Chapter 10. Banking sector and sustainability

Heyman, M., Pozniak, L., Croquet, M. & Cultrera, L.

1. Introduction

The banking sector has undergone significant transformation since the 2008 financial crisis, marked by a legitimacy crisis and an increased demand for transparency and responsibility. This period saw the emergence of Banking's Social Responsibility (BSR), incorporating ethical behavior and proactive management of reputational risks. The evolution of Corporate Social Responsibility (CSR) has led to the adoption of ESG (Environmental, Social, and Governance) criteria in financial practices, reflecting a broader shift towards sustainable finance. Socially Responsible Investment (SRI) has become common, highlighting the growing importance of aligning financial activities with societal values.

This chapter explores the importance of sustainability in the banking sector, global trends in sustainable investment, and the regulatory frameworks influencing these practices.

2. Landscape of Sustainability in Finance

2.1. Context

Following the 2008 financial crisis and various scandals, banks have faced a significant crisis of legitimacy, necessitating greater transparency and responsibility (Reynaud & Walas, 2015). This period marked a turning point where Banking's Social Responsibility (BSR) became crucial, involving the adoption of ethical behavior and aiming for excellence in managing relationships with stakeholders and societal issues. This included proactive management of reputational risk, even before strategic considerations, and considering the social and environmental impacts of banking activities (Gadioux, 2010).

As the concept of Corporate Social Responsibility (CSR) evolved, so did the terminology used to describe these companies, including banks. A range of adjectives such as ethical, sustainable, ESG, responsible have progressively been associated with the term finance (Revelli, 2012). These descriptors refer to financial practices that balance profitability with a commitment to extra-financial criteria such as ESG (Environmental, Social and Governance) (Cultrera et al., 2024).

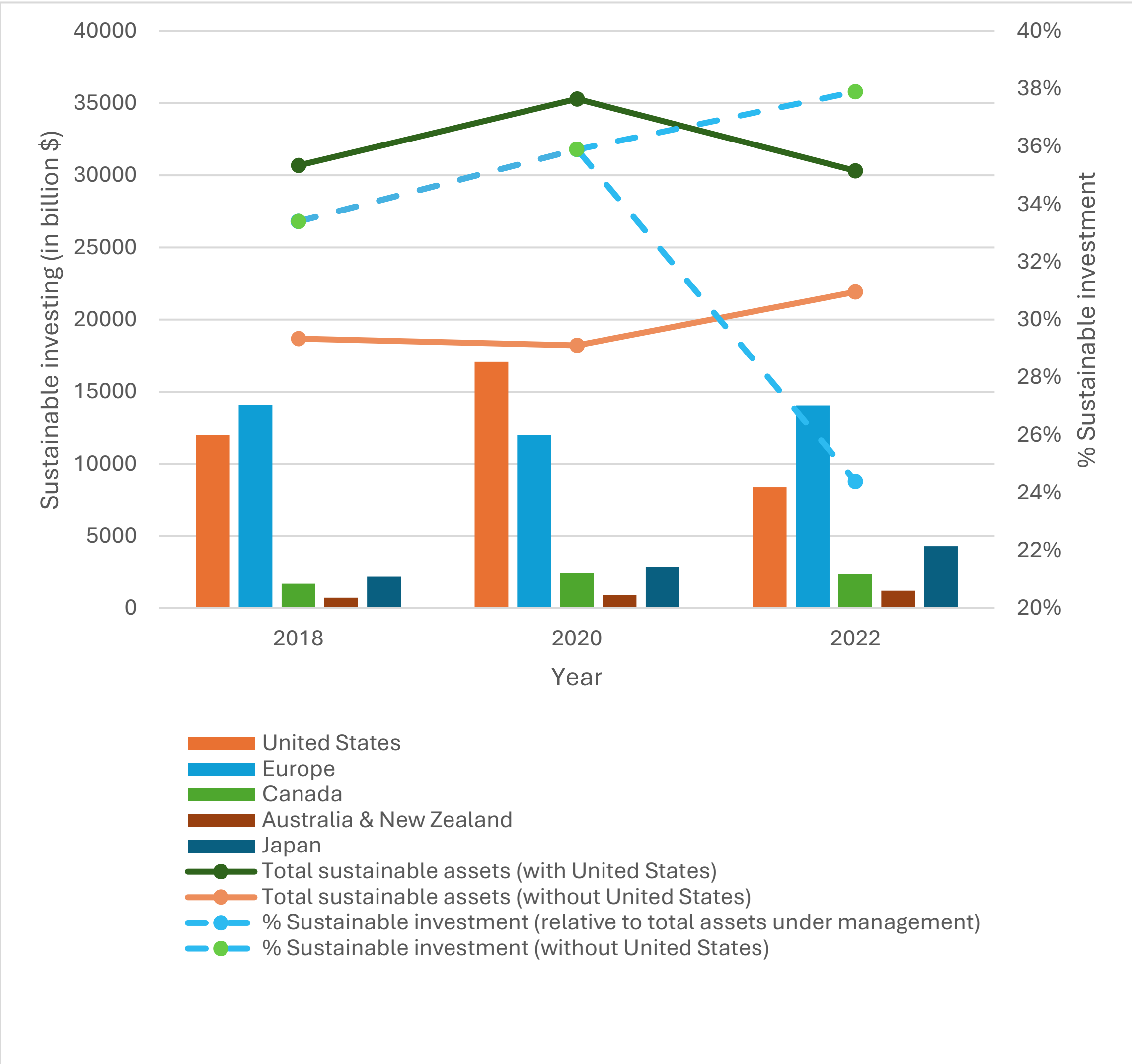
This evolution reflects a broader shift in the financial industry towards integrating ESG considerations into their operations. Consequently, Socially Responsible Investment (SRI) has now become a common practice, highlighting the growing importance of aligning financial activities with societal values.

2.2. The importance of sustainable banking

Scientists see Socially Responsible Investment (SRI) as a promising path for rapid evolution in the coming years and decades (Cholat and Firas Thraya, 2023). Global sustainable investment reached $30.3 trillion in 2022 within the main regions (Europe, United States, Canada, Australia, New Zealand and Japan), according to regional data. Excluding the United States – where a decline, due to methodological changes, is observed – Socially Responsible Investment

grew by 20% from 2020 to 2022 (orange line). However, when considering all regions, a decrease of 14% is noted (dark green line).
Furthermore, when analyzing the share of assets under management classified as sustainable, again excluding the United States, international figures show stabilization (with slight growth) (light blue and green lines). This trend may reflect the growing maturity of the SRI market, especially highlighted by the emergence of new regulations (discussed further). While these regulations impose stricter constraints – sometimes leading to the reclassification of certain investments outside the SRI category – they indicate the evolution and consolidation of the sector. This regulatory tightening is key in shaping how institutions define and market their sustainable finance strategies.

Figure 1. Evolution of sustainable investing by region and % of total Assets Under Management.



Source: Global Sustainable Investment Review (Global Sustainable Investment Alliance, 2022) Data processed by the authors[1].

[1] https://www.gsi-alliance.org/members-resources/gsir2022/ 17/02/2025

In other regions, notably Asia emerging markets, Socially Responsible Investment still lags the USA and Europe, but is also expanding (AVPN, Social Investment Landscape in Asia, 2019[2]). This situation is reflected in the distribution of signatories to the United Nations Principles for Responsible Investment (UN PRI) (launched in 2006). Most signatories are in the G7 countries (2934, without Europe or Russia now associated with it), indicating a more advanced adoption of SRI in these regions. However, there is a positive trend in the BRICS+ countries, where more and more institutions are beginning to sign up to the PRI (386, no data for Iran and Ethiopia).

The increasing adoption of SRI in emerging markets suggests that sustainable finance is no longer limited to a handful of advanced economies but is becoming a global movement.

Table 1. Number of PRI signatories by country in 2025.

Country	Number of signatories (end January 2025)
Andorra	2
Angola	1
Argentina	2
Australia	229
Austria	37
Bahrain	1
Belgium	35
Bermuda	14
Bolivia, Plurinational State of	4
Botswana	5
Brazil	117
Brunei Darussalam	1
Bulgaria	1
Canada	241
Cayman Islands	13
Chile	28
China	129
Colombia	35
Costa Rica	6
Croatia	4
Cyprus	2
Czech Republic	5
Denmark	85
Dominican Republic	1
Ecuador	1
Egypt	3
Estonia	4
Finland	66
France	416
Gabon	1
Germany	290
Gibraltar	1

2 https://avpn.asia/wp-content/uploads/2021/08/Social-Investment-Landscape-in-Asia-Executive-Summary.pdf 18/02/2025

Greece	10
Guatemala	1
Guernsey	19
Hong Kong SAR	80
Hungary	2
Iceland	14
India	43
Indonesia	5
Ireland	40
Isle of Man	5
Israel	11
Italy	128
Japan	143
Jersey	21
Kazakhstan	1
Kenya	1
Korea, Republic of	34
Latvia	4
Liechtenstein	11
Lithuania	6
Luxembourg	107
Macao	1
Malaysia	18
Malta	2
Mauritus	23
Mexico	38
Monaco	5
Morocco	2
Namibia	1
Netherlands	154
New Zealand	35
Nigeria	7
Norway	56
Oman	1
Panama	1
Peru	7
Philippines	1
Poland	5
Portugal	28
Puerto Rico	2
Qatar	2
Republic of Palau	1
Romania	1
Russian Federation	1
Saudi Arabia	3
Sierra Leone	1
Singapore	86
Slovenia	5

South Africa	71
Spain	153
Sweden	133
Switzerland	227
Thailand	4
Tunisia	4
Turkey	4
Ukraine	1
United Arab Emirates	17
United Kingdom	736
United States	980
Uruguay	5
Viet Nam	4
Virgin Islands, British	1
Zimbabwe	2
n.a.	1
Total	5296

Source: UNPRI Data processed by the authors[3].

In addition, the United Nations Environment Programme Finance Initiative (UNEP FI) has launched the Principles for Responsible Banking (PRB) in 2019 (non-binding). This United Nations-dependent initiative brings together banks, insurers and investors to promote more sustainable global economies by giving them advice. By 2023, there are 500 members, of which 325 banks will represent almost $90,000 billion in assets, or over 50% of the world's active banking services (Annual Overview, UNEP FI, 2023[4]). It demonstrates again how important sustainability is becoming in the banking world.

3. Is sustainability really a choice?

While sustainability has become a universal concern, influencing every sector, including banking, the question remains: is it a voluntary commitment or a necessity driven by constraints? This section explores the mandatory framework among selected area in the world.

3.1. Mandatory framework: EU's leading role in sustainable finance

The EU's sustainable finance framework is one of the most advanced in the world over the last decade (Global Sustainable Investment Alliance, Global Sustainable Investment Review, 2022). Several recent legal developments have transformed the European banking market.

The Sustainable Finance Disclosure Regulation (SFDR), in force since March 2021 and reinforced in January 2023, imposes strict obligations on financial entities in terms of transparency and information on ESG criteria. This regulatory framework aims to ensure greater transparency and more detailed information for investors but is not intended to create an official classification of financial products. However, it does distinguish products according

[3] https://www.unpri.org/signatories/signatory-resources/signatory-directory 18/02/2025
[4] https://www.unepfi.org/industries/banking/principles-for-responsible-banking-implementation-journey/ 17/02/2025
https://www.unepfi.org/wordpress/wp-content/uploads/2024/12/UNEP-FI-Review-2022-2023.pdf 17/02/2025

to three categories: Article 6, which groups products that only consider sustainability-related risks, without a specific sustainability objective; Article 8, which includes products that promote environmental or social characteristics, but without a precise sustainable investment objective; and Article 9, which groups financial products with a clearly defined sustainable investment objective (self-classification). The regulation therefore imposes an increasing level of disclosure according to the degree of sustainable commitment of the funds. The closer a product is to Article 9, the more stringent the transparency and disclosure requirements become (Global Sustainable Investment Alliance, Global Sustainable Investment Review, 2022 ; Scheitza & Busch, 2024).

Since august 2022, the Markets in Financial Instruments Directive II (MiFID II) has been enriched to integrate customer sustainability preferences. The aim of this development is to strengthen the consideration of ESG criteria in the process of investment advice and the distribution of financial products. From now on, investment service providers must assess investors' sustainability preferences to offer solutions aligned with their expectations in terms of responsible finance (Commission Delegated Regulation (UE) 2021/1253[5] ; Global Sustainable Investment Alliance, Global Sustainable Investment Review, 2022).

The Corporate Sustainability Reporting Directive (CSRD), which replaced the Non-Financial Reporting Directive (NFRD) in force since 2017, entered into force in 2023. This directive aims to strengthen extra-financial reporting requirements and standardize communication on ESG indicators. As a result, most listed companies (except for micro-businesses, including certain non-European companies operating in Europe), including financial institutions, are now (or will soon be, depending on the progressive implementation schedule) required to disclose more detailed extra-financial information. This directive is currently being reassessed, as the Green Deal simplification omnibus includes adjustments to simplify the CSRD (COM (2021) 189 final[6] ; DIRECTIVE (UE) 2022/2464[7] ; Novethic, 2025[8]).

These regulations not only enhance investor confidence but undoubtedly reshape financial product offerings, impacting how banks structure their sustainable finance initiatives.

3.2. What about other area?

In the United States, the Securities and Exchange Commission (SEC) finalized in 2024 the regulation named The Enhancement and Standardization of Climate-Related Disclosures for Investors. This regulation imposes mandatory rules for the disclosure of environmental, social and governance risks on listed companies, in order to protect investors. Other initiatives have also been taken, notably via the Principles for Climate-Related Financial Risk Management for Large Financial Institutions of the Office of the Comptroller of the Currency (OCC). However, with the USA's exit from the Paris Agreement, signed in January 2025 by Donald Trump, this could lead to a setback in the adoption of strict standards for ESG reporting (OCC, Principles for Climate-Related Financial Risk Management for Large Financial Institutions, 2023[9] ; SEC, The Enhancement and Standardization of Climate-Related Disclosures for Investors, 2024[10] ;

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[5] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R1253 24/02/2025
[6] https://eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:52021PC0189 18/02/2025
[7] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2464 18/02/2025
[8] https://www.novethic.fr/finance-durable/reglementation/omnibus-csrd-cs3d-deregulation-commission-europeenne 26/02/2025
https://www.novethic.fr/finance-durable/reglementation/csrd-omnibus-simplification-propositions 26/02/2025
[9] https://www.occ.treas.gov/news-issuances/news-releases/2023/nr-ia-2023-118a.pdf 26/02/2025
[10] https://www.sec.gov/files/rules/final/2024/33-11275.pdf 26/02/2025

Board of governors of the federal reserve system, Pilot Climate Scenario Analysis Exercise, 2024[11] ; White House, 2025[12]).

In Canada, Guideline B-15 of the Office of the Superintendent of Financial Institutions (OSFI) imposes on federal financial institutions the obligation to integrate climate risks into their risk management. Updated in 2025, this guideline is aligned with the International Sustainability Standards Board's (ISSB) IFRS S2, one of the ISSB's global standards for sustainability disclosure. IFRS S1 covers general requirements for the disclosure of ESG risks and opportunities, while IFRS S2 focuses specifically on climate risks. Although Canada has adopted this standard for its financial institutions, IFRS S2 is also being adopted in other jurisdictions, such as Europe, where the framework is more developed. It has not been adopted in the United States, for example (see above) (PwC, Comprendre la directive B-15 du BSIF sur la gestion des risques climatiques, 2023[13] ; IFRS Sustainability, IFRS S2, 2023[14]).

In Japan, the Sustainability Standards Board of Japan (SSBJ), created in July 2022, has the main objective of defining sustainability disclosure standards specifically adapted to the country's context. In developing these standards, SSBJ strives to guarantee their quality while ensuring their alignment with international standards. After an in-depth analysis, the SSBJ judged that harmonization of Japanese standards with those of the ISSB, in particular the IFRS sustainability standards, would be beneficial to Japanese market players. As a result, the SSBJ has also taken the decision to fully integrate IFRS sustainability requirements into its own guidelines. Several projects have already been approved for 2024. Japan is not the only Asian country to improve its sustainability regulations. For example, in February 2025, China announced mandatory ESG reporting for enterprises quoted on the Shanghai, Shenzhen and Beijing stock exchanges (SSBJ, The Sustainability Standards Board of Japan issues Exposure Drafts of Sustainability Disclosure Standards to be applied in Japan[15] 2024 ; [16], 2024).

In Australia, two of the main regulations in this field are: the General Requirements for Disclosure of Sustainability-related Financial Information (AASB S1), a voluntary standard enabling businesses to publish information on sustainable development, including climate risks, and Climate-related Disclosures (AASB S2), a mandatory standard requiring companies to divulge climate-related risks and opportunities. These standards are aligned with international standards (including IFRS) and have been applicable since January 2025 (AASB S1, General Requirements for Disclosure of Sustainability-related Financial Informatio, [17] ; AASB S2, Climate-related Disclosures, [18] ; KPMG, First Australian Sustainability Reporting,[19])

[11] https://www.federalreserve.gov/publications/files/csa-exercise-summary-20240509.pdf 26/02/2025
[12] https://www.whitehouse.gov/presidential-actions/2025/01/putting-america-first-in-international-environmental-agreements/ 26/02/2025
[13] https://www.pwc.com/ca/fr/environmental-social-and-governance/publications/pwc-guide-on-osfi-b-15-guideline-on-climate-risk-management-fr.pdf 26/02/2025
[14] https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/french/2023/issued/part-a/fr-issb-2023-a-ifrs-s2-climate-related-disclosures.pdf?bypass=on 26/02/2025
[15] https://www.ssb-j.jp/en/wp-content/uploads/sites/7/news_release_20240329_e.pdf 26/02/2025
[16] https://www.novethic.fr/finance-durable/reglementation/reporting-esg-les-entreprises-cotees-chinoises-se-preparent-a-divulguer-leurs-donnees-de-durabilite 26/02/2025
[17] https://standards.aasb.gov.au/sites/default/files/2024-09/AASBS1_09-24_0.pdf 26/02/2025
[18] https://standards.aasb.gov.au/sites/default/files/2025-01/AASBS2_09-24.pdf 26/02/2025
[19] https://assets.kpmg.com/content/dam/kpmg/au/pdf/2024/24ru-11-first-australian-sustainability-standards.pdf?utm_source=chatgpt.com 26/02/2025

In Africa, although the regulatory framework is still developing, several initiatives are also emerging. For example, South Africa adopted a green taxonomy in 2022 to encourage sustainable investment. The African Union's Agenda 2063 aims to make Africa a worldwide player of the future, with a focus on sustainability. The Africa Sustainable Finance Hub (ASFH) contributes to this goal by highlighting investment opportunities aligned with the Sustainable Development Goals (SDGs) in Africa (Commission de l'Union Africaine, [20] ; Novethic[21] ; Africa Sustainable Finance Hub, Rapport du PNUD sur l'Investissement en Afrique, [22]).
In the Middle East, the Sustainability Disclosure Principles were launched by the United Arab Emirates Sustainable Finance Working Group (SFWG) to strengthen disclosure requirements for financial institutions in the Emirates, in line with international best practice (UAE Securities and Commodities Authority, 2024[23]).

These few of the many recent initiatives illustrate a global trend towards greater transparency and accountability in sustainability. Each region adapts its regulations to local contexts, while aligning itself with international standards.

4. Is the sustainable road a good strategy for banks?

Beyond the regulations and the mandatory framework in force in many regions, are there other driving forces motivating sustainability among banks?

4.1. An ambiguous relationship between performance and ESG score.

According to the 7th report on ethical and value-based finance in Europe (2024[24]), finance and ethics can successfully coexist over time, as illustrated by ethical banks. Based on a series of studies carried out over time, Pozniak et al (2024) also assert that the majority of research indicates a positive relationship between Corporate Social Responsibility and bank performance. In support of this position, they cite several studies focusing on the financial sector and banks, which have found a positive correlation between social and financial performance (Simpson and Kohers, 2002), or between financial performance and CSR (Wu and Shen, 2013). They also observe that banks involved in CSR activities outperform those that are not (Shen, Chen and Fang, 2016 ; Wu, Shen and Chen, 2017), and that bank performance indicators are positively influenced by CSR activities (Nizam, Dewandaru, Nagayev and Nkoba, 2019), or ESG scores positively linked to some financial performance indicators (Cornett, Erhemamts and Tehranian, 2016). However, their own study reveals that ESG scores have no significant effect on financial sector performance. Inversely, some financial indicators have a negative impact on the overall ESG score or on the environment. The debate is therefore open.

4.2. Where do they rank in international rankings?

Forbes' World's Best Banks ranking for 2024 highlights 403 banks worldwide. This ranking considers overall customer satisfaction with the bank, as well as factors such as reliability, services, and the quality of advice, among other criteria. The top-ranked bank in each country

[20] https://au.int/sites/default/files/documents/36204-doc-agenda2063_popular_version_fr.pdf 26/02/2025
[21] https://www.novethic.fr/finance-durable/reglementation/lafrique-du-sud-presente-une-taxonomie-verte-a-leuropeenne-pour-attirer-les-investissements-etrangers-durables 26/02/2025
[22] https://www.undp.org/sites/g/files/zskgke326/files/2023-07/undp-africa-investment-insights-fr-2022.pdf 26/02/2025
[23] https://www.sca.gov.ae/en/media-center/news/10/6/2024/the-uae-sfwg-launches-the-principles-for-sustainability-related-disclosures-for-reporting-entities.aspx 26/02/2025
[24] https://febea.org/wp-content/uploads/2024/12/7-Report-web.pdf 27/02/2025

is listed in the table 2 below, along with its ESG Risk Rating (the smaller, the better: from negligible (< 10) to severe (> 40)) and its ESG Corporate Rating (from A+ (excellent) to D- (poor).

An important finding is that for many banks, these ESG data are not available, revealing a lack of transparency despite regulatory advances. This raises a critical issue: can a bank be truly sustainable if it does not disclose its ESG performance?
Of the 13 banks for which ESG Risk Rating data is available, 4 have low ESG risk, 7 have medium risk and 2 have high risk. The bank with the best ESG Risk Rating is Fineco Bank in Italy, followed by Abu Dhabi Commercial Bank in the United Arab Emirates, showing that a good banking reputation and effective ESG risk management are not mutually exclusive. Moreover, BNP Paribas, present in the ranking (6th in Poland and 32nd in the Global 2000), has a negligible ESG risk (9.8).
Note that among the 971 banks rated by Morningstar Sustainalytics, only 3 are classified with a severe risk, and none of them appear in the two Forbes rankings (discussed above and below).

However, the presence of approximately 25% of banks with a high-risk rating raises questions about whether further investigation is warranted (see Table 3).

In the ESG Corporate Rating, of the 14 banks with a rating available, 9 are medium risk, 5 are considered poor risk, and none have the lowest rating (D-). This raises questions about banks' real commitment to sustainability, despite the growing importance of ESG criteria. A good ESG Risk Rating does not guarantee a good ESG Corporate Rating: for example, Fineco Bank, Kasikornbank and Abu Dhabi Commercial Bank have a low ESG Risk Rating, but a medium or poor ESG Rating, suggesting that these banks prioritize ESG risk management for its financial and operational impacts, rather than a veritable sustainability approach.

Thus, the top-ranked banks in Forbes World's Best Banks 2024 appear to be effective in ESG risk management, but their overall commitment to sustainability remains perfectible. They integrate ESG factors when they influence their financial performance, but is their approach truly focused on a sustainable future? The question deserves to be asked.

Table 2. ESG risk rating of 1st by country in Forbes' World's Best Banks ranking 2024.

Country	1st ranked	Morningstar Sustainalytics's ESG Risk Rating	ISS's ESG Corporate Rating
Australia	ING Group	n.d.	C+, medium
Austria	Easybank	n.d.	n.d.
Belgium	Keytrade Bank	n.d.	n.d.
Brazil	Nubank	n.d.	n.d.
Canada	Tangerine	n.d.	n.d.
China	China Merchants Bank	25, medium risk	D+, poor
France	BoursoBank	n.d.	n.d.
Germany	ING Group	n.d.	C+, medium
Hong Kong	China Construction Bank	n.d.	D, poor
India	ICICI Bank	22.5, medium risk	C-, medium
Indonesia	Bank Central Asia	21.5, medium risk	C-, medium
Israel	Pepper	n.d.	n.d.
Italy	Fineco Bank	12.1, low risk	C+, medium
Japan	SBI Sumishin Net Bank	31.5, high risk	n.d.

Malaysia	Maybank	n.d.	n.d.
Mexico	Nubank	n.d.	n.d.
Netherlands	RegioBank	n.d.	n.d.
New Zealand	Bank of New Zealand	n.d.	n.d.
Philippines	Philippine National Bank	n.d.	D+, poor
Poland	ING Group	n.d.	C+, medium
Qatar	Qatar National Bank	21.9, medium risk	n.d.
Saudi Arabia	Alinma Bank	27.5, medium risk	D+, poor
Singapore	DBS	22.5, medium risk	C, medium
South Africa	TymeBank	n.d.	n.d.
South Korea	TossBank	n.d.	n.d.
Spain	ING Group	n.d.	C+, medium
Switzerland	Zürcher Kantonalbank	24.6, medium	n.d.
Taiwan	E.Sun Financial	16.8, low	n.d.
Thailand	Kasikornbank	18.6, low	C, medium
United Arab Emirates	Abu Dhabi Commercial Bank	14.3, low	D+, poor
United Kingdom	Aldermore Group	n.d.	n.d.
United States	USAA	31.3, hight risk	n.d.
Vietnam	Techcombank	n.d.	n.d.

Source: Forbes, Morningstar Sustainalytics and FactSet Data processed by the authors[25].

Table 3. Number of banks by ESG risk rating on Morningstar Sustainalytics.

Level of ESG Risk Rating	Number of banks in category
Negligible Risk (0-10)	36
Low Risk (10-20)	226
Medium Risk (20-30)	460
High Risk (30-40)	246
Severe Risk (40+)	3

Source: Morningstar Sustainalytics Data processed by the authors[26].

A total of 315 banks are also included in Forbes' Global 2000 ranking for 2024, which lists the world's largest public companies. This ranking focuses on the financial performance of institutions, taking into account factors such as profit and market capitalization. The top 10 includes the banks listed below, ranking ahead of major corporations like Amazon (6th) and Microsoft (8th), with the ranking being dominated by banks from China and the USA.
Being highly ranked financially does not preclude also being highly ranked as one of the best banks by customers. At the same time, the ESG Risk ratings of the top-ranked banks in terms of financial performance pose questions, as they are generally in the medium or high risk category. However, they do not fall within the upper range of the high risk category and are never classified as severe. Moreover, their ESG Corporate Ratings are mostly medium or poor, with one bank posting even the worst possible rating, D-, which is particularly questionable.

This raises doubts about whether all banks should aim to be exemplary in their ESG strategy, or only when they claim to be? Shouldn't transparency and honesty be the real key criteria?

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[25] https://www.forbes.com/lists/worlds-best-banks/, 17/02/2025
https://www.sustainalytics.com/esg-ratings, 17/02/2025
Data on Factset are Institutional Shareholder Services group of companies (ISS) data, 21/02/2025.
[26] https://www.sustainalytics.com/esg-ratings 17/02/2025

Table 4. ESG Risk rating and financial performance indicators of top 10 banks in the Forbes' Global 2000 ranking 2024.

Rank	Name	Country	Sales (in billion $)	Profit (in billion $)	Forbes' World's Best Banks ranking	Morningstar Sustainalytics's ESG Risk Rating	ISS's ESG Corporate Rating
1	JPMorganChase	United States	252.9	50	China: 13th	27.3, medium risk	C-, medium
4	ICBC	China	223.8	50.4	China: 3rd Hong Kong: 3rd	n.d.	D, poor
5	Bank of America	United States	183.3	25	Not ranked	24.4, medium risk	C-, medium
7	China Construction Bank	China	199.8	47	China: 5th Hong Kong: 1st	n.d.	D-, poor
9	Agricultural Bank of China	China	193.5	37.4	China: 11th	32.6, high risk	D+, poor

Source: Forbes, Morningstar Sustainalytics and FactSet Data processed by the authors[27].

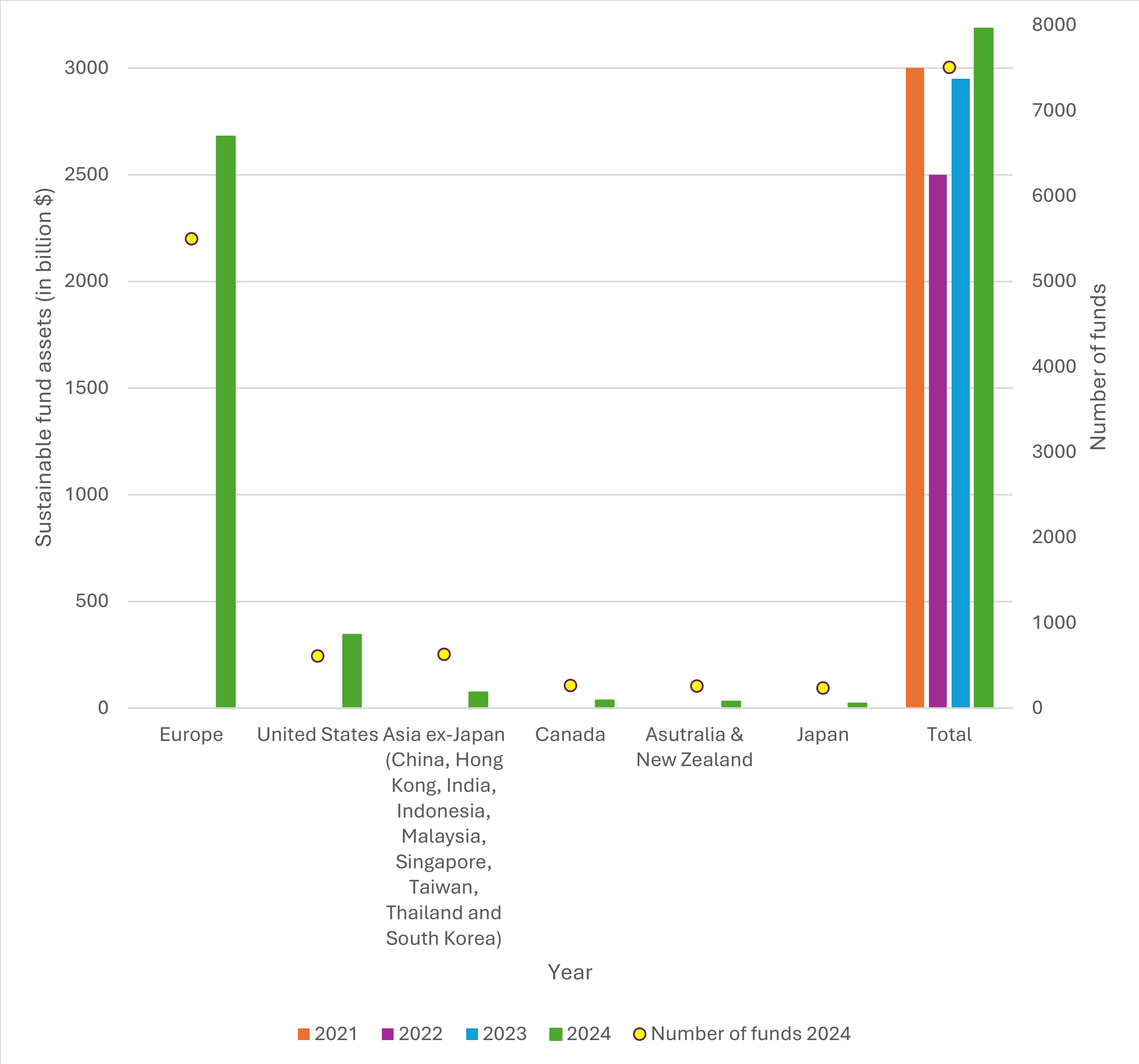
4.3. What about invested money?

By 2024, the market of sustainable funds will reach $3.186 billion, with a total of 7,510 funds meeting sustainability criteria. Like Socially Responsible Investment as a whole, this trend reflects sustained and significant growth. In fact, since 2022, sustainable funds have grown steadily, despite a temporary slowdown observed probably with the entry into force of the SFDR in Europe. This demonstrates that regulation, while sometimes a barrier to short-term growth, ultimately fosters a more transparent and reliable sustainable investment ecosystem.

Europe largely dominates this market, concentrating the majority of funds qualifying as sustainable, followed by the United States. By contrast, other regions of the world hold a much smaller share, a discrepancy that can probably be explained in part by less developed and less stringent regulatory frameworks (see point 2).

Figure 2. Evolution of sustainable funds worldwide.

[27] https://www.forbes.com/lists/global2000/ 17/02/2025
https://www.sustainalytics.com/esg-ratings 17/02/2025



Source: Global Sustainable Fund Flows - Q4 2024 in Review Data processed by the authors (Morningstar, 2024)[28].

In 2024, the Sustainable Fund Rebranding phenomenon intensified significantly. An analysis of European sustainable funds reveals that 213 of them underwent a name change, marking a significant strategic evolution. Of these changes, 50 funds incorporated ESG-related terms, while 115 chose to remove them and 48 opted for a substitution of these terms. Unlike previous years, when the trend was predominantly towards adding ESG references, this new dynamic suggests a re-evaluation of funds' positioning strategies. This reversal seems to be directly influenced by recent regulatory developments, prompting asset managers to adjust their communication and classification to ensure better compliance with current requirements (Morningstar, Global Sustainable Fund Flows - Q4 2024 in Review, 2024).

But are the funds that claim to be responsible really? The table below shows the leading asset managers according to their global sustainable fund assets. In contrast to banks in general, ESG

[28] https://www.morningstar.com/lp/global-esg-flows 21/02/2025

ratings of leading asset managers, whether ESG Risk Ratings or ESG Corporate Ratings, are better overall, although this data is still incomplete.

Of the 13 leading asset managers, for which ESG risk information is available, six have a low risk rating, while seven have a medium risk rating. This shows that, overall, ESG risks remain relatively contained in this area.

In terms of ESG Corporate Ratings, most managers rated at least in the medium category. Amundi stands out with a B- (good) rating, combined with low ESG risk, illustrating a notable sustainability performance.

In this way, an investment strategy based on SRI funds can rely on globally reasonable levels of ESG risk and ESG rating.

Table 5. Sustainable funds - Top asset managers according to Morningstar Sustainalytics.

Firm	Total assets (in billion $)	Morningstar Sustainalytics's ESG Risk Rating	ISS's ESG Corporate Rating
BlackRock (incl. iShares)	422.7	18.3, low risk	C, medium
UBS (incl. Credit Suisse)	180.1	26.7, medium risk	C, medium
Amundi (incl. Lyxor)	178.4	16.6, low risk	B-, good
DWS (incl. Xtrackers)	103.5	n.d.	C, medium
Swisscanto	98.7	n.d.	n.d.
Natixis	78.8	n.d.	n.d.
BNP Paribas	73.6	21, medium risk	C+, medium
Nordea	67.9	12.3, low risk	C+, medium
Vanguard	59.9	n.d.	n.d.
Northern Trust	58.8	24.9, medium risk	C, medium
KBC	53.8	10.9, low risk	C+, medium
Royal London	53.2	20.9, medium risk	n.d.
Allianz Global Investors	48.9	11.3, low risk	n.d.
Pictet	44.7	n.d.	n.d.
Handelsbanken	41.2	15.3, low risk	C+, medium
JPMorgan	40	27.3, medium risk	C-, medium
Morgan Stanley	38.3	25, medium risk	C-, medium
Parnassus	37.9	n.d.	n.d.
Union Investment	34	n.d.	n.d.
State Street	33.8	21.4, medium risk	C, medium

Source: Global Sustainable Fund Flows - Q4 2024 in Review (Morningstar, 2024), Morningstar Sustainalytics and FactSet Data processed by the authors[29].

Moreover, analysis of the sustainable funds whose performance has been highlighted by Morningstar reveals some interesting rating and sustainability trends. Indeed, these funds systematically benefit from good Morningstar ratings and display relatively reasonable Corporate Sustainability Ratings, generally classified as low or, at most, medium. Furthermore,

[29] https://www.morningstar.com/lp/global-esg-flows 21/02/2025

MSCI's ratings for these funds are consistently at least A, indicating excellent quality according to their evaluation criteria. These observations suggest that sustainability and financial performance are not incompatible; on the contrary, they demonstrate that integrating environmental, social and governance criteria into investment strategy can be an effective lever for generating attractive returns.

In scientific literature, trust in these funds is frequently debated, both in terms of financial and extra-financial performance. Opinions on financial performance are divided: some researchers consider it positive, others neutral, and still others negative (Revelli and Viviani, 2011). Regarding extra-financial performance, it has been shown that there is no correlation between the names of SRI funds and their extra-financial performance (Candelon et al., 2021). The abuse of SRI labeling is notably reported (Touma, 2018). However, it has also been shown that SRI funds deliver better extra-financial performance than traditional funds, despite presenting extra-financial risks and sometimes investing in controversial sectors (Cultrera et al., 2024).

Table 6. Sustainable funds with the best returns in 2024 by Morningstar Sustainalytics.

Fund	ISIN	Year-to-date return November 2024 (%)	5-year annualized return (%)	Morningstar’s corporate sustainability score (risk)	MCSI's extra-financial rating	Morningstar’s sustainability rating
FSSA Indian Subcontinent VI EUR Acc	IE00BYXW3H84	22.25	15.19	22.27	6.2 A	5/5
Robeco QI US Climate Beta Eqs I € Cap	LU1654174884	21.62	11.01	18.22	6.9 A	5/5
Candriam Sustainable Eq US V USD Acc	LU2227859365	19.85	6.49	17.69	6.9 A	5/5
Stewart Inv Indian Sbctnt Sstby VICHFAcc	IE000RXTYBJ3	17.95	n.d.	23.18	5.9 A	4/5
Virtus GF US Small Cap Focus I EUR Acc	IE00BQSBKC81	16.22	8.66	20.92	5.9 A	5/5
FvS Global Emerging Markets Equities I	n.d.	15.97	−1.31	n.d.	n.d.	n.d.
Fidelity Global Equity Inc I-Dis-USD	LU1005136764	15.33	9.05	17.31	8.1 AA	5/5
Multiflex SICAV The	LU2409344004	15.29	n.d.	n.d.	7.7 AA	n.d.

Singularity Z Acc						
M&G North American Dividend GBP I Acc	GB00B7565G26	15.09	11.44	18.59	6.9 A	5/5
RBC Funds (Lux) Em Mkts Eq Foc O1 USDCap	LU1938547889	15.05	3.84	19.96	n.d.	5/5

Source: Morningstar's Sustainable funds with the best returns, Morningstar Sustainalytics and FactSet Data processed by the authors[30].

Another Morningstar ranking of the best-performing funds in 2024 shows generally favorable MSCI scores for the majority of funds. Only one fund has a BBB rating, which is still acceptable. Risks are generally low to medium, but in the lower brackets. However, Morningstar's sustainability ratings are not particularly good. This raises a broader question: does a fund have to be sustainable, or simply transparent about its true nature? The funds described as sustainable in the previous analysis really are, which seems to be the essential point. After all, is the demand necessarily for ultra-sustainable funds?

Table 7. Morningstar's best- and worst-performing funds of 2024.

Fund	ISIN	December 2024 Return	2024 Return	Morningstar's corporate sustainability score (risk)	MCSI's extra-financial rating	Morningstar's sustainability rating
Alger American Asset Growth I US	LU0295112097	2.55	52.19	21.37	5.8 A	2/5
Alger Focus Equity Z US	LU1933943026	2.29	56.13	21.48	5.7 BBB	2/5
American Century US Fcs Innovt Eq I USD	IE0006AEA9Y8	3.24	38.08	20.83	6.4 A	2/5
L&G Global Technology Index I Acc	GB00B0CNH163	4.55	37.68	17.17	6.9 A	4/5
Lord Abbett Innovation Growth I USD	IE00BYZRLN31	0.33	45.89	20.71	6.1 A	2/5
MS INVF US Growth Z	LU0360477805	−1.47	43.81	22.59	5.3 BBB	1/5
NB Next Gen	IE00BKS9L945	2.39	37.26	17.66	6.9 A	4/5

[30] https://www.morningstar.fr/fr/news/257153/les-fonds-durables-les-mieux-notés-en-2024.aspx 21/02/2025

Cnnctvity GBP I Acc						
SVS Aubrey Global Conviction	GB00B1L8XB18	−2.77	45.04	22.9	6.1 A	1/5
T. Rowe Price US Blue Chip Eq Q GBP	LU1028172069	1.84	38.59	19.60	6.4 A	3/5
TM Natixis Loomis Sayles US Eq Ldrs N/A£	GB00B8L3WZ29	3.67	37.22	20.88	6.1 A	2/5

Source: Morningstar's Best-performing funds 2024, Morningstar Sustainalytics and FactSet Data processed by the authors[31].

5. Sustanaibility : A way to differentiate and attract clients?

Over 70% of respondents to a survey conducted by AMF and Audirep (2019[32]), cited by Cravero and Crifo (2021), consider it essential for institutions to take sustainable development issues into account. However, only 25% feel that their efforts are sufficient, highlighting a gap between perceived commitments and public expectations.

With regard to investments, several studies have shown that investors place significant value on sustainability criteria, even if this may involve a slight compromise on financial performance (Hartzmark and Sussman, 2019; Bauer et al., 2021). However, profitability remains a key factor, and not all investors are prepared to accept a reduction in their earnings in the name of sustainability (Rosen et al., 1991; Bonnefon et al., 2017).

In this context, the integration of ESG criteria can be a strategic differentiation lever to attract customers who are concerned about these issues. Nevertheless, it cannot be considered an absolute imperative, as some investors and consumers do not place sustainability at the heart of their priorities. Moreover, even in an economy in transition to greener practices, certain non-sustainable industries remain necessary: a bank or fund investing in oil will probably receive a poor ESG rating, but that doesn't mean these resources are no longer useful. Similarly, sectors such as alcohol and tobacco, although controversial, continue to be in high demand. This underscores the need to strike a balance by emphasizing transparency and honesty. It is essential that investors and consumers are able to make informed decisions, in full knowledge of the facts, to avoid any disappointment or feelings of deception. Growing and precise regulations are undoubtedly an essential tool for achieving this.

[31] https://www.morningstar.co.uk/uk/news/258953/best--and-worst-performing-funds-of-2024.aspx 21/02/2025

[32] https://www.amf-france.org/sites/institutionnel/files/2020-02/les-francais-et-les-placements-responsables-_-etude-audirep-pour-lamf.pdf 05/03/2025

6. Conclusion

As the banking sector continues to evolve, the integration of ESG (Environmental, Social, and Governance) criteria into financial practices will remain a pivotal focus. The shift towards sustainable finance is not just a trend but a necessity driven by societal expectations and regulatory pressures. Looking ahead, several key questions emerge: How will banks balance profitability with their commitment to sustainability? What role will emerging markets play in the global adoption of Socially Responsible Investment (SRI)? How will regulatory frameworks adapt to ensure transparency and accountability without stifling innovation?

Moreover, the relationship between ESG scores and financial performance remains a critical area of exploration. Can banks achieve high ESG ratings while maintaining strong financial results? As the demand for sustainable investment grows, how will banks and financial institutions navigate the complexities of ESG reporting and compliance?

The future of banking lies in its ability to adapt to these challenges, embracing sustainability as a core component of its strategy. By doing so, banks can not only enhance their reputational capital but also contribute to a more sustainable and equitable global economy.

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