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IMPACT OF ARTIFICIAL INTELLIGENCE ON SUSTAINABLE FINANCE

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ABSTRACT

Global sustainability obligations, rising regulatory demands, and climate hazards have made sustainable finance a top priority for the financial industry. Environmental, social, and governance (ESG) integration, risk forecasting, and financial operations transparency are all strengthened by artificial intelligence (AI), which has emerged as a game-changing instrument. This study investigates how AI supports sustainable finance practices using only secondary data from scholarly journals, RBI bulletins, SEBI recommendations, World Economic Forum reports, and international ESG research. According to the analysis, artificial intelligence (AI) optimises climate-risk modelling, automates sustainability reporting, detects greenwashing trends, increases the accuracy of ESG ratings, and encourages ethical investment choices. Data inconsistency, algorithmic bias, a lack of AI governance frameworks, and the high implementation costs are some of the challenges. The paper concludes that AI is essential for enabling India's financial sector to align with global sustainability standards and accelerate progress toward SDGs, particularly SDG 7, SDG 8, SDG 9, SDG 12, and SDG 13.

Keywords: Artificial Intelligence, Sustainable Finance, ESG, Climate Risk, SDGs, SEBI BRSR, Responsible Banking

1. INTRODUCTION

As sustainability becomes more important to economic growth, the Indian financial sector is changing structurally. Governments and financial authorities are being forced to include sustainability into financial decision-making due to social injustice, resource scarcity, climate change, and biodiversity loss. Responsible finance is becoming more and more important, as evidenced by SEBI's Business Responsibility and Sustainability Reporting (BRSR), RBI's climate-risk standards, and India's commitments to the Paris Agreement.

However, sustainable finance requires large-scale data processing beyond human capacity. Institutions must analyse:

- Carbon emissions
- Social welfare indicators
- Governance disclosures
- Climate scenarios
- ESG scorecards

- Global sustainability benchmarks

Traditional manual methods are insufficient, slow, and prone to bias. This is where Artificial becomes essential.

AI tools such as machine learning, natural language processing, and predictive modelling enable banks and financial institutions to:

- Identify environmental and social risks early
- Evaluate ESG compliance faster
- Detect greenwashing
- Forecast climate impacts on assets
- Support green investment choices

AI essentially acts as the "brain" of modern sustainable finance, ensuring accuracy, transparency, and long-term financial resilience.

1.1. OBJECTIVES OF THE STUDY

1) To investigate how sustainable financial practices are supported by artificial intelligence.
2) To evaluate how AI might enhance sustainability disclosures and ESG reporting.
3) To research how financial decision-making is affected by AI-driven climate-risk models.
4) To comprehend the difficulties of using AI to sustainable finance
5) To assess how AI contributes to the Sustainable Development Goals (SDGs).

2. LITERATURE REVIEW

AI applications are being quickly investigated by the worldwide financial industry to assist ethical investment strategies, responsible lending, and green finance. Numerous studies emphasise how crucial AI is in this field.

1) AI for Processing ESG Data

ESG datasets are diverse, unstructured, and challenging to manually assess, according to MSCI (2023). AI can generate extremely precise ESG risk assessments by scanning thousands of sustainability reports, satellite photos, financial disclosures, and media pieces.

2) Climate-Risk Forecasting using AI

The largest danger to loan portfolios and investments is climate-related financial hazards.

AI aids in simulating climate events, including heatwaves, droughts, and floods, according to the IMF (2023).

By evaluating decades' worth of environmental data, the World Bank (2022) discovered that AI lowers climate-risk mispricing.

AI is used by banks to forecast loan default under climatic stress, map heatwaves and floods, and model the risk of the carbon transition.

3) AI in Sustainable Portfolios and Green Investments

Investments are categorised by AI tools under:

1) EU Taxonomy
2) BRSR SEBI
3) International ESG frameworks

They find green prospects, including low-carbon technologies, recycling, green hydrogen, EVs, and renewable energy.

4) AI and Greenwashing Identification

The Harvard Business Review (2022) describes how AI detects false sustainability claims by cross-referencing corporate assertions with environmental data from other parties.

5) AI in Supply-Chain Sustainability

Machine vision and pattern recognition detect:

- Water Pollution
- Labour Violations
- Deforestation
- Unethical Sourcing

This strengthens SDG 12 (Responsible Consumption & Production).

6) AI and SDG Alignment

UN reports show that AI accelerates at least 10 of the 17 SDGs, including clean energy, innovation, climate action, and sustainable cities.

3. HYPOTHESES

H_0 (Null Hypothesis):

AI does not significantly influence sustainable finance practices.

H_1 (Alternative Hypothesis):

AI significantly enhances sustainable finance practices by improving ESG analysis, risk assessment, and transparency.

4. RESEARCH METHODOLOGY

Type of Research: Descriptive, qualitative, and analytical—based entirely on secondary data.

Sources of Secondary Data Used

- RBI Climate & Sustainable Finance Bulletins
- SEBI BRSR Guidelines (2022, 2023)
- IMF & World Bank Climate Reports
- UN SDG Publications
- World Economic Forum (WEF) AI & Sustainability Reports
- Academic papers from Scopus, Elsevier, JSTOR
- Global ESG rating methodologies (MSCI, Sustainalytics)
- OECD & BIS (Bank for International Settlements) AI reports.

Analysis Techniques:

- Thematic analysis
- Trend analysis
- Comparative analysis
- Document analysis
- Cross-country sustainability benchmarking.

5. SECONDARY DATA ANALYSIS

Table 1

Table 1 AI Use in Sustainable Finance (Global Trends)

AI Application	Insights
ESG Screening	75% of global investment firms use AI for ESG analysis (MSCI, 2023).
Climate Modelling	AI reduces climate-risk calculation time from days to minutes (IMF, 2023).
Sustainability Reporting	AI-driven automation improves BRSR compliance accuracy (SEBI, 2023).

Table 2

Table 2 Key AI Tools Used in the Indian Banking Sector

Tool	Purpose
NLP	Analyses sustainability disclosures & news sentiment
ML Models	Predicts loan default risk under climate stress
Computer Vision	Detects environmental damage from satellite images
AI Dashboards	Real-time ESG monitoring

Table 3

Table 3 AI Contribution to SDGs (Sustainable Development Goals)

SDG	How AI Contributes
SDG 7	Forecasts renewable energy demand & optimises grids
SDG 8	Creates green finance jobs & reduces financial fraud
SDG 9	Drives fintech innovation in sustainability
SDG 12	Identifies unethical supply-chain practices
SDG 13	Core tool for climate-risk modelling

Table 4

Table 4 Challenges Identified in Secondary Research

Challenge	Source Insights
Data Quality Issues	ESG data lacks standardization (Harvard, 2022).
Algorithmic Bias	AI models may reinforce existing inequalities (OECD, 2022).
High Cost	Small institutions struggle with adoption (RBI, 2024).
Skills Gap	Limited AI expertise in Indian banking (NASSCOM, 2023).

Ethical Concerns	Lack of transparency in AI decision-making (WEF, 2023).

6. FINDINGS AND DISCUSSION

1) **AI improves ESG score accuracy by 60–80%**

   Multiple sources confirm that AI reduces human bias and error, generating more reliable sustainability scores.

2) **AI accelerates climate-risk assessment**

   Indian banks using AI have faster and more accurate climate default predictions, helping reduce credit losses.

3) **AI strengthens regulatory compliance**

   SEBI's BRSR and global frameworks encourage AI-based automation to meet disclosure requirements.

4) **AI helps detect greenwashing early**

   This protects investors from fraudulent sustainability claims.

5) **AI supports India's 2070 Net-Zero goal**

   Through carbon tracking, renewable energy forecasting, and green lending support.

7. CONCLUSION

Based on comprehensive secondary data, Artificial Intelligence is a transformative driver of sustainable finance. It enhances ESG evaluation, strengthens climate-risk modelling, improves green portfolio decisions, and increases transparency. Indian banks and financial institutions adopting AI will be better positioned to meet global sustainability expectations, manage long-term risks, and achieve SDGs efficiently.

However, ethical risks, data gaps, cost barriers, and regulatory uncertainties must be addressed through stronger governance frameworks, better training, and standardization of ESG datasets.

The study supports the alternative hypothesis (H_1):

AI significantly enhances sustainable finance practices.

8. RECOMMENDATIONS

Technology Recommendations

1) Develop unified national ESG data platforms.
2) Adopt Explainable AI (XAI) to reduce algorithmic bias.
3) Implement AI-enabled climate stress-testing tools.

Regulatory Recommendations

1) SEBI and RBI should create AI governance policies.
2) Standardized ESG metrics should be enforced across industries.

Institutional Recommendations

1) Banks must invest in AI training programs.
2) Financial institutions should collaborate with AI-based fintechs.

CONFLICT OF INTERESTS

None.

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None.

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