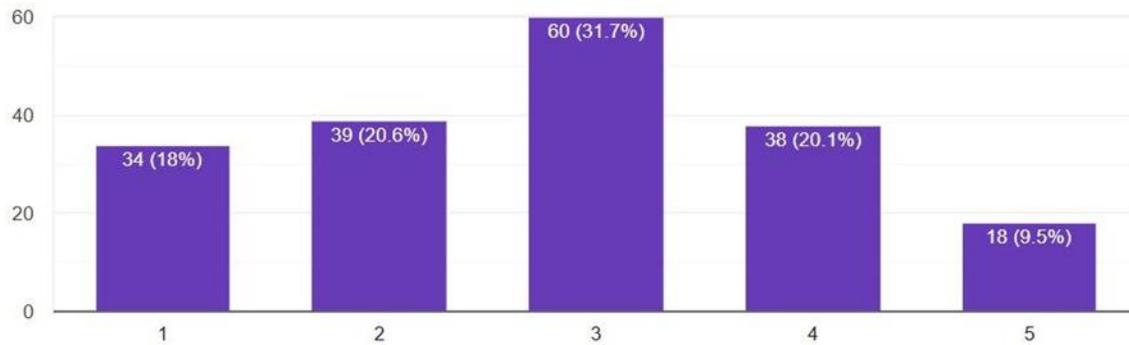
2. When choosing an investment, how important is responsible investing to you?



the highest percentage (32.4%) selecting "1" (presumably indicating "very important" or a similar high-importance level on a scale). Other responses show a declining trend, with 22.9% choosing "2",

17.6% choosing "4", 17% choosing "3", and the lowest percentage (9.5%) choosing "5".

3. How important do you think the role of financial institutions is in promoting responsible investing?



The most frequent response (31.7%) corresponds to a rating of "3" (likely on a scale of 1 to 5), followed by 20.6% for "2", 20.1% for "4", 18% for "1", and lastly, 9.5% for "5".

institutions or regions?

Strategies and Practices:

What specific strategies are financial institutions using to implement RI? (e.g., ESG integration, negative screening, thematic investing, impact investing, shareholder engagement) How effective are these strategies in achieving both financial returns and positive ESG outcomes?

Impact Measurement:

How can the impact of responsible investing be measured and reported? What are the challenges in quantifying the ESG performance of investments?

Challenges and Barriers

"Financial institutions face a complex web of challenges and barriers when attempting to fully integrate and promote responsible investing. Here's a breakdown of the key obstacles:

1. Data and Standardization:

Lack of Uniform Metrics: ESG data is often inconsistent and non-standardized. This makes it difficult to compare companies and assess their true sustainability performance.

Findings

Financial Institutions: This includes banks, investment firms, insurance companies, pension funds, and other entities that manage and invest money. Responsible Investing (RI): This is an approach to investing that considers environmental, social, and governance (ESG) factors alongside financial factors in the investment decision-making process. It aims to generate long-term financial returns while also contributing to a more sustainable and equitable society.

Potential Research Angles:

The Drivers of RI Adoption:

What are the key factors pushing financial institutions to embrace responsible investing? (e.g., investor demand, regulatory pressures, risk management, ethical considerations) How do these drivers vary across different types of financial

Data Availability and Quality: Many companies lack comprehensive ESG reporting, and the data that is available may be incomplete or unreliable.

Rating Discrepancies: Different ESG rating agencies use varying methodologies, leading to significant discrepancies in company ratings.

2. Short-Term Financial Pressures:

Focus on Immediate Returns: Financial markets often prioritize short-term profits, which can conflict with the long-term nature of responsible investing.

Investor Expectations: Many investors are still focused on maximizing financial returns, and may be hesitant to embrace ESG factors if they perceive a potential trade-off.

3. "Green washing" and Transparency:

Misleading Claims: The risk of "green washing" (exaggerating or misrepresenting sustainability credentials) erodes investor trust and undermines the credibility of responsible investing.

Lack of Transparency: Insufficient transparency in ESG reporting and investment strategies makes it difficult for investors to verify sustainability claims.

4. Regulatory and Policy Challenges:

Inconsistent Regulations: The evolving regulatory landscape for ESG investing is fragmented, with varying requirements across different jurisdictions.

Policy Uncertainty: Uncertainty about future regulations and policies can discourage financial institutions from making long-term ESG commitments.

5. Internal Capacity and Expertise:

Skill Gaps: Many financial institutions lack the internal expertise and resources to effectively integrate ESG factors into their investment processes.

Organizational Culture: Changing organizational culture to prioritize sustainability can be a significant challenge.

6. Balancing Financial Returns and ESG Goals:

Perceived Trade-offs: There is still a widespread perception that responsible investing comes at the cost of lower financial returns.

Demonstrating Value: Financial institutions need to demonstrate that ESG integration can enhance long-term financial performance.

In essence, overcoming these barriers requires a collaborative effort involving financial institutions, regulators, investors, and companies."

VI. CONCLUSION AND RECOMMENDATIONS

Financial institutions play a crucial role in promoting responsible investing by integrating environmental, social, and governance (ESG) considerations into their investment strategies and financial services. They act as intermediaries between investors and companies, channeling capital toward sustainable and ethical ventures that generate long-term value while minimizing negative social and environmental impacts. Banks, asset management firms, insurance companies, and other financial entities encourage responsible investing by offering green bonds, ESG-focused mutual funds, and impact investment opportunities, ensuring that investors have access to financial products aligned with their values. Moreover, they influence corporate behavior by setting sustainability criteria for lending and investment decisions, encouraging businesses to adopt responsible practices. Regulatory frameworks and global initiatives, such as the Principles for Responsible Investment (PRI) and Sustainable Development Goals (SDGs), further drive financial institutions to enhance transparency, accountability, and ethical governance in their operations. By incorporating ESG risk assessments, financial institutions help mitigate financial volatility and long-term risks, leading to more resilient economic systems.

Additionally, they engage in investor education, raising awareness about sustainable investment opportunities and influencing stakeholders to prioritize responsible financial practices. As climate change, social inequality, and corporate ethics become increasingly critical concerns, financial institutions must continue to innovate and collaborate with governments, businesses, and investors to create a more sustainable and inclusive financial ecosystem. Ultimately, their proactive approach in promoting responsible investing not only ensures long-term profitability but also fosters positive societal and environmental outcomes, making them instrumental in shaping a more sustainable global economy.

VII. SCOPE FOR FUTURE STUDIES

The role of financial institutions in promoting responsible investing is a fascinating and evolving field. Here are some potential areas for future studies: Impact of ESG Criteria: Investigate how Environmental, Social, and Governance (ESG) criteria are integrated into financial institutions' decision-making processes and their impact on investment outcomes.

Green Finance Initiatives: Explore the effectiveness of green finance initiatives, such as green bonds and sustainable investments, in promoting environmentally friendly projects and sustainable development.

Investor Education: Examine the role of investor education programs in promoting responsible investing and how financial institutions can enhance these initiatives to reach a broader audience.

Regulatory Frameworks: Analyze the impact of regulatory frameworks on responsible investing practices and how financial institutions can navigate these regulations to promote sustainability.

Technological Innovations: Study the role of technological innovations, such as blockchain and AI, in promoting transparency and accountability in responsible investing.

Stakeholder Engagement: Investigate how financial institutions engage with stakeholders, including investors, customers, and communities, to promote responsible investing practices. These areas offer a rich landscape for future research and can contribute to a deeper understanding of how financial institutions can drive positive change in the world of investing.

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