

Transparency Trends: Evaluating HDFC Bank's Sustainability Disclosure Practices

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Abstract

In recent years, sustainability has emerged as a critical dimension of corporate responsibility and governance. Companies are increasingly expected to not only deliver financial performance but also demonstrate their commitment to environmental, social, and governance (ESG) factors. HDFC Bank, as a prominent player in the Indian banking sector, holds a strategic position in the country's financial landscape and plays a pivotal role in shaping sustainable practices within the industry. HDFC Bank is the top private sector bank in India by market capitalisation. This research employs a mixed-methods approach, combining qualitative and quantitative analyses. It involves an in-depth examination of HDFC Bank's annual reports, sustainability reports, corporate governance documents, and other relevant disclosures for the financial year 2021-22 and 2022-23. The reason behind selecting this time period is the shift of sustainability reporting from voluntary practise to mandatory practise. The analysis will encompass various aspects of sustainability, including environmental impact, social responsibility initiatives, corporate governance practices, and adherence to global sustainability standards and frameworks. The findings will shed light on the bank's transparency, accountability, and efforts towards sustainable development.

Keywords: Sustainability, Disclosures, HDFC Bank, Transparency, ESG

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I. Introduction

In today's globalized and rapidly evolving business landscape, corporations are under increasing scrutiny from stakeholders and the public to not only deliver strong financial performance but also to demonstrate their commitment to sustainability and responsible business practices. Sustainability reporting, encompassing environmental, social, and governance (ESG) factors, has emerged as a crucial tool for organizations to communicate their efforts towards responsible and ethical operations. This shift towards sustainability is particularly evident in the banking sector, where financial institutions play a pivotal role in fostering economic stability and sustainable development. HDFC Bank, one of India's leading private sector banks, has consistently been at the forefront of innovation and has maintained a reputation for financial excellence. However, the scrutiny on banks is not limited to financial metrics alone; it extends to their ability to integrate sustainability considerations into their core business strategies and to transparently disclose their ESG practices to the public.

This paper seeks to delve into the disclosure practices of HDFC Bank, a prominent player in the Indian banking sector, with a particular focus on its sustainability reporting. This study aims to provide valuable insights into the bank's commitment to sustainability and corporate social responsibility. The study begins by exploring the concept of sustainability reporting and its relevance in the banking industry, highlighting the growing importance of ESG factors in the evaluation of financial institutions. Subsequently, it delves into HDFC Bank's sustainability journey, tracing the evolution of its sustainability practices and the frameworks it adheres to for reporting. In an era where responsible banking practices are integral to long-term success and competitiveness, this paper endeavours to shed light on HDFC Bank's role as a sustainability-conscious financial institution and the effectiveness of its disclosure practices in meeting the expectations of an increasingly ESG-aware world.

Objectives

- To explore the sustainability related disclosure practices of HDFC Bank.
- To present a comparative view of the sustainability efforts of HDFC Bank in F.Y. 2021-22 and 2022-23.

II. Methodology

Descriptive research design is used to achieve the objectives of the study. Both quantitative and qualitative techniques are used to analyse the disclosure practices of HDFC Bank, related to sustainability.

Sources of Data

Secondary sources of data have been used in the present study and for this purpose data has been collected from the annual reports, sustainability reports, stock exchange website, official website of the bank and other interim reports.

Scope of the study

HDFC Bank being the top private sector bank in India by market capitalisation, considered for the present study. The time period considered for the study is financial year 2021-22 and 2022-23. The reason behind selecting this time period is the shift of sustainability reporting from being voluntary to becoming mandatory.

Disclosures Practices

Following are the disclosures of HDFC Bank for the financial year 2021-22 and 2022-23. The disclosures are not categorised as mandatory disclosures and voluntary disclosures, both mandatory and voluntary disclosures are put together to provide a comprehensive view of the disclosures in respect to sustainability. When considering the year 2021-22, the Business Responsibility and Sustainability Reporting was voluntary for the Bank. So, it can be considered that the disclosures made under the BRSR in 2021-22 are voluntary disclosures of the bank for the year. The disclosures are however categorised into Environment, Social and Governance aspect to provide a distinctive sectorial disclosure:

III. ENVIRONMENT

- **Renewable Energy-** The bank continues to invest in renewable energy and energy efficiency projects in order to reduce its carbon footprint.
- **Recycle of Waste-** 293.89 Tonnes of total waste recycled in 2022-23.
- **Replacing Single Use Plastic-** The bank has replaced single use plastic bottles with multiple use bottles and glass jars across all meetings and video conferencing rooms.
- **Increasing Energy Efficiency-** Some of the measures adopted to save energy are: use of new generation hardwares, upgradation to energy efficient cooling systems.
- **SEMS-** The bank has a use a SEMS (Social & Environmental Management System) framework to analyse social and environmental credit risks. This system works independently and reports directly to the managing director. And as a rule, the bank do not fund projects that have a negative impact on the environment, health, or safety.
- **GHG-** Green House Gas (GHG) emissions are verified by third-party auditors.
- **Carbon Footprints-** HDFC Bank has committed to becoming carbon neutral by FY32. ESG is being made an integral part of its credit assessment process. While assessment of environment and social factors has been a part of credit diligence, particularly in project financing above a certain threshold. The bank has recently introduced a comprehensive ESG assessment framework in corporate lending and with a wider target coverage. The objective at this stage is to create more awareness among corporate borrowers, assess their position and understand their initiatives on ESG. In 2023, the bank is implementing a strategy towards achieving the objective of becoming carbon neutral, with interim milestones. Right now, the bank is focused on increasing awareness among its corporate borrowers and understanding where they are in their ESG journey. The bank mentioned in its annual report: "Going forward, we would be looking to make it one of the key criteria in credit decisioning."
- In F.Y. 2022-23, energy intensity stood at 11.40 GJ/FTE which is more the previous year. However, the bank mentioned in its report that it is due to full scale office based operation as compared to a significant proportion of workforce working from home due to COVID-19 restrictions.
- **Plantation-** We have made progress on energy consumption, emissions and tree plantation initiatives and aim to stay the course in the coming years. Bank reported plantation of 17.69 Lakh+ trees as of 31 March 2022.

IV. SOCIAL

- **Stakeholder Inclusiveness-** HDFC Bank has identified following group of stakeholders: Communities, Investors (other than shareholders), shareholders, Employees and Workers, Customers, Value Chain Partners, and Others (Ex-Employee, Off Role Staff, Third Party, Ex-Employee of Customer). The bank actively incorporated whistle blower policy and received complaints from every group actively. In response, bank effectively resolved the complaints from the stakeholders. Through its various committees, the Board is provided regular updates on feedback received from stakeholders on economic, environmental, and social topics - which serves as inputs for decision-making by the Board. The Bank engages with its key stakeholders

on an ongoing basis to identify the most pertinent environmental and social topics of interest to its stakeholders and address them through regular updates to policies and programs.

- **Employment-** Contribution to the society by providing employment to 21486 people in year 2021-22 and 31643 people in 2022-23.
- **Women Empowerment-** Women empowerment can be observed through 19.06% of women employees in 2021-22 and 22.62% in 2022-23. Bank has aimed to raise the female representation to 25% by 2025.
- **Employee Welfare-** bank assures more than minimum wages to 100 percent of its employees. 100 percent employees are covered under medical insurance and accidental insurance. The bank also run an Employee Welfare Trust which is primarily set up to support employees in case of emergencies where the expenses extend beyond the Mediclaim cover that the bank provide to all employees and their families. During the pandemic, support from the trust was generously extended to all employees who needed it.
- **Pandemic Recovery-** Considering the challenges faced in recent times particularly post COVID, we continue to prioritize the health and safety of our employees and their families: Bank continues to support families of deceased employees through a comprehensive compassion package consisting of offer of employment to a family member, financial support for children education etc.
- **CSR-** The bank has CSR initiatives under the name PARIVARTAN, where the key focus areas are: Rural development, Promotion of education, Skill development and livelihood enhancement, Healthcare and hygiene etc. the initiatives are in line with the United Nations Sustainable Development Goals 2030. Some of the key highlights of CSR practices of the bank are:

Financial Year 2021-22

- Planted over 17.69 lakh + trees.
- Over 23500 sanitation units constructed.
- 1.18 lakh health camps organised.
- Trained over 8 lakh women entrepreneurs and 8470 SHGs in rural India with an aim of empowering women.
- Trained over 19 lakh teachers.

Financial Year 2022-23

- Target is to bring 1 Lakh acres of uncultivated land under cultivation by facilitating irrigation.
 - Training programmes aim to educate farmers on various agricultural techniques that improve productivity. Also aimed to bring 1 Lakh acres of farmland under chemical-free farming by FY25.
 - Sanitation units constructed across India: 24,500
 - To convert 3,500 traditional schools to smart schools.
 - Individuals reached: 1.76 Crore for financial literacy.
 - Villages reached under HRDP (rural development) - 3,399
- **Cyber security and data risk:** Bank is committed towards protecting privacy of customer's personal data. Adapting and updating Cyber Defence framework, using AI/ML to further augment cyber defence capabilities to counter new-age threats. Increase information security awareness among employees and customers through specific programmes and communications. The bank has a dedicated Information Security Group headed by the Chief Information Security Officer and an Information Security Committee chaired by the Chief Risk Officer for exercising governance over these matters.
 - **More Inclusiveness-** The bank is committed to improving our infrastructure and services to be more inclusive of people with disabilities. Its ATMs have voice-guided systems and Braille keypads to assist visually impaired customers, and the bank is increasing the number of ATMs with ramps for wheelchair users.
 - **Financial Inclusion-** In terms of financial inclusion bank reports- "We see this as an opportunity to broaden our reach and make our products and services more accessible."

V. GOVERNANCE

- **Composition of the board-** optimum combination of executive and non-executive directors with independent women director in both the years. Also provided brief profile of the board of directors and their attendance in the board meetings and AGM.
- **Audit Committee-** Bank has a qualified and independent audit committee with the charters as per the regulatory standards. CS of the bank acts as the secretary to the audit committee.
- **Committees-** The bank has constituted several other committees to strengthen the governance of the bank like Nomination and Remuneration Committee, Fraud Monitoring Committee, Stakeholders Relationship Committee, Customer Service Committee, Wilful Defaulters Identification Review Committee, Corporate Social Responsibility & ESG Committee etc.

- **Meetings-** The meetings of the committee and presence of the members of the committee suggest active involvement of the committees.
- **Whistle Blower Policy-** The bank also has the vigil mechanism. In 2021-22, total of 147 complaints have been filed out of which 107 have been solved. However, 40 complaints were pending for resolution at the year end. In 2022-23, total of 177 complaints were filed, out of which 123 have been resolved. However, 53 remained pending at the year end. 40 complaints pending at the end of 2021-22 were solved by the year ending 31st March 2023.
- Some of the non-mandatory disclosures that the bank disclosed in the annual report are:
 - Bank publishes its performance reports on its website which is accessible to the public at large. Also the quarterly and half yearly results are published on two newspapers having nationwide circulation.
 - Reporting of the internal auditor of the bank to the audit committee.
 - The bank also published the ownership rights of the shareholders and the policies of the bank to maintain such rights in the annual report.
- **Business Responsibility and Sustainability Reporting (BRSR)** - BRSR was voluntary for the year 2021-22 and mandatory for the year 2022-23. However, the bank effectively reported the BRSR as a part of its annual report in 2021-22.
- **Credibility:**
 - Internal Assurance- Message from the MD and CEO.
 - External Assurance- sustainability report is verified by third-party auditors in accordance with the International Standard.
- Overall, it can be concluded that the bank has effective corporate governance practices and facilitating transparency through proper disclosures.

VI. COMPARISON

Financial year 2021-22 was one of the initial years for HDFC Bank in respect of sustainability reporting as per the new regime. The BRSR was voluntary for the financial year 2021-22 but HDFC bank did not fail to comply with it. However, the extent of disclosures was limited. In financial year 2022-23, disclosure of the bank was comprehensive. Disclosures regarding minimum wages payment, stakeholders engagement, anti-corruption policy, training and awareness programs, and apex body responsible for sustainability related issues were found to be detailed and comprehensive in financial year 2022-23 as compared to financial year 2021-22.

VII. CONCLUSION

HDFC Bank, as one of the leading financial institutions in India, has recognized the importance of transparency. The comprehensive disclosure of environmental initiatives, community engagement, and governance principles highlights the bank's commitment to long-term value creation and responsible banking. The comparative analysis between 2021-22 and 2022-23 revealed some promising trends. Disclosures in 2022-23 is more detailed and comprehensive as compared to 2021-22. There is an upward trajectory in the volume and quality of disclosures, suggesting an enhanced commitment to sustainability practices. This progression aligns with the global shift towards sustainability and ESG-conscious banking, driven by regulatory imperatives, investor expectations, and the imperative to address pressing global issues such as climate change and social equity. Overall, HDFC Bank's disclosure practices in the context of sustainability have come a long way, with encouraging developments between 2021-22 and 2022-23. The future will undoubtedly witness a more pronounced commitment to sustainability, driving positive change not only within the bank but across the industry as a whole. This paper serves as a valuable contribution to the ongoing dialogue on corporate sustainability and the importance of disclosure in this journey.

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