

Analyzing the Impact of Green Finance Development on the Transformation of Commercial Banks from an ESG Perspective

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Abstract. As a major global economy, China actively participates in international environmental protection and climate change cooperation, having signed the Paris Agreement and committed to reducing carbon emissions. Additionally, China promotes green investment and financing domestically and internationally to fulfill its environmental commitments. Within this international context, the financial industry is increasingly transitioning towards green finance, significantly impacting the operational models and strategic decisions of commercial banks. This paper employs a literature review methodology to analyze the impact of green finance on the transformation performance of commercial banks in China from an Environmental, Social, and Governance (ESG) perspective. It examines the correlation between ESG standards and the transformation of commercial banks, discusses relevant policies for the transformation of Chinese commercial banks, identifies existing deficiencies, and explores future research directions and development prospects for green finance. The paper concludes that green finance positively affects the operational performance of commercial banks. Firstly, it channels social capital towards green and low-carbon projects while restricting investments in high-pollution and high-emission sectors, thereby promoting industrial upgrades. Secondly, green finance emphasizes environmental protection, social responsibility, and good governance, fostering economic development and addressing resource scarcity, which contributes to achieving carbon peaking and carbon neutrality. Thirdly, within the ESG framework, green finance offers investors more strategic options, enriches the product portfolio of banks, and expands economic growth points. Finally, it provides a reference for the government to formulate and improve green finance policies, encourages banks to broaden their business scope, and promotes policy implementation.

Keywords: Green finance; Commercial banks; ESG.

1. Introduction

In recent years, green finance has played an important role in promoting sustainable social development and addressing environmental issues. As an important part of the financial system, commercial banks have begun to incorporate green finance into their development strategies to clarify the relationship between the market, environment, science and technology, culture, and policy, and to promote efficient development. The concept of ESG provides a new perspective for evaluating non-financial performance of enterprises, which makes green finance play an indispensable role in the transformation process of commercial banks. Such research not only helps to understand the position and role of green finance in the modern financial system, but also comprehensively assesses the environmental, social, and governance performance of commercial banks, and is a favourable tool for investors and regulators to promote the response of commercial banks to the growing demand for global sustainable development.

The current research of scholars in this direction mainly focuses on the role of green finance on the business performance of commercial banks, the application of ESG standards in the transformation of commercial banks, and the analysis of countermeasures for the transformation of commercial banks under the development of green finance. Firstly, based on the increasing demand for social responsibility awareness and commercial bank profit structure transformation, green

finance helps commercial banks expand new business areas and achieve business diversification [1]. Secondly, with the continuous improvement, promotion, and application of the ESG system, commercial banks have begun to focus on supporting the development of green industries under the necessary trend of transformation, restricting highly polluting and energy-consuming industries, guiding the flow of funds to green industries, and enabling consumers to form a green consumption concept [2]. Finally, in the process of forming the green financial development system, commercial banks should focus on the nature of green finance, starting from the perspective of market trends and market development, to create more innovative and standardized financial products, to achieve the promotion of sustainable economic and social promotion and at the same time ensure their sustainable development [3].

This paper provides theoretical support for commercial banks develop a more comprehensive and long-term green development strategy and provides practical guidance for building a more responsible and sustainable financial system. The successful transformation of commercial banks under the influence of green finance can provide relevant references for the government to formulate and implement green financial policies more accurately, and promote the synergistic development of commercial banks and green industries, while the continuous maturity of the financial development system has also played a good role in promoting the green finance theory in the practice of the transformation of commercial banks, and promote commercial banks to achieve win-win situation in the process of green transformation of economic benefits and social impact. In the process of green transformation, commercial banks will achieve a win-win situation economic and social impact.

2. Literature Review

2.1. The Impact of Green Finance on the Operational Performance of Commercial Banks

From a macro perspective, green finance promotes high-quality economic development through various mechanisms. Firstly, green finance enhances public awareness of green consumption by offering financial products and services, thereby fostering the production and consumption of green products. This creates a socio-economic cycle that benefits the environment and promotes sustainable development. Secondly, green finance can foster high-quality economic growth by bolstering green innovation capacities. Lastly, green finance can realize high-quality economic growth by elevating the degree of green consumption [4].

Some scholars suggest that green credit is positively linked with bank performance.; the implementation of green credit by banks is beneficial for improving their performance. Additionally, green credit is inversely related to bank risk; the implementation of green credit can reduce a bank's risk [5]. Other scholars argue that, overall, the development of green credit inhibits the performance of commercial banks, but as the scale of green credit grows to a certain level, its impact on bank performance gradually improves and becomes promotive [6]. The inhibitory impact of green credit on bank performance primarily operates through increasing business and management expenses, raising the green costs of implementing green credit, and increasing the non-performing loan rate, thereby elevating the risk levels of commercial banks and affecting their performance. The inhibitory effect of green credit on commercial bank performance can be mitigated through reasonable executive compensation incentives. Moreover, larger commercial banks experience a smaller inhibitory effect on their performance when developing green credit [6].

2.2. ESG Standards and Commercial Banks

ESG (Environmental, Social, and Governance) is an important evaluation system for measuring the sustainability and non-financial performance of enterprises, and it is especially crucial for financial institutions assessing investment targets. ESG standardization refers to the establishment and implementation of uniform standards to advance sustainable development in enterprises, improve the level of environmental information disclosure, and meet long-term social and environmental needs. In the context of green finance, the construction of the ESG standards system can provide

financial institutions with clear guidelines for green investments and more sustainable investment options, helping to improve their environmental, social, and governance performance and enhance corporate value.

For commercial banks, digital transformation has become a strategic choice to cope with the rapid changes in the global digital economy [7]. In China, although a unified ESG performance evaluation standard for commercial banks has yet to be established, large state-owned financial institutions have taken a leading and exemplary role in ESG practices at the implementation level. Currently, the top five large state-owned commercial banks in China have established ESG-related committees at the board and management levels, such as Green Finance Committees and Fintech Review Committees, responsible for implementing the board's ESG strategic decisions. Small and medium-sized banks are also gradually exploring the construction of ESG systems. For example, Jiangsu Bank has introduced several loan products linked to ESG performance, providing diversified financing options for industrial enterprises [8].

Some scholars believe that the digital transformation of banks is positively correlated with their ESG performance; that is, the higher the degree of digital transformation, the more advantageous it is to strengthen the bank's ESG performance. Digital transformation can promote the improvement of a bank's non-financial performance, and the beneficial effect of digital transformation on a bank's ESG performance is more significant in commercial banks with a larger customer base and stronger profitability [9].

2.3. Synergistic Effect of Green Finance and ESG Standards

Green finance and ESG (Environmental, Social, and Governance) standards exhibit a remarkable mutually reinforcing relationship in the development of commercial banks. The widespread adoption of ESG standards has provided a more unified and transparent benchmark for evaluating the performance of green financial products. This, in turn, enables investors and stakeholders to gain a deeper comprehension of the legitimacy and advantages of environmentally sustainable financial offerings, thereby bolstering the trustworthiness and appeal of the green finance market. Additionally, by motivating enterprises to improve their environmental performance, strengthen social responsibility, and enhance governance standards, green finance and ESG standards jointly encourage balanced and harmonious development among the economy, society, and the environment. Furthermore, the collaborative growth of green finance and ESG standards necessitates the participation and collaboration of multiple stakeholders, including governments, enterprises, financial institutions, and investors. By establishing a multi-stakeholder collaboration mechanism, a collective force can be harnessed to jointly drive the profound advancement of green finance and ESG standards.

2.4. Analysis of the Promoting Role of Green Finance Policies

Currently, the development of green finance in China is still in its early stages, with business development outpacing the establishment of standards. Therefore, the priority is to improve the green finance standards system. In July 2021, the People's Bank of China released the first batch of green finance standards, including the "Guidelines for Environmental Information Disclosure by Financial Institutions" and the "Environmental Rights Financing Tools." Additionally, various regions have been establishing information disclosure frameworks to achieve automatic collection and quantitative measurement of environmental information data [10].

Secondly, relevant departments need to establish a green finance statistical monitoring and evaluation system. So far, several cities in China have built special information statistics systems for green loans. For instance, Huzhou has developed a green bank regulatory evaluation system [10]. Moreover, building a comprehensive green finance statistical monitoring and evaluation system requires gradually improving incentive and constraint mechanisms, such as performance evaluation mechanisms and interest subsidy reward mechanisms. There is also a need to continuously enrich the green finance products and market system, including green loans, green bonds, green insurance, environmental rights trading markets, and green funds. In terms of information sharing and resource

integration, integrating and analyzing a large amount of ESG information when promoting green finance products can enhance their accuracy and effectiveness, while also promoting the widespread adoption and application of ESG standards.

Finally, it is essential to actively expand the space for international cooperation in green finance. As the international community places increasing importance on climate change and ecological issues, strengthening international cooperation in green finance is beneficial for addressing cross-border externality issues and forming a global market allocation of green finance resources.

2.5. New Research Directions and Prospect Exploration

With the ongoing and sustained development of the green finance market, Bank of Commerce can explore more innovative green financial products in the future and research how to integrate these Eco-friendly financial offerings, which encompass a variety, including green credit facilities, environmentally sustainable insurance policies, and carbon-based financial instruments, among others, with ESG standards to enhance their environmental friendliness and social impact. The commercial banking sector has the potential to offer a diverse range of eco-conscious wealth management products. Thereby catering to the varied investment needs of customers [11]. They can further increase the allocation of green credit and expand the green finance market. Simultaneously, they can strengthen cooperation and exchanges with international financial institutions to jointly promote the evolution and enhancement of green-oriented financial offerings.

Commercial banks can strengthen ESG information disclosure in the future. This will help improve the comparability and transparency of ESG information, providing investors and stakeholders with more accurate and comprehensive information for reference. Financial institutions, in their ESG reporting and disclosure, can tailor their approaches based on their actual situations, encompassing ensuring internal economic growth (education, health, gender equality, governance, social development, etc.), pursuing environmental sustainability (Environmental alterations, coupled with hazard mitigation strategies, agricultural advancement, and the assurance of food supplies, among others), as well as governance and protection (operational procedures, transparency and communication, anti-corruption and integrity, environmental and social protection, and accountability, etc.), thereby offering stakeholders insights into their commitments to ESG [12].

Commercial banks can intensify the promotion and advocacy of ESG standards in the future, encouraging more enterprises to adopt ESG standards for evaluation and disclosure. As crucial participants in the financial market, commercial banks have both the capability and responsibility to serve as the primary drivers in strengthening the promotion and advocacy of ESG standards. By actively implementing ESG standards, organizing related events, publishing research reports, and other means, commercial banks can guide more enterprises and investors to concentrate on and prioritize ESG factors. As investors and stakeholders continue to increase their focus on corporate non-financial performance, ESG standards will become vital tools for enterprises to assess their performance and enhance competitiveness. Additionally, commercial banks can enhance cooperation and exchange with international organizations and institutions to jointly promote the globalization and standardization of ESG standards, thereby making positive contributions to promoting sustainable development globally.

3. Conclusion

From the effect of green finance on the business performance of commercial banks to the synergistic effect of green finance and ESG standards, it can be seen that commercial Banks to promote green finance under the ESG perspective can produce positive effects in various aspects. Firstly, it can guide social capital to flow into green low-carbon environmental protection projects, restrict enterprises from investing in high-pollution and high-emission projects through green credit and other means, and promote the upgrading and progress of industrial structuring Secondly, commercial banks can effectively promote China's economy to realize incremental development by

emphasizing environmental protection, social responsibility, and good governance in the promoting of green finance, and effectively solve the problems of loss of biodiversity and shortage of resources, and become a key factor in helping to realize the carbon and environmental protection objectives. problems, and become an important force to help achieve carbon peak and carbon neutrality. Thirdly, under the ESG system, commercial banks seize the opportunity to develop green finance, which provides investors with more choices of investment strategies, enriches the product system of commercial banks to conform to various types of customers, and expands new economic growth points. Fourthly, it provides relevant references for the government to formulate and improve green financial policies, builds a systematic green financial policy framework, and encourages commercial banks to broaden their green financial business areas to better promote the implementation of relevant green financial policies.

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All the authors contributed equally and their names were listed in alphabetical order.

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