Finanziato dall'Unione europea
NextGenerationEU

Ministero dell'Università e della Ricerca

Italiadomani
PIANO NAZIONALE DI RIPRESA E RESILIENZA

Finanziato nell'ambito del Piano Nazionale di Ripresa e Resilienza PNRR. Missione 4, Componente 2, Investimento 1.3 Creazione di "Partenariati estesi alle università, ai centri di ricerca, alle aziende per il finanziamento di progetti di ricerca di base"

GRINS FOUNDATION

GRINS – Growing Resilient, INclusive and Sustainable

"9. Economic and financial sustainability of systems and territories"

Codice Identificativo: **PE00000018**

Finanziato nell'ambito del Piano Nazionale di Ripresa e Resilienza PNRR Missione 4 – Componente 2

SPOKE 4

D4.1.3 – Addressing greenwashing in the banking industry

May 2025

Addressing greenwashing in the banking industry

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Context and Importance of the Issue

Greenwashing — the practice of misleading consumers and stakeholders about a company's environmental practices (Delmas & Burbano, 2011) — has emerged as a significant concern within the banking sector. Banks play a critical role in financing the transition to a low-carbon economy but often overstate their environmental commitments without substantive action (Finger et al., 2018). This undermines consumer trust, misallocates capital, and delays meaningful progress toward sustainable development goals (Deschryver & De Mariz, 2020; Galletta et al., 2024). As the pressure to meet ESG standards grows, so too does the risk that banks engage in deceptive sustainability reporting (Khan et al., 2021).

Methodology

Using the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) framework, the authors conducted a systematic review of 19 peer-reviewed academic articles (1999–2023) sourced from Web of Science and Scopus. A bibliometric analysis and keyword co-occurrence clustering were conducted using VOSviewer. The analysis revealed several critical insights. First, greenwashing is prevalent in the banking industry, with institutions often emphasizing sustainability in their communications without implementing substantive changes, particularly in their financing of high-emission industries. Second, key drivers of greenwashing include pressure to meet ESG targets, regulatory gaps, and stakeholder expectations. Third, the consequences of greenwashing are far-reaching, eroding consumer trust, misallocating capital, and delaying genuine sustainability efforts. Finally, the study identified significant research gaps, particularly the lack of standardized sustainability metrics and insufficient regulatory oversight, which exacerbate the problem.

Key Findings

- **Thematic Clusters Identified:** Two main research strands emerged — finance-focused (e.g., green bonds, ESG investment) and management-focused (e.g., CSR, disclosure, corporate governance).
- **Common Greenwashing Tactics:** Vague environmental claims, symbolic CSR actions, and superficial ESG reports.
- **Motivations for Greenwashing**: Pressure from stakeholders, reputational incentives, and regulatory gaps.
- **Negative Outcomes:** Erosion of public trust, financing of polluting firms, and ESG dilution.

Policy Implications

The findings suggest that voluntary sustainability practices in banking are insufficient to ensure accountability. Inconsistent environmental definitions and weak regulatory oversight allow greenwashing to persist, jeopardizing genuine sustainability efforts. Misleading sustainability disclosures can redirect investments away from truly sustainable ventures and erode stakeholder confidence.

Recommendations

To combat greenwashing effectively, policymakers should consider several key recommendations:

- **Standardization of Sustainability Metrics**: Develop uniform taxonomies and disclosure guidelines for green finance (e.g., EU Green Taxonomy).
- **Independent Verification**: Mandate third-party certification of sustainability claims to increase credibility.
- **Stricter Regulatory Oversight:** Enforce ESG compliance through legal frameworks, audits, and penalties.
- **Incentivize Authentic Green Finance:** Link access to favorable capital or subsidies with verifiable environmental performance.
- **Enhance Stakeholder Education:** Empower consumers, investors, and civil society with tools to assess sustainability claims critically.

Implementation

Implementing these recommendations requires a phased approach. In the short term, pilot programs could introduce mandatory disclosure rules for high-risk sectors, such as energy financing. Medium-term efforts should focus on establishing an international body to oversee and standardize green finance practices. Over the long term, integrating anti-greenwashing measures into broader climate policy frameworks, such as the Paris Agreement, would ensure sustained progress.

- National Financial Regulators should coordinate with central banks to integrate ESG metrics into supervisory frameworks.
- International Organizations (e.g., IMF, World Bank, UNEPFI) can facilitate cross-border harmonization of sustainability standards.
- Banks should embed sustainability across credit, investment, and reporting practices, not merely in public-facing communications.
- Academic and NGO Collaboration can monitor ESG compliance and track progress transparently.

Conclusion

Greenwashing in banking poses a tangible risk to sustainable finance and climate goals. This study highlights the need for regulatory rigor, transparency, and accountability in banking practices. The transition to sustainable banking requires systemic reforms, interdisciplinary collaboration, and vigilant stakeholder engagement. By addressing greenwashing, trust in sustainable finance can be restored, capital can be directed toward legitimate green initiatives, and global climate goals can be advanced.

Acknowledgement

This study was funded by the European Union - NextGenerationEU, in the framework of the GRINS -Growing Resilient, INclusive and Sustainable project (GRINS PE00000018 – CUP E63C22002120006). The views and opinions expressed are solely those of the authors and do not necessarily reflect those of the European Union, nor can the European Union be held responsible for them.

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