

Sustainable Banking Models Inspired by Ancient Indian Economic Thought:

Blending tradition with sustainability in modern finance.

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Abstract – Recent years in the global financial sector have emphasized a shift toward sustainable practices, which have prompted a rethinking of traditional banking. Sustainable banking has become an approach that combines principles of environmental accountability and ethical governance with an emphasis on inclusive economic development through Environmental, Social, and/or Governance (ESG) principles. However, although sustainable practices have begun to emerge within the banking sector, many of today's banking systems treat sustainability as a mere addition to the financial process rather than a part of normal operations.

In this research study, the author examines how the sustainable banking model is built using ancient Indian economic philosophies, such as the ethical or social concerns regarding sustainable practices, the use of prudent financial management to help ensure the long-term stability of the financial system, and the use of regulatory mechanisms. This research uses the principles outlined in the Arthashastra to analyse several dimensions, including ethical decision making or Dharma, prudent financial management, regulatory controls, and welfare-oriented policies.

In addition to identifying many similarities between ancient and modern financial systems (e.g., use of credit instruments, decentralized financial institutions, and reserves), the author has identified several important limitations of contemporary sustainable banking practices (e.g., inconsistent implementation of sustainable banking policy, lack of stakeholder involvement in the development of sustainable banking practices, and weak ethical integration into sustainable banking practices).

In order to fill these gaps, our research has developed a conceptual model of hybrid banking that combines ancient Indian economic concepts with contemporary ESG frameworks and technology. The findings indicate that integrating indigenous knowledge systems with modern banking may provide improved ethical alignment, resilience, and sustainability. The results also demonstrate that the hybrid banking model provides an additional and practical framework for policy makers and financial institutions to achieve

sustainable finance and long-term, inclusive economic development.

Keywords: Sustainable Banking, Ancient Economics, IKS, ESG, Ethical Finance, Financial Sustainability.

1. INTRODUCTION

The banking industry worldwide is changing rapidly because of increased demand for sustainability, ethical governing and stable long-term finances. Sustainable banking (according to Environmental (E), Social (S) and Governance (G) principles) has become a new paradigm, but still has ethical lapses, financial crises and insufficient integration of sustainability as core operating principles in the banking industry.

In sharp contrast, ancient Indian economics has a wholistic approach to finance where it is intimately related to ethics, social welfare and the environment. Texts such as Arthashastra have lessons on creating wealth in a responsible manner that contributes positively to the general welfare of society. These principles are highly relevant today to sustainable finance.

This study will examine how the foundation of ancient Indian economics can be utilized today [in conjunction with modern banking], to produce a more resilient, inclusive and sustainable financial system. This research will establish a framework examining the similarities and differences between these two systems and propose a hybrid banking model which brings together ethical governance and technological development to provide a platform for the development of a new paradigm of sustainable banking.

Objectives of the Study:

- To examine the core principles of ancient Indian economic thought, including Dharma, Yogakshema, and Arthashastra-based governance, and their relevance to modern banking.
- To analyze the effectiveness and limitations of current sustainable banking practices, particularly ESG frameworks.
- To identify major challenges in modern banking

systems, such as greenwashing, lack of ethical integration, and short-term profit orientation.

- To develop a hybrid sustainable banking model integrating ancient Indian economic principles with modern ESG and technological frameworks.
- To evaluate the impact of the proposed model on financial stability, stakeholder trust, and inclusive economic growth.

1.1 Ancient Indian Banking Practices

In the ancient era of India, the banking system was highly established and had a variety of banking instruments (hundis being one of them), as well as institutions like merchant guilds. The principles of financial accountability, regulation, and fraud prevention were established in the

Arthashastra. Unlike today's profit-driven banking systems, ancient banks would engage in business activities with economic efficiency and ethical (dharma) considerations, resulting in socially and economically responsible financial decisions.

1.1.1 Key Characteristics

Ethical (Dharma) basis of financial transactions to ensure fairness and accountability
Decentralized system of banking through guilds, improving access
Very strong risk management (diversification, reserves, and contingency planning)
Emphasis on equitable distribution of wealth and social welfare
Sustainable way of doing business over just making short-term profits

1.1.2 Disadvantages

Limited ability to use modern technology
Local in nature, limiting accessibility
No standardized global system for banking
Banking based on trustworthy exchanges.

1.2 Sustainability within Today's Banking Systems

The advent of new technologies has changed the face of modern banking. Today we have access to a variety of electronic forms of payment, numerous green financing options, and an ability to operate without paper. Sustainable Banking provides an ESG-based assessment of banks to determine whether they will provide environmentally sustainable banking products or services, provide equal opportunity banking for all customers, and support the development of a country's economy. Despite the inclusion of sustainable practices into the core functions of banks today, the extent of sustainability within the banking system is still developing.

1.1.3 Advantages

Supports sustainability in the environment
Diversity in financial inclusion
Increases risk management due to an ESG approach
Enhancement of the reputation of the company and trust among stakeholders
Long-term profit potential

1.1.4 An issue with integration

Modern banking systems concern themselves mostly with efficiency and technology, without the ethical base to support them. Ancient Indian thought offers a values-centric approach to doing business with an emphasis on ethics and governance, as well as the long-term benefit of society.

Hybrid model using:

Dharma (principles of ethical governance)
Arthashastra (systematic regulation)
ESG framework
Technology innovation

Makes it possible to resolve the above challenges, and develop a more stable, inclusive, and sustainable banking system.

LITERATURE REVIEW

1. Sustainable Banking Introduced

Sustainable banking has developed as an essential part of the contemporary finance system, learning ESG principles (Environmental, Social, and Governance) into banking procedures and decision-making processes. In contrast to conventional banks, which primarily concentrate on generating profit and providing a return to shareholders from this profit, sustainable banks focus on generating long-term value for society and the earth. Weber (2017) describes sustainable banking as incorporating both financial profitability and performance with the welfare of people and ecological systems.

International agencies increasingly recognize how financial organizations play a role in attaining sustainable development objectives. Reports produced by international agencies describe how banks function as intermediaries to direct finance to projects that are environmentally sustainable and socially responsible. Banks in India are beginning to adopt green practices such as paperless banking, energy-efficient buildings, and green lending initiatives (Shaumya and Arulrajah, 2017). However, the degree to which institutions have implemented these practices varies substantially among banks, indicating considerable variation in the rates of implementation.

While progress has been made toward sustainable banking, the majority of sustainable banking remains compliance-based

as opposed to value-based. Many banks that implement ESG practices do so in response to meeting statutory or regulatory compliance, not as a means to create added value to their overall business plan.

2. The Development of Banks and Banking in Ancient India

Historical records indicate banking took place in India in ancient day prior to the establishment of modern finance institutions. According to Rangarajan (1992), financial instruments (e.g., hundis [credit notes]) and trade and credit facilitating merchant guilds (shrenis) existed to provide services like those provided by today's banks (lending, deposits, shared risk).

The Arthashastra, by Kautilya, sets out forth rules and regulations related to economic governance (taxation and public finance, etc.) and trade regulations. It prescribes systematic approaches to financial administration, which include accountability, transparency, and fraud prevention; thus, providing evidence that the organization and sophistication of ancient Indian economic systems was quite complex.

In addition, Sihag (2009) contends that ancient Indian economic theory provided an integrated view of ethics, government and economic efficiency, whereas in most modern economic systems, these perspectives are generally separated within the three systems. Hence, the ancient Indian economic theory ensured a moral/societal perspective be involved when participating in the economy.

3. Ethical Foundations: Dharma and Economic Thought

Ancient India had economically integrated Dharma (moral) with the economy as part of their ancient system of economics. Dharmanomics expected that decisions made regarding economics would be governed by moral guidelines that allowed for equitable and fair financial transactions between people. This moral backbone of the Dharmanomic system prevented corruption and distinguished between trustworthy and untrustworthy transactions in the economic system.

Dharma's moral sovereignty over wealth creation meant that the economy could grow without negatively affecting the welfare of society as a whole; thus, wealth creation can be seen as a means to support the common good of all. Conversely, modern profit-driven models of wealth generation tend to disregard any form of ethical principles when developing profits.

ESG Frameworks, in current day banking, attempt to apply the same ethical beliefs that governed ancient India's economy;

however, the application of these ethical beliefs is usually only skin-deep, lacking the depth and consistency that existed in ancient Indian economy systems. Therefore, the relationship between economic activity and responsibility in ancient India serves as a starting point for developing modern sustainable banking practices.

4. Governance and Regulatory Frameworks

During ancient India, governance was a key component of their economy. The Arthashastra sets forth the rules on how to regulate the financial transactions that occur in markets as well as monitoring and enforcing laws to prevent misconduct. According to Boesche (2002), regulatory structures in ancient India have many similarities to those utilized today by modern regulators.

Three key governance principles that are of great significance in ancient India include:

1. Financial transaction transparency
2. Economic agent accountability
3. Measurement and management of risk

The three principles above closely resemble those found in today's regulatory framework, such as the Basel III regulatory framework or the regulations placed on central banks. Strict governance placed a high level of importance on creating stability in the economy and reducing the likelihood of financial crises.

As opposed to ancient India's banking systems, modern banking systems can have many regulators, yet their ability to enforce rules and encourage ethical compliance creates challenges. This suggests that while we have the structures to establish regulations; their effectiveness is dependent upon the ethical standards within the organisations involved.

5. Risk Management & Financial Stability

Risk management has been an integral part of banking throughout history. Research by Sachdev (2025) shows that risk mitigation strategies such as diversification of assets, creation of reserves, and contingency planning have been consistently implemented in Ancient Indian economic systems to provide financial stability and resiliency during times of economic uncertainty.



Maintaining reserves to provide liquidity when emergencies occur can be compared to today's capital adequacy requirements, while liquidity management in Ancient Indian economic systems illustrates an understanding of the need for sufficient availability of funds to fulfill obligations.

In today's world, banks have developed advanced tools and strategies for managing risks, however, because there are still instances of financial crisis resulting from excessive risk-taking and the pursuit of short-term profits, implementing the long-term orientation of Ancient Indian financial systems can assist today's banks in achieving stability.

6. Social Welfare and Inclusion in Banking

The economic philosophies of Ancient India have a strong focus on promoting the welfare and well-being of society by creating equitable distribution of resources among all citizens. The Arthashastra recommends that the government need to be involved whenever there is an economic crisis, helping out by implementing tax relief or spending tax money on projects that help the most vulnerable people of society. Ancient Indian economic principles demonstrate an underlying philosophy of inclusive economic development.

In addition, since developing countries have sustainable banking institutions today that are designed with a focus on financial inclusion, these institutions want to help under-served communities gain access to financial services. However, despite these intentions, there remain many barriers to accessing financial services — such as low outreach and unequal access.

Because there is a significant amount of overlap between the principles espoused by ancient Indian economists and those espoused by modern day sustainable banking institutions, it is possible to use ethically and welfare-based principles of economic development to create better outcomes of sustainable banking development initiatives.

7. Ancient Philosophies on the Environment

According to an ancient philosophy in India, Environmental sustainability was fundamental; due to business activity being part of Nature and also using available resources in an efficient manner was expected. In contrast to today's systems, Environmental considerations often come second to an Economic objective.

Current Green Banking practices that emphasize ecological balance support ancient India's approach to sustainability by allowing for funding of renewable energy projects and reducing

environmental impact. Building on the concept of using economic resources in an environmentally sustainable way as part of making decisions has provided ancient systems with a holistic approach to developing sustainably.

8. Sustainable Banking Practices in India

Recent studies show that many banks have begun implementing a variety of sustainability initiatives. They include:

- Green financing
- Digital banking to minimize paper usage
- Corporate Social Responsibility (CSR) activities

However, there are still several challenges to effective implementation. These include:

- Lack of awareness of what sustainable banking is
- Not enough regulatory enforcement
- Low levels of customer engagement with their banks

All these challenges reveal the limitations of some of the current methods being used and illustrate the continuing need for a stronger ethical framework in banking practices.

9. Coalescence of Ancient Knowledge with Modern Banking Practices

Recent studies show that when ancient Indian Knowledge Systems (IKS) are combined with contemporary banking systems, sustainability and resilience may be enhanced. According to Sachdev (2025), ethical governance and long-term thinking found in ancient knowledge systems may strengthen current financial institutions.

A hybrid banking model with both ethical aspects and governance aspects of the Arthashastra (Indian). And include ESG (environmental, social and governance) criteria, can provide a more complete and sustainable financial system. By providing a bridge between traditional knowledge and modern practices, this integrated system offers a new way to approach sustainable banking.

10. Research Gaps in Sustainable Banking Practices

Sustainable banking is not well researched in relation to Ancient Indian Economics and vice - versa. Current studies examine modern ESG methodologies as well as historical financial systems; few if any look at how these two subjects can be integrated.



There exists a significant opportunity to create hybrid sustainable banking models that leverage Ancient Indian Economics with contemporary banking practices. Filling this gap in knowledge will create more ethical and economically viable financial systems.

Methodology:

To have a comprehensive view of how classical Indian philosophy connects to modern banking practices that support sustainable development, we want to create our research design using the qualitative and conceptual methods of research. Although the focus will be primarily descriptive and exploratory, we plan to explore the existing systems and develop a hybrid model.

Research Design:

Our study is based primarily upon theoretical/descriptive comparisons of the ancient Indian economic principles and the modern ESG banking systems.

Data Collection:

Our research is made up of secondary sources that we have compiled from:

- Academic Journals / Research Papers
- Books/Classical Texts, including the Arthashastra
- Reports from Financial Institutions / Global Organizations
- Published Articles about Sustainable Banking and ESG Frameworks

Data Analysis:

For the data analysis process, a thematic and comparative approach was used to: Determine major principles of the Ancient Indian Economic Thought

Identify the major characteristics of the Modern Sustainable Banking Practices Discover Gaps/Limitations within the existing systems

Establish Links between Ancient and Modern Systems

Model Development:

Upon completing the analysis, we put together a hybrid conceptual banking model by combining all of the following:

- Dharma-Ethics
- Governance framework(s)-Arthashastra
- ESG Standards

- Technological Improvements in Banking

Limitations of the Study:

This study relies on a review of theoretical concepts and literature from past studies without adding any original empirical information or testing. Therefore, it provides a solid theoretical base for future researchers conducting their own empirical research studies.

Problem Statement

The banking sector, despite increasing global interest in environmentally sustainable banking and the implementation of Environmental, Social, and Governance (ESG) practices, continues to have considerable obstacles towards achieving long term sustainability. The banking sector continues to operate on a profit maximizing basis, short term performance pressures, and regulatory compliance, resulting in problems like large scale greenwashing; limited ethical integration; financial sustainability; and limited availability of inclusive banking opportunities.

In comparison, ancient Indian economic ideas provide a model of economic thinking and doing, based on such principles as: Dharma (ethical obligation); Yogakshema (social responsibility); and structured governance as per the Arthashastra. These principles are a natural fit to integrate sustainability into economic performance but are still underutilized in contemporary banking systems.

The main issue is that there is no efficient scalable system to operate a financial institution based on ancient Indian economics and integrate this system into the current, sustainable framework of contemporary economics. There are very few academic articles available that provide empirical data and theoretical support for how to accomplish this given the existing regulatory, technological, and market environments of today's finance sector.

Accordingly, this research seeks to develop a combined sustainable banking model as a way of bridging the current gap in our understanding by combining ethical principles of ancient Indian economics with modern practices of environmental, social and governance (ESG) practices, which will enhance the long-term sustainability of the economy, create a model of ethical governance for the financial sector, and foster equitable economic growth.

Data Analysis

1. Modern Sustainable Banking is limited by having implementation of ESG (Environmental, Social, and

Governance) frameworks focused on compliance, rather than value. As a result, modern banks utilize ESG frameworks mainly for regulatory compliance and to maintain their branding/image, which leads to:

- Greenwashing (the appearance of being environmentally friendly, while engaging in unsustainable practices)
- An emphasis on short-term profit, versus long-term stability
- A lack of unified ESG integration into all bank operations
- Limited financial inclusion of customers.

Therefore, the current banking model lacks an ethical foundation.

2. The strengths of Ancient Indian Economic Thought (AIET), are that they create an ethical, governance, and economic system that encompasses the following:

- Dharma, the ethical responsibility of the individual.
- Yogakshema, the welfare of society as a whole.
- The Arthashastra-based governance, which provides for ethical accountability and regulation to ensure long-term stability.

Because AIET incorporates these principles into banking and other economic activities, the concept of sustainability becomes a natural component of all economic activities.

There is huge separation between AIET and current modern day banking systems. There are no real "operationalized ethical principles". There is no depth of sustainability and current banking models do not have any real cultural or philosophical grounding in these systems. Current systems of banking are subject to the constraints of regulation, profit driven markets and technological sophistication, making it necessary to adapt ancient principles to modern requirements.

3. Operational Challenges

Some of the primary barriers to integration of these systems are: 'each of these' abstraction (ie: Dharma) is 'unable' to be converted into measurable performance strict regulatory framework (Basel norms, ESG compliance) technological

disparities between age and contemporary banking systems resistance from institutions due to short-term profit motives.

4. Proposed Hybrid Model

This study proposes a hybrid banking model that will integrate:

- Ethical Principles (Dharma)
- Governance Frameworks (Arthashastra)
- ESG Standards
- Modern Technology

This hybrid banking model of value driven, ethical banking will change the emphasis of the banking sector from profit centric / compliance driven systems to value driven, ethical and long term sustainable banking systems.

5. Implications

The banking sectors stability and risk management will improve considerably and trust will increase. The development of ethical regulatory frameworks will come from policymakers. Greater equity & financial inclusion across society through increased equitable growth will be created.

Conclusion

This paper seeks to identify the role of ancient Indian economic principles to inform new sustainable banking paradigms by bridging the gap between ethical reasoning and modern banking practices. While banks today have adopted ESG frameworks, banks' use of these frameworks has been inconsistent, often merely used to meet requirements, and have little provided provided for ethical thought.

On the other hand, ancient Indian economic principles (Dharma, Arthashastra, and Yogakshema) provide a comprehensive set of principles in that sustainability is an inherent objective of these principles as opposed to being a secondary consideration. These principles are consistent with long-term stability, lowered systemic risk, and equitable economic growth.

However, the modern day technological, regulatory, and market restrictions limit how these principles can be used by banks today. As a result, this paper will provide a sustainable banking model that blends the ethical foundation of ancient principles with the modern technological advances that have resulted in the use of ESG frameworks.

By following this model banks have the potential to be transformed from economic profit driven, compliance driven institutions to values oriented, ethics based, and sustainable institutions. This paper provides a basis for further research and



the potential implementation of an indigenous based approach to sustainable finance.

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