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INTEGRATING ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS INTO THE PAYMENTS ECOSYSTEM FOR A SUSTAINABLE FUTURE

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ABSTRACT

In the aftermath of the pandemic, various aspects of our daily routines, including the payment industry, have undergone significant transformations.Payments essentially serve as the intermediary link connecting consumers with their everyday purchases, functioning as the driving force and infrastructure for the contemporary economy.This empowers payment companiesto support eco-friendly economy and compliance, aligning with ESG factors. Further, in response to the growing focus on sustainability, mere promotion of paperless and digital transactions is no longer sufficient; true sustainability requires aligning with customer values.This paper explores the adoption ESG factors in the payments ecosystem, highlighting the transition from ESG being a trendy term to its tangible and real-world application.By exploring the fundamental ESG principles, the article addresses the various initiatives, opportunities and risks that affect an organization's capacity to generate long-term value.The article emphasizes the significance of ESG integration for various stakeholders, including corporate, financial institutions, regulators, and customers.In the final section of the paper, ithighlights specific examples within the payment industry where companies have effectively incorporated ESG factors into their operations, resulting in smooth and successful business outcomes.Promoting ESG integration, the paper argues that catalyzing a 'SHIFT' in global business practices accelerates sustainable goals and also highlights cases where aligning practices with ESG boosts operational efficiency and success.

Keywords - Payment Industries, Environmental, Social, Governance, Sustainability, Green payments.

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I. INTRODUCTION TO ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) FACTORS

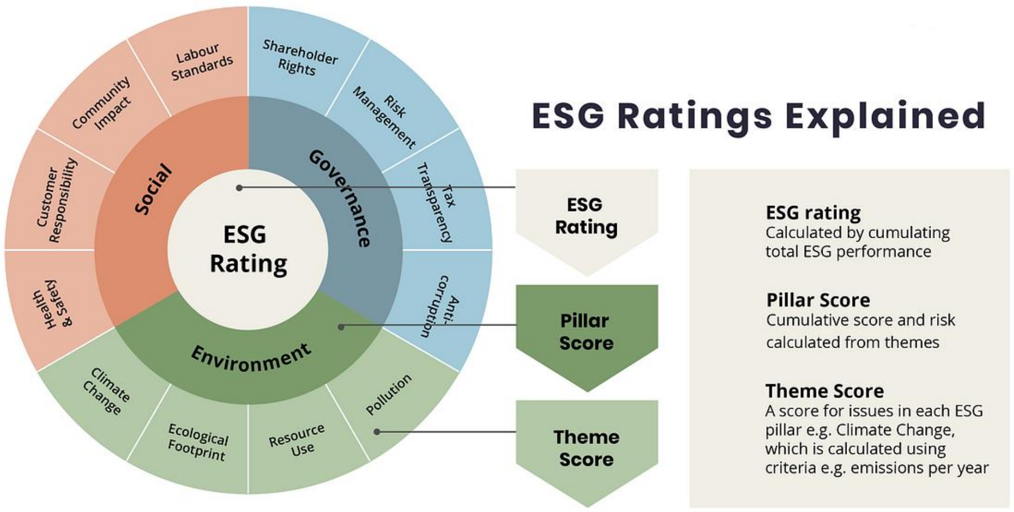
Over the past decades, the primary goal of businesses was profit generation, with little emphasis on the impact on the surrounding community. Investors focused on financial returns, often overlooking the broader consequences of their investments. However, contemporary perspectives have shifted, and the investment landscape now responds to evolving trends and societal concerns. A new methodology is on the rise, underscoring the importance of a corporation's intangible assets, particularly with regard to sustainability and ethical conduct. The escalating attention towards environmental, social, and governance (ESG) criteria is discernible among investors and corporate stakeholders. Recent economic, public health, and social equity crises have further accentuated this emphasis, heralding a new epoch where ESG considerations hold paramount significance in the realm of investments. Presently, the pivotal determinants influencing investments are Environment, Social, and Governance (ESG) factors.

Developing a business framework that places importance on environmental, social, and governance (ESG) considerations is now widely acknowledged as crucial for improving the financial viability and competitiveness of investments. Investors are proactively aiming to create sustainable value over the long term by tackling issues and prospects associated with the environment, society, and corporate management in their endeavors. Rather than being a fleeting trend, ESG has evolved into a fundamental value that reinforces the reputation of companies. Essentially, ESG serves as a comprehensive evaluation tool, assessing companies based on a broad spectrum of socially desirable outcomes. It comprises a series of standards for assessing the non-monetary effects linked with particular investments and corporations, while also revealing various business and investment prospects.

ESG (Environmental, Social, and Governance) principles originated from sustainability and socially responsible investing, evolving from an initial focus on excluding companies with environmental, social, or governance concerns from portfolios.[2] The approach has shifted towards recognizing and rewarding companies making positive ESG contributions, integrating these elements into strategic positioning. Though there's no exhaustive list of ESG goals, the three categories are increasingly woven into investment analysis.The "E" elementwithin the ESG framework encompasses various considerations such as energy

[2]Gadekar, N.N., "An Upgrade to Green Finance: A study on the Financial Performance of Indian companies that prioritize Sustainability" (Doctoral dissertation, GOA UNIVERSITY, 2023).

efficiency, carbon footprint management, greenhouse gas emissions reduction, deforestation prevention, biodiversity preservation, climate change mitigation, pollution abatement, waste management, and prudent water resource utilization. The "S" dimension addresses adherence to labor standards, fair wage practices, promotion of workplace and boardroom diversity, advocacy for racial justice, achievement of pay equity, upholding of human rights, effective talent management, fostering positive community relations, safeguarding privacy and data protection, ensuring occupational health and safety, and maintaining integrity within the supply chain. The "G" aspect pertains to governance matters, including the composition and structure of corporate boards, strategic oversight of sustainability initiatives, adherence to regulatory compliance, formulation of executive compensation policies, monitoring of political contributions, regulation of lobbying activities, and prevention of bribery and corruption. This comprehensive approach underscores the incorporation of ESG principles into investment methodologies, highlighting the interconnectedness of environmental, social, and governance considerations to facilitate informed decision-making processes.



More than ever, consumer choices in payment services are profoundly shaped by their beliefs about the future of the planet. This trend extends to companies' recognition as sustainability-focused organizations, necessitating an alignment with customer values. According to a 2020 global survey, an overwhelming 92% of respondents expected their banks to actively contribute to environmental preservation, with 62% expressing a willingness to switch to eco-conscious banks.[3] Consequently, payment companies are actively redefining their business and operational models with a focus on Corporate Social Responsibility (CSR) that influences their internal culture and overall philosophy.[4] Concomitantly, there exists a growing emphasis on the utilization of Environmental, Social, and Governance (ESG) indicators to evaluate and endeavor toward particular sustainability goals, indicative of a more expansive commitment to ethical principles in acknowledgment of evolving consumer preferences.[5]

ESG initiatives offer numerous advantages to financial institutions (FIs), including cost reduction, enhanced financial inclusion through a social emphasis, positive impact on stakeholders, and the promotion of sustainable economies and value creation. Acknowledging the profound importance of Environmental, Social, and Governance (ESG) principles, numerous Financial Institutions (FIs) have earnestly embraced their integration. The evolution from ESG as a mere colloquial term to its tangible application within international entities is palpable. Given the intrinsic correlation between ESG matters and the payments sector, a robust ESG framework holds promise to deliver considerable benefit to this industry in forthcoming times.

II. ESG FROM A PAYMENTS PERSPECTIVE

In the present scenario, businesses across various sectors are expanding their concerns beyond mere financial outcomes. Payment entities hold a paramount position within the value chain, given their indispensable role in facilitating transactions, which serve as the bedrock for virtually all interactions between businesses and consumers. This unique position allows payment organizations to advance sustainable practices within the industry and society. A recent report from Global Data revealed a $1.5 billion market size for Environmental, Social, and Governance (ESG) initiatives in payments in 2021, indicating a growing significance amid environmental challenges.[6] Today's consumers prefer companies aligning with their values, prompting corporate decision-makers to prioritize sustainability.The aggregate value of investments globally dedicated to sustainable practices has surpassed USD 30 trillion,

[3] Sun, H., Rabbani, M.R., Ahmad, N.,*et.al.*, . CSR, co-creation and green consumer loyalty: Are green banking initiatives important? A moderated mediation approach from an emerging economy, 12(24) Sustainability,10688 (2020).
[4] Fahad, P. & Nidheesh, K.B., Determinants of CSR disclosure: An evidence from India. 13(1)J' of Indian Business Resh.,110-133 (2020) .
[5] Id.
[6] Environmental, Social And Governance In The Payments Industry, OTTPAY, (2023) https://ottpay.com/2023/06/16/environmental-social-and-governance-in-the-payments-industry/

reflecting a growth of 68% from 2014 and a remarkable tenfold escalation since 2004.[7] ESG commitments are increasingly becoming standard in the payments industry, with leaders adopting sustainable practices in operations, products, services, and vendor relationships.

The deficiencies in traditional banking systems have spurred the emergence of the digital payments sector. Industry leaders aspire to mitigate issues prevalent in conventional banking, particularly focusing on preventing financial transaction-related frauds and crimes. Nevertheless, a conspicuous obstacle within the Environmental, Social, and Governance (ESG) paradigm manifests within the social sphere. In communities lacking development or the necessary infrastructure, accessing technology remains a formidable obstacle, potentially impeding the industry's growth in terms of social inclusivity. The onset of the Covid-19 pandemic precipitated an upsurge in the utilization of digital payment modalities, propelled by consumer predilections favoring transactions devoid of physical contact.[8] Consequently, various international governments responded by raising transaction limits for digital payment methods, further encouraging widespread adoption of such applications.

i. Integrating the '*Environmental Factors*' with Payments

In bygone eras, environmental considerations were relegated to the margins of economic discourse; however, contemporary realities underscore the convergence of environmental imperatives with economic exigencies. Issues such as climate change, water scarcity, temperature extremities, and carbon footprints now pose tangible threats to sustainable economic advancement. The state of the environment substantially impacts a corporation's competitive positioning. Consequently, the integration of environmental considerations into the realm of Environmental, Social, and Governance (ESG) principles has emerged as an indispensable facet of prudent investment strategies, entailing the judicious management of environmental risks and opportunities alongside societal and governance concerns.[9] The "E" in ESG signifies understanding environmental risks. Environmental factors play a vital role in ESG investment, assessing an organization's connections with internal and external stakeholders and their societal impact. These factors encompass the environment, climate shifts, energy usage, and overall influence. Essentially, the environmental factor delves into a

[7] Henisz,W., Koller, T., &Nuttall,R., Five Ways that ESGcreates Value, McKinsey Quarterly Global Sustainable Investment Alliance, 2018, (November 2019) gsi-alliance.org.i

[8] Panwar, M., Vashishta, A. & Choudhary, R., Impact of Covid 19 pandemic on digital payments. 19(4) World J' of Innovation Resh. 77-81 (2020).

[9] Efthymiou, L., Kulshrestha, A. &Kulshrestha, S., A study on sustainability and ESG in the service sector in India: Benefits, challenges, and future implications. 13(7)Admin.Sci.,165 (2023).

company's environmental disclosure, impact, and initiatives to diminish carbon emissions—matters that pose tangible risks and opportunities for stakeholders and shareholders alike.[10]

Failure on the part of companies to duly contemplate the ramifications of their policies on the environment may expose them to augmented financial susceptibilities. Neglecting to address issues such as carbon emissions or environmental incidents exposes firms to regulatory penalties, legal consequences, and damage to their reputation, all posing risks to shareholder value.[11]The ESG Evaluation assesses social and governance risks, evaluating an entity's ability to operate successfully. Additionally, it conducts a preparedness evaluation for anticipating and adapting to various long-term environmental disruptions, culminating in the determination of an ESG score.

a) Utilizing APIs for the Introduction of Eco-Friendly Products

In light of the increasingly conspicuous ramifications of climate change, exemplified by the pronounced California wildfires and the catastrophic inundations in Pakistan, there emerges a burgeoning inclination towards integrating environmentally conscious facets into routine digital engagements.Whether driven by heightened awareness or the tangible effects of geopolitical shifts and rising energy costs, individuals and enterprises now seek greater clarity regarding environmental consequences and actively pursue more sustainable alternatives. The growing demand for transparency and eco-friendly solutions reflects a broader recognition of the need for environmentally conscious practices amid escalating global climate challenges.

Application Programming Interface (API) serves as a set of communication protocols and subroutines utilized by various programs to interact.[12]This allows programmers to simplify their software development process by employing various API tools. Essentially, an API acts as a facilitator for communication between two programs or applications, providing the necessary tools and functions for seamless interaction.[13] It operates by receiving user requests,

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[10]Id.
[11]Sinha Ray, R. &Goel, S., Impact of ESG score on financial performance of Indian firms: static and dynamic panel regression analyses. 55(15)Applied Econ., 1742-1755 (2023).
[12]Saxena, A., Singh, R., Gehlot, A., *et.al.*, Technologies Empowered Environmental, Social, and Governance (ESG): An Industry 4.0 Landscape.15(1)Sustainability, 309 (2022).
[13]Id.

forwarding them to the service provider, and then transmitting the resulting output back to the user.

Drawing an analogy to Lego bricks, APIs enable the reconfiguration and modification of products, contributing to the acceleration of companies' product development.[14]Unlike the traditional approach where in-house developers exclusively implemented new products, APIs now empower external programmers to participate in this process. In a tangible demonstration, there exists a cooperative endeavor between a FinTech enterprise situated in Stockholm and a banking institution. Conjointly, they have engineered a solution facilitating banks and financial entities in furnishing customers with impact assessments predicated on transactions. This technological advancement is accessible via a prominent cloud service provider, delivered as a user-friendly API. Entities possess the capacity to seamlessly embed this API into their digital banking and payment infrastructures, thereby affording clientele direct access to pertinent information.

In 2021, retail e-commerce revenue reached an estimated $768 billion, and projections indicate that it will surpass $1.3 trillion in the nation by 2025.[15]With the growing prevalence of businesses entering the e-commerce realm to sell their products, facilitating online payments through diverse methods has become a common practice. One prevalent approach is the utilization of payment APIs or payment gateway APIs to provide customers with convenient payment processing solutions.

Furthermore, financial institutions and technology vendors are adapting their banking services to align with financial wellness objectives and environmental, social, and governance (ESG) impact goals. Retail segments within multinational banks are introducing additional APIs to foster collaboration with external partners dedicated to creating environmentally friendly products.[16]This extends to initiatives aimed at raising customer awareness regarding the environmental repercussions of transactions.

[14]Natalucci, F.M. &Goel, R., "Development of Environmental, Social, and Governance Financial Markets", India's Financial System: Building the Foundation for Strong and Sustainable Growth (International Monetary Fund, 2021) 107-126.

[15] Deshmukh, S.P., Deshmukh, P.D., *et.al.*, Exploring the factors to make e-commerce and m- commerce ubiquitous and pervasive to improve national productivity of India. 28(4) Intl' J' of Productivity & Quality Mngmnt, 457-496 (2019).

[16]Hoff, R. & Shell, K., Environmental, social, governance: The future of process safety management or repeat of the past?Process Saf. Prog. (2023)

This transformation reflects a broader effort by banks and tech vendors to re-purpose their services for enhanced financial well-being and positive environmental contributions. Through the introduction of specialized APIs, these entities aim to strengthen partnerships, drive the development of sustainable products, and educate customers about the ecological implications of their financial transactions.[17]

- The incorporation of sustainability into any program is facilitated by the longstanding existence of Green APIs.[18]These eco-conscious apps contribute to curbing emissions, conserving water, and minimizing energy consumption in buildings through monitoring and automation. Offering real-time feedback, Green APIs facilitate informed decisions for environmentally responsible choices, such as accessing recycling locations or understanding car emissions at traffic lights.[19] An effective way to merge sustainability with technology is by rewarding eco-friendly actions through points. For instance, recycling or biking earns points, motivating employees to embrace sustainable habits. These points also gauge sustainability performance, allowing sharing and analysis within the organization for informed decision-making.The following APIs are crafted to enhance your daily efficiency in undertaking environmental initiatives:
- **Emission Calculation API:** The presented application programming interface (API) facilitates enterprises in calculating their emissions across diverse parameters specified by users, such as geographical location by zip code or the nature of sensors utilized (e.g., business classification, machinery, or individual sources).[20] Users have the prerogative to submit their preexisting data in bulk for retrospective evaluations, thereby facilitating forthcoming decision-making processes, notably in forecasting potential ramifications arising from expansions.

- **Carbon Analytics & Offset API:** The Carbon Analytics API functions as a tool for the assessment, disclosure, and authentication of greenhouse gas emissions. It provides detailed assessments of a company's direct and indirect emissions, delineated across three

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[17]Rao, P.M.&Babu, S., " Evaluating social responsible attitudes and opinions using sentiment analysis–an Indian sentiment." In 2022 3rd International Conference on Computing, Analytics and Networks (ICAN) (IEEE, 2022) 1-7.
[18]Singh, V., Mishra, N. &Taghizadeh-Hesary, F., "Mapping the Current Practices and Patterns of Green Digital Finance in India and the Way Forward." In Green Digital Finance and Sustainable Development Goals (Springer Nature, Singapore, 2022) 223-242.
[19]*Supra* note 11.
[20]Choudhary, P., Srivastava, R.K.&De, S., Integrating Greenhouse gases (GHG) assessment for low carbon economy path: Live case study of Indian national oil company. 198 J' of cleaner production, 351-363 (2018).

distinct carbon intensity metrics: Scope 1 (pertaining to direct emissions), Scope 2 (associated with indirect emissions), and Scope 3 (linked to business-related travel activities).[21]Adhering to the Global Greenhouse Gas Abatement Cost Curve's proposal, organizations aspiring to showcase sustainability must annually trim their environmental impact by 2%, with a ten-year span for decarbonization achievement. In instances where emissions exceed reduction capabilities, organizations can opt for offsetting. This involves either ceasing emissions or compensating an offset provider to undertake emission reduction projects, such as wildlife protection, reforestation, or clean energy initiatives.

- **Environmental API (Air, water & energy Quality):** This collection of application programming interfaces (APIs) serves as a conduit to environmental information obtained from governmental bodies at the national and state levels, as well as from designated local providers. The data encompasses a broad spectrum of subjects, including but not limited to air quality, water quality, levels of radioactivity, and management of land cover and natural resources.[22] In today's business landscape, most organizations prioritize understanding their environmental impact, as it directly influences profitability and sustainability. For instance, a company engaged in oil refining would seek details on water quality near a river, as such information informs decision-making processes and optimizes time management.[23]
- **Energy Efficiency (Home Energy Management, Informed decisions):** This API is designed to assist individuals in optimizing energy usage in their residences. It collects data on the local power grid, including energy prices and consumption patterns, presenting it in a user-friendly format.[24] When incorporated within residential or commercial settings, it furnishes individuals with the capacity to exercise judicious decision-making concerning energy utilization, thereby resulting in financial efficiencies and heightened ecological responsibility.The technology equips individuals with the

[21]David, D., Yoshino, M. & Varun, J.P., " Developing FinTech Ecosystems for Voluntary Carbon Markets Through Nature-Based Solutions: Opportunities and Barriers in ASEAN". In Green Digital Finance and Sustainable Development Goals (Springer Nature, Singapore, 2022) 111-142.

[22]Sahu, C. and Sahu, S.K., Ambient air quality and air pollution index of Sambalpur: a major town in Eastern India .16 Intl' J' of Envir.Sci. and Techn., 8217-8228 (2019) .

[23]Shahanas, K.M. & Sivakumar, P.B., Framework for a smart water management system in the context of smart city initiatives in India. 92 Procedia Computer Science, 142-147 (2016).

[24] Ramachandra , T.V., Energy footprint of India: scope for improvements in end-use energy efficiency and renewable energy. Energy Footprints of the Energy Sector, 77-107 (2019).

knowledge to efficiently manage their energy usage, contributing to both economic benefits and a more environmentally conscious lifestyle.

This comprehensive strategy ensures the collective contribution of all towards a shared objective, fostering synergy through diverse efforts. Through this method, the organization emerges as a frontrunner capable of championing global well-being.

b) Financial Transaction Loyalty Programs with Carbon Offset Rewards

Amidst the urgent environmental challenges of our time, sustainability has risen as a pivotal catalyst in revolutionizingIndia's business landscape. Heightened awareness of the severe consequences of climate change and natural resource depletion has prompted businesses across the country, irrespective of size, to integrate eco-friendly practices and sustainability into every aspect of their operations.[25] In this era where sustainability takes precedence, no industry remains immune to the green revolution. Surprisingly, even loyalty programs, an unexpected domain, have transformed.

Running a business proves challenging, particularly in attracting and engaging new consumers. The demanding task of acquiring new customers drains time and attention, leaving entrepreneurs inefficient in focusing on other vital aspects. Recognizing the value of customer loyalty, businesses understand that loyal customers not only spend more on favored brands but also share positive experiences with family and friends. Providing excellent customer service becomes a priority to retain customers. In India, loyalty programs have been active across various sectors such as travel, hospitality, healthcare, retail, telecom, and media since 1995.[26]

Loyalty programs, traditionally centered around individual benefits, are undergoing a transformative shift toward sustainability. Recognizing the growing importance of eco-friendliness, companies are introducing innovative loyalty rewards that extend beyond personal gains to encompass environmental benefits. The emergence of green loyalty

[25] Abadie, A., Chowdhury, S., *et.al.*, Impact of carbon offset perceptions on greenwashing: Revealing intentions and strategies through an experimental approach.117 Industrial Marketing Mngmnt, 304-320 (2024) .

[26] Sahoo, D. & Vyas, P.H., 2007. Loyalty Programme Applications in Indian Service Industry. *IIMA, Research And Publications*, pp.9-17.

initiatives is becoming a prominent trend, setting a new standard for loyalty programs.[27] These initiatives, rooted in eco-consciousness and sustainability, transcend the conventional notion of rewarding loyalty; they serve as catalysts for positive change.[28] Customers are not only acknowledged for their loyalty but also celebrated for their environmentally responsibleactions. Everyday activities like recycling, energy conservation, and choosing public transportation are elevated to heroic acts, with customers receiving recognition and awards for each sustainable choice. The rewards curated in these programs are intricately designed to promote and incentivize green initiatives, fostering positive habits and contributing to the collective effort of protecting the planet.[29]

The term 'carbon footprint[30]' gained widespread recognition through a television advertising campaign in the early 2000s by the oil and gas company BritishPetroleum.[31] The campaign encouraged individuals to take action in reducing their carbon footprints, representing the amount of carbon dioxide emissions resulting from daily activities like commuting, electricity usage, and dietary choices. Recently, the concept of carbon offset has emerged, allowing individuals or organizations to purchase credits that offset their carbon emissions. Achieving a balance between the acquired carbon offset credits and one's carbon footprint results in carbon neutrality.

In India, the significance of carbon credits has grown, with businesses and organizations showing increased interest in lowering their carbon footprints and contributing to sustainability endeavors. The adoption of carbon credits aligns with the country's commitment to sustainability, evident in initiatives like the National Action Plan on Climate Change. India has proactively taken steps to reduce emissions and foster sustainable development, showcasing a dedication to environmental responsibility and the promotion of a greener future.

[27]Ten Brink, P., Bassi, S., *et.al., "* Rewarding benefits through payments and markets". In The Economics of Ecosystems and Biodiversity in National and International Policy Making (Routledge, 2012) 177-257 .
[28]Id.
[29] Muzumdar, A., Modi, C. & Vyjayanthi, C.,A permissioned blockchain enabled trustworthy and incentivized emission trading system. 349J' of Cleaner Prod., 131274 (2022).
[30] Solnit, R., Big oil coined ' carbon footprints' to blame us for their greed. Keep them on the hook, THE GUARDIAN, https://www.theguardian.com/commentisfree/2021/aug/23/big-oil-coined-carbon-footprints-to-blame-us-for-their-greed-keep-them-on-the-hook
[31] Ramachandra , T.V., Decentralised carbon footprint analysis for opting climate change mitigation strategies in India. 16(8) Renewable and S ustainable Energy Rev ., 5820-5833 (2012).

The integration of carbon credits in India yields numerous advantages. Initially, it furnishes a financial incentive for enterprises to invest in sustainable energy ventures, fostering a decline in carbon emissions. Secondly, carbon credits facilitate the dissemination of green technologies and sustainable methodologies, nurturing a culture of innovation and environmental responsibility. Furthermore, the proceeds from carbon credit trading can be channeled back into additional sustainability initiatives, establishing a self-reinforcing cycle of positive environmental influence. Notably, various financial institutions now incentivize environmentally conscious behavior through loyalty and reward points. A prominent global financial institution, for instance, offers customers prepaid cards with loyalty rewards specifically designed to mitigate carbon footprints.[32] With each card transaction, the company offsets a pound of CO on behalf of the customer, complemented by international reforestation efforts, planting a tree for every card user.[33]

c) Switching to Sustainable Materials for Payment Products.

In the digital realm, payments are pivotal to the economy, intricately woven through a complex web of stakeholders. Achieving a truly sustainable and 'green' payment process proves challenging, demanding a harmonized effort across the entire value chain. The elusive green payment hinges on all contributors aligning to mitigate environmental impact, be it payment terminals, card issuers, device manufacturers, or cloud services[34]. Notably, the tangible components of the payment cycle bear a substantial environmental footprint. Ben Knight, the environmental sustainability head at GoCardless, underscores the immense potential for payment providers to catalyze widespread environmental action among a myriad of customers and consumers. Therein lies a vast opportunity for positive change in the hands of payment industry leaders.

In India, there's a noticeable trend among businesses adopting eco-friendly measures, particularly by shifting to green energy sources. This extends beyond energy sources, with businesses opting for low-energy lighting in offices, and ATMs, and embracing paperless

[32]Prabhu, N. &Aithal, P.S., A new model on customers' attraction, retention, and delight (CARD) for green banking practices. 7(1)Intl' J' of Asian Mngmnt. 535-562(2022).

[33]Sarkar, A.N. &Dash, S., Emissions trading and carbon credit accounting for sustainable energy development with focus on India. 7(1)Asia Pacific Business Rev., 50-80 (2011).

[34]Sharma, S. and Agarwal, A., " Influence of Corporate Sustainability on Providing Electronic Payment Services by the Banking Industry in India." Handbook of Research on Green, Circular, and Digital Economies as Tools for Recovery and Sustainability, 1-21 (2022).

payment systems. This commitment to energy efficiency not only aligns with global environmental concerns but also signals a dedication to minimizing carbon footprints.

A prime and best example of this trend is the eco-friendly revolution in credit cards, given their significant carbon footprint.[35] Many banks are now replacing traditional plastic cards with biodegradable alternatives, easily recyclable, chlorine-free, and non-toxic when incinerated.[36]Financial institutions not only provide environmentally-conscious cards but also actively incentivize patrons to consider alternative eco-friendly and digital avenues, advocating for transactions facilitated via digital branches, paperless payment modalities, and the utilization of biodegradable or recycled materials in plastic production.Additionally, they are adopting green PINs, and virtual KYC processes, and reducing paper consumption through e-receipts in ATMs and POS devices, making strides towards a more sustainable and environmentally conscious business landscape.[37]

Furthermore, in urban America, accessing funds from the bank typically involves a short stroll to the nearby ATM. Conversely, in rural India, reaching the closest bank branch may require a day-long journey. Vortex Engineering, a pioneering company, has harnessed solar power to introduce convenient banking services to remote villages.[38] These ATMs are exceptionally energy-efficient, earning the title of the "world's lowest power consuming-ATMs." They utilize a mere 10 percent of the energy consumed by other banking machines, equivalent to the energy consumption of a standard light bulb. This minimal energy requirement allows for the integration of solar panels, offering backup power and ensuring uninterrupted operation in areas with unreliable electricity service. Over the next two years, Vortex Engineering aims to deploy over 10,000 of these innovative machines, extending the accessibility of banking services to rural villages throughout South Asia and alleviating the burden of ATM fees.[39]

d) *Use of sustainable FinTech products and technologies*

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[35] Jain, D., Dash, M.K. &Thakur, K.S.,Is the e-payment gateway system sustainable in India?– Analysis through the interpretive structural model approach. 29(4)Intl' J' of Business Excellence,455-484 (2023).
[36]Id.
[37] Selvaraj, P. & Ragesh, T.V., Innovative Approach of a Regional Rural Bank in Adopting Technology Banking and Improving Service Quality Leading to Better D igital Banking. 39(1) Vinimaya (2018).
[38]Khan, R., How frugal innovation promotes social s ustainability. 8(10) Sustainability1034 (2016).
[39] Shivapriya, N., Vortex Engineering's Gramateller ATM for rural India, ECONOMIC TIMEShttps://economictimes.indiatimes.com/industry/banking/finance/banking/vortex-engineerings-gramateller-atm-for-rural-india/articleshow/6503231.cms?from=mdr

In light of the increasing significance of sustainability, banks and financial institutions are actively integrating Sustainable Digital Finance (SDF) solutions into their operations. This strategic shift entails embedding sustainability principles across their key functions, including products, operations, and investment choices. Leveraging the capabilities of financial technological instruments such as blockchain, machine learning, artificial intelligence, big data, and the Internet of Things (IoT), these entities endeavor to augment the Environmental, Social, and Governance (ESG) facets of their operations.[40]

SDF streamlines sustainable investment choices by effortlessly incorporating ESG criteria into decision-making processes. This not only brings these institutions in harmony with worldwide sustainability objectives but also lessens their ecological footprint while promoting conscientious financial practices. Furthermore, the implementation of SDF promotes the innovation of environmentally friendly products and services, cultivating the growth of a more sustainable financial ecosystem.

Financial institutions are leveraging cutting-edge technologies such as blockchain, machine learning, artificial intelligence, big data, and the Internet of Things (IoT)[41] to gather pertinent information. This data is subsequently employed to methodically incorporate sustainability into current products and services, while also driving the development of innovative sustainable solutions.A salient contemporary advancement pertains to the incorporation of Environmental, Social, and Governance (ESG) parameters within the deliberative frameworks guiding investment decisions within the financial domain.By strategically implementing FinTech solutions, banks, and financial institutions are not only improving their operational efficiency but also playing a vital role in promoting a sustainable and responsible financial environment.[42] This comprehensive strategy reflects their dedication to aligning with global sustainability goals and making positive contributions to both the financial sector and the broader societal and environmental realms.

ii. Integrating the ‘*Social Factors’* with Payments

[40] *Supra* note 11

[41] Madakam, S., Lake, V., Internet of Things (IoT): A literature review. 3(5)J’ of Computer and Comm., 164 (2015).

[42] Galeone, G., Ranaldo, S. & Fusco, A., ESG and FinTech: are they connected? Research in International Business and Finance, 102225 (2024).

The COVID-19 crisis has significantly impacted discussions on the social aspect of ESG (Environmental, Social, and Governance) practices.[43] It has brought attention to societal issues such as financial inequality, a lack of affordable housing, the significance of our relationship with nature, gender and diversity gaps, and a rise in mental health challenges. Consequently, corporations are now facing increased pressure from investors and stakeholders to enhance transparency and mindfulness in how they treat their employees, manage their supply chains, and contribute to the well-being of the communities they operate in.

Within the realm of Environmental, Social, and Governance (ESG) criteria, the social dimension pertains to how a company navigates its interactions and engagements with its workforce, suppliers, clientele, and neighboring communities.[44] This includes aspects such as employee well-being, gender equality, and fair wages. Social factors also encompass issues like labor violations, product recalls, and boycotts. These concerns are diverse and qualitative, impacting various stakeholders like workers, customers, suppliers, and communities simultaneously. Establishing and maintaining ethical and positive relationships with these stakeholders is crucial for a company's success, especially when public trust plays a significant role in its prosperity.

In the 21st century, the business landscape has changed, with globalization leading to more interconnected companies and markets. This integration has expanded the social impact of businesses, affecting all stakeholders. Companies must consider social concerns, as damaging relationships and reputations can significantly impact their long-term competitiveness.
According to findings from a study conducted by Sustainable Brands, it has been observed that individuals belonging to the millennial demographic, as they assume positions within the realms of employment, consumerism, and investment, are progressively integrating considerations of sustainability and social impact into their deliberative frameworks. This demographic is keen on supporting companies that demonstrate positive corporate actions, showing loyalty as a result. According to a report from BoF& McKinsey State of Fashion, approximately 60% of millennials globally are willing to spend more on brands committed to

[43] Beloskar, V.D. & Rao, S.N., Did ESG save the day? Evidence from India during the COVID-19 crisis. 30(1) Asia-Pacific financial markets, 73-107 (2023).
[44] Maji, S.G. & Lohia, P., Environmental, social and governance (ESG) performance and firm performance in India. 18(1) Society & Business Rev.,175-194 (2023).

sustainability.[45] Over the past 20 years, the social aspect of ESG (Environmental, Social, and Governance) has expanded, reflecting the evolving business landscape of the 21st century, where markets and businesses are more interconnected. [46] This facet appraises the corporation's engagements with its community, clientele, vendors, and workforce. Within the payments domain, multiple endeavors are in progress to attend to the societal facet and accommodate the requisites of stakeholders. Below delineates certain of these endeavors.

a) Initiatives for financial inclusion

Sustainable fintech centers around the crucial concept of financial inclusion, a key element of social sustainability. Financial inclusion ensures that accessible financial services and products are provided to the less privileged segments of society at reasonable costs.[47] This is essential for integrating the economically and socially marginalized, contributing to the alleviation of poverty and reduction of socio-economic disparities. The objective entails the provision of financial services to individuals who lack access to traditional banking facilities or possess limited engagement with such services, with the overarching aim of fostering their economic and social empowerment.[48]As per the findings delineated within The World Bank's Global Findex report, an estimated 1.7 billion individuals globally continue to encounter an absence of accessibility to financial services offered by banking institutions. [49] Fintech innovations like mobile banking, digital wallets, and microloans are instrumental in promoting financial inclusion, allowing individuals to participate in the formal economy. Notably, mobile money accounts have witnessed an impressive 85% growth in the past

[45] Kanj, L. & Desmet, C., How the Sustainability Efforts of a Luxury F ashion Brand Affects Consumer Behavior in Young Adults, Primarily Gen Z and Millennials. (Louvain School of Management, Université catholique de Louvain,2022) .
[46] Chipalkatti, N., Le, Q.V. & Rishi, M., Sustainability and society: Do environmental, social, and governance factors matter for foreign direct investment?14(19) Energies, 6039 (2021).
[47] Garg, S. & Agarwal, P., Financial inclusion in India–a Review of initiatives and achievements.16(6) IOSR journal of business and Management , 52-61 (2014).
[48]Id.
[49] Financial Inclusion, THE WORLDBANK , (2022) https://www.worldbank.org/en/topic/financialinclusion/overview#:~:text=However%2C%20close%20to%20one%2Dthird,or%20out%20of%20the%20workforce.

decade. Furthermore, sustainable fintech solutions can also contribute to environmental protection.

Additionally, to broaden financial inclusion, the central government has introduced various schemes. These initiatives have been carefully planned and researched in collaboration with financial experts and policymakers. A few examples of these financial inclusion schemes include:

- Pradhan Mantri Jan-DhanYojana[50]
- UjjawalaYojana2.0 [51]
- Start-up India [52]
- Mudra Yojana[53]
- Direct Cash Transfer [54]
- SHGs – Bank Linkage Programme[55]

Enhancing financial literacy and promoting financial inclusion have been key priorities for India. Despite efforts by the Reserve Bank of India and the banking sector, the reach and accessibility of financial products and services to marginalized groups remain unsatisfactory. Policymakers have been actively developing a comprehensive action plan for financial inclusion, recognizing it as a crucial factor for overall financial development. Various initiatives are underway to ensure that socially marginalized sections of society have access to financial services and opportunities. DBT initiatives encompass the disbursement of financial allocations directly into the designated bank accounts of eligible recipients, encompassing pensions, scholarships, benefits, and subsidies. Offline payment endeavors are tailored to regions devoid of internet connectivity, thereby facilitating the adoption of digital

[50] Major Initiatives: Pradhan Mantri Jan Dhan Yojana, PM INDIAhttps://www.pmindia.gov.in/en/major_initiatives/pradhan-mantri-jan-dhan-yojana/

[51] Pradhan Mantri UjjwalaYojana 2.0, MINISTRY OF PETROLEUM AND NATURAL GAS, https://www.pmuy.gov.in/about.html#:~:text=In%20May%202016%2C%20Ministry%20of,as%20firewood%2C%20coal%2C%20cow%2D

[52] Start up India, START UP INDIA , https://www.startupindia.gov.in/content/sih/en/about-startup-india-initiative.html

[53] PradhanMantri Mudra Yojana, MY S CHEME, https://www.myscheme.gov.in/schemes/pmmy

[54]Direct BenefitTransfer, DBShttps://www.dbs.com/digibank/in/banking/payments/direct-benefit-transfer

[55]"SHGs – Bank Linkage : A Success Story, SHG-Bank Linkage: A Success Story" South Asia Agriculture and Rural Growth Discussion Note Series, THE WORLD BANK, (March, 2020) https://documents1.worldbank.org/curated/en/486171590655967465/pdf/SHG-Bank-Linkage-A-Success-Story.pdf

payment modalities among marginalized communities.[56]Efforts for financial literacy center around the augmentation of comprehension regarding financial services, facilitating individuals in the exercise of discerning financial judgment, embracing digital methodologies, and ensuring the protection of their entitlements.[57]

b) People development initiatives

People development initiatives in India cover a wide range of programs and strategies aimed at improving the skills, capabilities, and overall well-being of the workforce. These endeavors are imperative for fulfilling the evolving requisites of the labor market and fostering equitable economic expansion. Both government and private sectors in India are actively involved in initiatives related to education, vocational training, and skill development.

People development, in this context, refers to the comprehensive development of employees within an organization[58]. Employees are considered valuable assets, and it is crucial to retain and manage them effectively. The primary goal of people development is to enhance employees in a way that contributes to achieving organizational objectives. While employee development is a function of the HR department, it requires specialized attention from experts in this field. The key focus of people development is on understanding and addressing the needs, behavioral patterns, career paths, skills, and competencies of employees. This field is rapidly growing and progressing, emphasizing the importance of careful consideration and expertise in employee development.

Several programs, such as Skill India[59] and the Pradhan Mantri Kaushal VikasYojana (PMKVY)[60], have been implemented to empower individuals with employable skills,

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[56] Maquieira, C.P., Espinosa- Méndez, C. & Arias, J.T.,The Impact of ESG Performance on the Value of Family Firms: The Moderating Role of Financial Constraints and Agency Problems. 15(7) Sustainabilty6176(2023).

[57] Chipalkatti, N., Le, Q.V. & Rishi, M., Sustainability and society: Do environmental, social, and go vernance factors matter for foreign direct investment?14(19) Energies, 6039 (2021).

[58] Sharma, L. & N agendra, A., Skill development in India: Challenges and opportunities. 9(48)Indian J' of Sci.& Tech., 1-8 (2016).

[59] Pandey, A. &Nema, D.K., Impact of skill India training programme among the youth. Intl' J'of Multi. Resh. and Develop' 4(7)294-299 (2017).

[60] PradhanMantri Kaushal Vikas Yojana 2.0 (PMKVY 2.0) 2016-20, MINISTRY OF SKILL DEVELOPMENT AND ENTREPRENEURSHIP, https://www.msde.gov.in/en/schemes-initiatives/schemes-initiatives-through-nsdc/pradhan-mantri-kaushal-vikas-yojana-pmkvy.

especially in high-growth sectors. The governmental initiative known as Skill India, inaugurated in 2015, endeavors to furnish industry-specific education to more than 40 crore citizens. Its overarching objective is to cultivate a proficient labor pool by the year 2022, employing an array of programs and instructional modules. The Skill India Mission is directed towards the attainment of skill enhancement outcomes that harmonize with the exigencies of the industrial sector. The Pradhan Mantri Kaushal VikasYojana is considered the flagship scheme of Skill India, aiming to help youth undergo training for improved livelihoods. The government covers assessment and training fees under this scheme, and individuals with prior experience can obtain certification.

In India, many businesses are actively involved in initiatives to develop their employees, showing a strong dedication to nurturing their workforce. These companies are putting significant efforts into transforming their internal processes by providing comprehensive training and upskilling programs. They are placing a considerable emphasis on delivering high-quality training, promoting employee engagement through creative programs, and giving importance to diversity in the workplace. Moreover, these enterprises are at the forefront of implementing comprehensive digital skills enhancement endeavors and educational initiatives aimed at the advancement of their workforce.Through these diverse initiatives, businesses aim not only to improve the skills and capabilities of their workforce but also to bring about positive changes within the organization. This strategic approach not only contributes to the professional growth and adaptability of employees but also underscores the companies' commitment to fostering inclusive, dynamic, and forward-thinking work environments in the Indian corporate sector.

c) Promoting ESG integration with vendors and suppliers.

Promoting the adoption of environmental, social, and governance (ESG) principles among vendors and suppliers in India stands as an imperative for fostering sustainable commercial endeavors. Corporations advocate for the integration of ESG metrics within the operational frameworks of their supply chain counterparts, thereby endorsing practices aligned with ethical labor standards, responsible sourcing, and ecological preservation. Through the provision of incentives tailored to incentivize ESG adherence, enterprises aspire to cultivate a constructive impact, nurturing a milieu characterized by sustainability and social accountability. This strategic maneuver not only serves to synchronize vendors with the ethical ethos of the organization but also serves the overarching objective of fortifying a robust and sustainable business landscape within the Indian context.

Financial institutions now assess the dedication of potential vendors to Environmental, Social, and Governance (ESG) criteria when engaging in new partnerships. Stringent ESG parameters are factored into the vendor selection process during the issuance of requests for proposals (RFPs). There is a growing trend among firms to require vendors to regularly complete surveys addressing various sustainability facets. As an illustration, a prominent card network participated in the Customer Data Platform (CDP) Supply Chain Program to obtain precise and frequent data regarding climate change and carbon emissions from key suppliers. This information garnered through supplier surveys, facilitates the identification of areas necessitating improvement and opportunities for collaboration in devising strategies to mitigate emissions.

d) Initiatives to raise social awareness

Financial institutions are increasingly using innovative methods to create awareness and promote responsible consumption among their users. One effective approach involves integrating features into mobile applications that track users' spending habits and generate reports on the social impact of their consumption each month.[61] These apps play a crucial role in making users more aware of the broader societal and environmental effects of their purchasing decisions.

These applications use advanced algorithms to monitor and analyze various data points related to corporate behavior. Important metrics include diversity within companies, employee compensation structures, energy efficiency, and carbon footprint. By presenting users with a detailed breakdown of these factors, financial institutions enable consumers to make more informed and socially responsible choices in their spending habits.

Beyond informing users, these initiatives actively involve companies and merchants to promote positive environmental and social change. Financial institutions can use the aggregated data from their user base to encourage businesses to adopt more sustainable

[61] Hoang, T., The role of the integrated reporting in raising awareness of environmental, social and corporate governance (ESG) performance. In Stakeholders, Governance and Responsibility (Emerald Publishing Limited , 2018) 47-69.

practices, improve workplace diversity, and enhance overall social responsibility.[62] This collaborative effort between financial institutions, consumers, and businesses creates a powerful feedback loop, encouraging companies to prioritize ethical and sustainable practices in response to consumer preferences.

Furthermore, aside from influencing how businesses operate, these efforts also play a part in a broader societal trend towardthoughtful and responsible consumption. Individuals become more aware of how their decisions impact the environment, social equity, and overall sustainability.[63] Financial institutions (FIs), using technology to provide personalized insights, play a vital role in driving positive change. They help align financial choices with social and environmental values, encouraging a more mindful and informed consumer culture. In the end, these initiatives contribute to a more sustainable and socially conscious environment, benefiting both individuals and the larger community.

iii. Integrating the '*Governance*' Framework for Sustainable Payments

When evaluating environmental, social, and governance (ESG) factors, the governance aspect (the "G") is sometimes overlooked in comparison to concerns about climate risks and societal impacts. However, it's crucial to recognize governance risks and opportunities in decision-making, as inadequate corporate governance has been at the center of major corporate scandals. Examples include Volkswagen's emissions tests scandal and Facebook's mishandling of data, leading to significant financial harm for these companies.[64] With increasing awareness of global diversity and income inequality, corporate governance plays a central role in ESG considerations.

The "G" within the framework of Environmental, Social, and Governance (ESG) principles pertains to governance, which pertains to the methodologies by which decisions are formulated, extending from the formulation of policies within a nation to the allocation of rights and duties among various entities within corporate entities. This encompasses the oversight of the board of directors, executives, shareholders, and other stakeholders. Governance considerations encapsulate the regulations and protocols governing both

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[62] Sheehan, N.T., Vaidyanathan , G., *et.al.*, Making the invisible, visible: Overcoming barriers to ESG performance with an ESG mindset66(2) Business Horizons, 265-276 (2023).
[63]Id.
[64] Dhameja, N.L., Bobek, S., ESG: New Age Financial Reporting in I ndia– Challenges f or Future . 58(2)Indian J' of Industrial Relations (2022).

governmental bodies and corporate entities. Investors utilize these considerations to gauge the adequacy of governance practices, akin to their evaluation of environmental and social dimensions. Governance represents an indispensable facet for any lawful entity, encompassing aspects such as ethical business conduct, transparency in taxation, executive compensation, shareholder engagement, and the composition and configuration of the board.

Within the Environmental, Social, and Governance (ESG) framework, the governance component encompasses the procedural mechanisms within entities, delineating tasks such as policy formulation and the allocation of entitlements and obligations among diverse stakeholders. Vital actors in this governance realm comprise the board of directors, executive leadership, personnel, and shareholders.[65] Although governance involves various elements, corporate governance frameworks for businesses mainly concentrate on key areas.

First and foremost, organizational goals are fundamental in corporate governance, serving as a foundation that outlines the company's strategic direction and purpose. The arrangements and responsibilities of senior management are crucial, as they define the roles of executives in guiding the organization toward its objectives. Moreover, the compensation of CEOs and management practices are vital aspects, reflecting the connection between executive pay and the performance and long-term sustainability goals of the organization. These corporate governance frameworks act as a guide for promoting transparency, accountability, and ethical behavior in organizations. By specifying the roles of different stakeholders and ensuring a strong decision-making structure, governance within the ESG (Environmental, Social, and Governance) paradigm aims to improve the overall sustainability and resilience of businesses, aligning with societal and environmental considerations.

Financial institutions (FIs) must prioritize making ethical decisions and following government regulations in all areas of their operations. Corporate governance is a crucial framework that highlights the importance of creating a reliable, accountable, and transparent environment. This commitment to good governance practices is vital for encouraging long-term investments, ensuring financial stability, and contributing to the overall growth of societies. By following defined rules and regulations, FIs not only meet legal obligations but

[65] Singhania, M. & Saini, N., Institutional framework of ESG disclosures: comparative a nalysis of developed and developing countries.13(1) J' of Sustainable Fin.& Invest', 516-559 (2023).

also build trust among stakeholders.[66] A robust corporate governance framework fosters conscientious and enduring business conduct, harmonizing the objectives of diverse stakeholders and mitigating foreseeable hazards. In essence, the prioritization of moral discernment and adherence within financial institutions (FIs) serves as a pivotal mechanism in cultivating an atmosphere of probity, fostering economic resilience, and fostering an environment conducive to sustained societal advancement.

A notable example involves an Indian FinTech payments firm that, in anticipation of its stock exchange listing, aims to enhance transparency and governance by appointing independent directors. Financial entities are actively integrating Environmental, Social, and Governance (ESG) standards into their practices, inclusive of aligning remuneration structures for employees with predetermined ESG objectives. This shift is evident in CEO variable pay structures and the inclusion of ESG factors in the key result areas (KRAs) of top management. A well-known player in the financial industry has adopted a forward-thinking approach by including Environmental, Social, and Governance (ESG) priorities in its incentive compensation system. Specifically, senior leaders in the company now have their incentive compensation linked to key ESG benchmarks such as gender pay equality, financial inclusion, and carbon neutrality. This strategic determination not only harmonizes the incentives of the executives with socially conscientious objectives but also evidences a dedication to enduring and principled commercial methodologies.

Furthermore, the company has extended this connection to all employees, incorporating ESG objectives into the bonus calculations for every staff member. By integrating ESG criteria into the performance metrics for both leadership and employees, the organization underscores the significance of responsible business conduct. This approach actively involves the workforce in contributing to broader societal and environmental goals, fostering a culture of accountability and sustainability.

III. SIGNIFICANCE OF ESG IN THE PAYMENTS ECOSYSTEM

The recent emphasis on ESG (Environmental, Social, and Governance) factors is a direct response to both the climate crisis and legal mandates concerning equality, diversity, and inclusion. Maintaining a healthy environment is crucial for sustained economic growth. A thriving planet is essential for ongoing production and progress, and businesses require a

[66] Dua, S.A., ESG- The Future of Financing for Sustainable Infrastructure.1 2(1) IPE J' of Mgnmt'.104 (2022).

high-quality environment to contribute efficiently to resource utilization, as stated by Carolina M. Veira, VP of Community and Corporate Partnerships at CareMax.[67] Consequently, investors are presently predisposed to endorse enterprises that demonstrate a genuine commitment to mitigating climate change and implementing requisite actions to reduce their carbon emissions.

A company's ESG (Environmental, Social, and Governance) performance is crucial for various stakeholders, including investors and employees, who increasingly demand transparency regarding the company's impact on its surrounding ecosystems. Understanding what ESG entails in the business context is essential for this process.

From the company's viewpoint, ESG issues are significant because they can directly affect operational and financial performance, encompassing aspects such as revenues, operational costs, expenses, and R&D investments.[68]The judicious oversight of Environmental, Social, and Governance (ESG) related hazards and potentials holds significant sway over the enduring fiscal outlook, durability, and reputational equity of an entity. It also influences the decisions made by key stakeholders, decisions that can profoundly impact the company's performance. Through ESG reporting, companies are held responsible for their actions, becoming catalysts for positive change. Moreover, businesses excelling in ESG factors tend to be more resilient to emerging issues, enhancing their likelihood of success.

i. Benefits for banks, the payments industry, and FIs

a) **Reduced costs due to environment-friendly and digital alternatives:**ESG practices help financial institutions (FIs) cut costs through various measures such as minimizing paper usage, recycling, adopting energy-efficient options, and using environmentally friendly materials[69]. For example, the shift to digital payment technologies reduces reliance on physical currency. Mobile applications now offer an alternative to traditional ATMs, which consume resources like electricity and paper. Additionally, the preference for electronic messages and SMS over paper receipts further diminishes the need for

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[67]Veira, C., How great organizations fuel innovation through ESG and diversity, FINANCE ALLIANCE, (Nov. 23 , 2023) https://www.financealliance.io/how-great-organizations-fuel-innovation-through-esg-and-diversity/

[68]*Supra* note. 63

[69] Patharia, I., Rastogi, S., *et.al.*, . A fresh look at environment friendly customer's profile: evidence from India. 20(3)Intl' j' of econ.and business resh., 310-321 (2020).

paper. The adoption of automated payment methods streamlines business operations, resulting in reduced expenses associated with paper management and office supplies. Small businesses are increasingly embracing software solutions that eliminate the need for point-of-sale (POS) machines, allowing them to accept digital payments.[70] The emergence and prevalence of digital payment modes contribute to lower labor requirements for payment management, leading to potential savings in labor costs.

b) **Strong brand and market positioning:**Improving brand identity and community standing can be achieved by integrating ESG (Environmental, Social, and Governance) practices into fundamental business activities.[71] Although it's not common, there is a growing trend among Financial Institutions (FIs) to incorporate an ESG focus into their brand positioning. In contemporary times, financial institutions (FIs) are formulating separate reports dedicated to Environmental, Social, and Governance (ESG) factors and sustainability, to augment the corporate brand reputation and competitive positioning within the market. Furthermore, enterprises undergoing preparations for initial public offerings (IPOs) are proactively endeavoring to fortify their ESG endeavors and standards.

c) **Increased worker motivation:**Banks and financial institutions (FIs) that give priority to Environmental, Social, and Governance (ESG) considerations tend to attract new talent because of their elevated social standing. The impactful societal outcomes of their work make ethical and social objectives a focal point, thereby boosting employees' internal motivation. ESG principles also promote inclusivity and diversity among staff, contributing to an improved overall work environment in these institutions. Consequently, by implementing policies that support employee well-being, these employers can effectively retain their existing workforce while also drawing in new talent.

ii. Benefits for investors and regulators

[70] Id.

[71] Mobius, M. & Ali, U., ESG in emerging markets: The value of fundamental research and constructive engagement in looking beyond ESG ratings. 33(2)J' of Applied Corp. Fin., 112-120 (2021).

a) **Regulation favors strong ESG:**The incorporation of Environmental, Social, and Governance (ESG) factors within the payment sector presents an opportunity for synergistic gains for investors and regulatory bodies. With bodies such as the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) elevating the significance of ESG considerations, adherence to these principles not only conforms to regulatory standards but also mitigates the potential for adverse governmental interventions against financial institutions (FIs).[72] By integrating ESG practices, FIs ensure compliance, thereby fostering a positive regulatory relationship and demonstrating a commitment to responsible business conduct. Consequently, this enhances investor confidence, as adherence to ESG criteria signals a forward-thinking and socially responsible approach within the payment industry.

b) **Positive influence on stakeholders:** Nowadays,achievements in sustainability within the payment industry not only align with traditional Key Performance Indicators (KPIs) but also garner recognition from stakeholders. Potential investors scrutinize companies' mission statements, sustainability objectives, and dedication to Environmental, Social, and Governance (ESG) goals before committing funds. Simultaneously, investors in payment firms actively contribute to enhancing ESG parameters, establishing a benchmark for the companies in their investment portfolios. This mutual focus on sustainability benefits both investors and regulators, fostering a transparent and responsible business environment in the payment industry.

iii. Benefits for customers

a) **Increased customer acquisitions and revenues:**In the realm of financial transactions, there is a burgeoning recognition and emphasis on the societal facet within the overarching framework of Environmental, Social, and Governance (ESG) initiatives, which is increasingly garnering widespread international recognition and focus.Financial institutions are strategically directing their efforts towards previously overlooked demographics, such as rural populations and gig workers. This methodical application of ESG (Environmental, Social, and Governance) strategies is yielding advantageous outcomes, thereby guaranteeing enhanced accessibility for historically marginalized demographic segments to a spectrum of financial instruments, and amenities, alongside credit and investment prospects. By prioritizing inclusivity and social responsibility, the

[72] Environment, Social and Governace Law, ICLG.COM,(2024) https://iclg.com/practice-areas/environmental-social-and-governance-law/india

payment industry is not only expanding its customer base but also contributing to more equitable financial access and opportunities for traditionally marginalized groups.

b) **Helps customers to make conscious decisions:**Within the realm of financial transactions, the amalgamation of Environmental, Social, and Governance (ESG) factors presents a multitude of advantageous outcomes for clientele. Advanced payment applications provide users with analytical tools, fostering an environment where individuals are incentivized to allocate their funds toward eco-friendly products and activities. These applications not only facilitate transparent tracking of sustainable practices but also empower customers to make informed and conscious choices. By promoting the use of sustainable goods, payment applications contribute to a more environmentally and socially responsible consumer culture, aligning financial transactions with ESG values and encouraging a positive impact on the planet and society.

IV. SUCCESSFUL ESG INTEGRATION IN PAYMENT COMPANIES

The payments sector is substantively contributing to the advancement of sustainability by leveraging digital technologies.These technologies eliminate the need for printing money, producing coins, and issuing physical credit cards. Additionally, the shift to digital receipts, sent via email, has proven beneficial for the environment. In the UK alone, where approximately 11 billion receipts are printed annually, this transition has helped save around 200,000 trees that would otherwise be used for paper production.[73] Payment companies can contribute to sustainability by integrating Environmental, Social, and Governance (ESG) values into their product development process from the outset. This proactive approach not only aligns with ESG goals but also prevents the need for costly adjustments in the future. Moreover, it safeguards against accusations of greenwashing, as the commitment to sustainability is ingrained in the product's design.

Recently, companies in the payments and broader fintech sectors have incorporated comprehensive ESG (Environmental, Social, and Governance) reports as part of their IPO strategies. This approach enhances the company's brand image, attracting increased attention

[73] Paper vs. Digital Receipts: 4 Reasons it’s Time t o Ditch the Slip, E.POP, https://epoppay.com/4-reasons-its-time-to-ditch-the-slip/

from potential customers and investors. An example of this trend is Stripe, a potential IPO candidate, which has successfully embraced ESG principles. The adoption of ESG practices not only benefits the company externally but also positively impacts employee productivity. According to a report by PWC, 75% of individuals prefer working for organizations that contribute positively to society. Additionally, Environmental Finance disclosed that 42% of employees express a desire for a stronger emphasis on climate-related initiatives in their current job roles, indicating a growing interest in environmental considerations.

Over the last seven years, payment companies have shown significant investment in deals related to environmental, social, and governance (ESG) initiatives, according to data from GlobalData's Deals Database.[74] However, there appears to be a recent slowdown in the growth of these investment deals. The primary contributors to this trend are North America and Europe, which have been the major driving forces behind such investments. In the realm of environmental, social, and governance (ESG) considerations within the payments sector, several prominent entities have distinguished themselves through notable advancements. Noteworthy among these entities are ACI Worldwide, Affirm,Adyen, American Express, Alibaba Group, Apple, Block, Danske Bank, FIS, Fiserv, and Alphabet (the holding entity of Google).

Paytm, a prominent Indian fintech company established in 2010 as part of One97 Communications, is recognized for its strong commitment to Environmental, Social, and Governance (ESG) initiatives.[75] Operating in the digital payments and e-commerce sectors, Paytm has integrated digital wallets into its services. Under the Companies Act, 2013, One97 Communications channels its Corporate Social Responsibility (CSR) efforts through the Paytm Foundation.

The Paytm Foundation diligently participates in diverse Corporate Social Responsibility endeavors congruent with the objectives outlined in the United Nations' Sustainable Development Goals, with a focus on catering to fundamental requirements at the grassroots level. Throughout its trajectory, Paytm has been instrumental in fostering financial inclusivity and bolstering community welfare through its proactive engagement in philanthropic

[74] ES G (Environmental, Social and Governance) in Payments – Thematic Intelligence, GLOBAL DATA, https://www.globaldata.com/store/report/esg-in-payments-theme-analysis/

[75] Paytm wins big at Third Annual ESG Summit and Awards 2023 – honoured in three categories, PAYTM. https://paytm.com/blog/awards/paytm-wins-big-at-third-annual-esg-summit-and-awards-2023-honoured-in-three-categories/

activities.The foundation focuses on environmental sustainability, vocational training, skill development, Water, Sanitation, and Hygiene (WASH), as well as disaster response.

An exemplary initiative by Paytm is "Shikshit Bharat,[76]" designed to enhance the education and overall development of underprivileged children in India. The goal is to provide economically weaker sections of society with access to quality resources, education, and infrastructure, fostering academic excellence.In the realm of healthcare, Paytm has contributed by donating an oxygen plant to the Government Medical College of Kathua in Jammu & Kashmir. This plant can produce 300 liters of oxygen per minute and will be crucial for treating patients in intensive care.[77]

Additionally, Paytm has undertaken various initiatives such as Financial Literacy programs, Greenhouse Gas (GHG) Reduction, Climate GHG Emissions, and Energy Efficiency initiatives. These endeavors exemplify Paytm's commitment to effecting constructive change within society and the natural world.

Furthermore, in a demonstration of its commitment to environmental and social responsibility, PayU, an online payment service provider based in the Netherlands, has unveiled a series of initiatives focused on Environmental, Social, and Governance (ESG) throughout the year 2023. In the Indian context, PayU emerges as the favored payment collaborator for more than 450,000 merchants spanning diverse sectors, encompassing prominent e-commerce entities and a substantial segment of the aviation industry. These endeavors, constituting integral components of PayU's Corporate Social Responsibility (CSR) framework, are oriented towards fostering advancements in the nation's societal fabric.[78]

In observance of World Environment Day, PayU, in partnership with Prosus, has disseminated an extensive document entitled 'Scaling Sustainable Packaging'. This report delineates the prevailing waste management dilemmas in India and delineates a set of '10 Golden Rules tailored for e-commerce and delivery entities. These rules are designed to mitigate packaging waste, foster recycling initiatives, and stimulate inventive practices in regenerative materials.Additionally, PayU partnered with CSC Academy to launch a mobile van-driven campaign focused on financial and digital literacy. Targeting rural households, the

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[76] Id.
[77] One97 Communaication ESG Profile, PAY TM, https://paytm.com/company/sustainability/esg
[78] PayU Champions a Greener Tomorrow with Pioneering E SG Efforts, PR NEWSWIRE https://www.prnewswire.com/in/news-releases/payu-champions-a-greener-tomorrow-with-pioneering-esg-efforts-302029870.html

initiative aims to empower individuals aged 15 to 60, with a specific focus on SC-ST communities, those below the poverty line, differently-abled individuals, and women.

PayU also embraced the Distributed Renewable Energy Certificates (D-RECs) mechanism as a strategic move to support rural financial inclusion and environmental sustainability.[79]This endeavor entails the formal endorsement of E-Hands Energy's endeavor aimed at furnishing solar solutions to more than 920 rural banking institutions within the confines of India, thereby substantiating a commitment to the cultivation of a sustainable, low-carbon milieu, all the while advancing the cause of financial inclusivity.

V. WAY FORWARD

The increasing emphasis on Environmental, Social, and Governance (ESG) initiatives within organizations, particularly financial institutions (FIs), is portrayed as a significant transformation driven by consumer pressure, investor preferences, and regulatory demands. ESG is depicted as a structured framework for stakeholders to evaluate how organizations handle ESG issues. However, this portrayal may oversimplify the complexities of ESG integration and overlooks potential greenwashing or superficial compliance strategies adopted by some organizations to meet stakeholder expectations without a genuine commitment to sustainability.

ESG is no longer an optional consideration but an imperative aspect for FIs, as it addresses financial risks associated with climate change, workforce treatment, and executive behavior. Former UK Minister of Employment Guy Opperman argues that Environmental, Social, and Governance (ESG) considerations are now obligatory for Financial Institutions (FIs), citing their mitigation of financial risks related to climate change, workforce treatment, and executive conduct. However, Opperman's claims lack empirical support, potentially resulting in misguided corporate strategies and regulatory encumbrances. Moreover, assertions regarding consumer demand, regulatory pressure, and investor interest in ESG are unsubstantiated. While KPMG's findings suggest a preference for sustainable businesses

[79] Outlook Planet Desk, PayU Reports Major ESG Initiatives In 2023, OUTLOOK PLANET (Jan. 11, 2024) https://planet.outlookindia.com/news/payu-reports-major-esg-initiatives-in-2023-news-416795

among employees, Opperman's assertions lack robust evidence and may misguide decision-making.[80]

Considering this,Financial institutions must actively incorporate ESG into their payment systems. As a next step, FIsshould create plans for both short and long-term ESG projects and establish methods to monitor compliance. Adequate resources and management attention must be allocated. However, focusing solely on short-term goals and neglecting broader ESG commitments may result in incomplete or superficial compliance. Establishing a comprehensive road map and taking proactive steps are necessary, but failure to prioritize genuine environmental and social responsibility could undermine the effectiveness of these efforts.

Critics contend that integrating ESG principles could appear to impose supplementary financial and operational responsibilities on certain payment companies.However, if implemented effectively, it can enhance shareholder value and reputation. Yet, this viewpoint overlooks potential drawbacks, such as increased financial and operational complexities. Additionally, joining an ESG-focused market could entail fierce competition and regulatory scrutiny. While touted as beneficial, such strategies may not guarantee rapid growth or investor appeal. Therefore, caution is warranted in embracing ESG without thorough consideration of its legal implications and practical challenges.

In conclusion, the emphasis on ESG integration is not merely a passing trend but a significant change in how businesses operate and contribute to society and the environment. Financial institutions (FIs) in the payments industry must understand that ESG is not just a box to tick for compliance but a strategic necessity that can lead to long-term success. Embracing ESG principles positions these organizations as responsible managers of capital, appealing to ethical consumers, meeting regulatory standards, and attracting investments. The future success of payment companies is closely linked to their ability to adapt to the changing landscape, incorporating sustainability, social responsibility, and strong governance principles as essential elements of their operational framework.

[80] Survey of Sustainability Reporting 2022, KPMG, https://assets.kpmg.com/content/dam/kpmg/se/pdf/komm/2022/Global-Survey-of-Sustainability-Reporting-2022.pdf