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Role of Asset Management Companies in Promoting Sustainable Investment through Systematic Investment Plans (SIPs): An ESG Perspective

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ABSTRACT

Sustainable investing has moved from the periphery of financial decision-making to a mainstream consideration for both regulators and retail investors. In India, this shift has coincided with the rapid expansion of Systematic Investment Plans (SIPs), which have become the dominant route through which retail money enters the mutual fund industry. This paper examines the role that Asset Management Companies (AMCs) play in channelling SIP-based retail savings towards Environmental, Social, and Governance (ESG)-aligned investment avenues. Drawing on regulatory documents issued by the Securities and Exchange Board of India (SEBI), industry reports, and the existing academic literature on SIPs and ESG investing, the paper analyses how AMCs design ESG-themed schemes, integrate ESG criteria into fund management, and use SIP-based distribution to build long-term, disciplined participation in sustainable finance. The paper further evaluates the regulatory architecture — including the Business Responsibility and Sustainability Reporting (BRSR) framework and SEBI's 2023 ESG scheme guidelines — that governs ESG disclosures by AMCs, and discusses persistent challenges such as greenwashing risk, inconsistent ESG rating methodologies, and limited investor awareness. The paper concludes that AMCs occupy a pivotal intermediary position between policy intent and retail behaviour, and that SIPs, by virtue of their disciplined and long-horizon structure, are a particularly effective vehicle for mainstreaming ESG investment among Indian retail investors, provided that transparency and financial-literacy gaps are addressed.

Keywords: *Asset Management Companies; Systematic Investment Plan; ESG Investing; Sustainable Finance; Mutual Funds; SEBI; BRSR; Retail Investors*

1. Introduction

Environmental, Social, and Governance (ESG) considerations have become a defining feature of contemporary financial markets, reflecting a broader recognition that long-term value creation is inseparable from environmental stewardship, social responsibility, and sound governance practices. Institutional investors, regulators, and retail savers alike are increasingly evaluating investment decisions not only on the basis of risk and return, but also on their contribution to sustainable development. Within this evolving landscape, mutual funds — and Asset Management Companies (AMCs) that manage them — occupy a strategic position, since they aggregate the savings of millions of small investors and channel them into capital markets.

Systematic Investment Plans (SIPs) have emerged as the preferred mode of mutual fund investment for Indian retail participants. A SIP allows an investor to commit a fixed sum at regular intervals into a chosen scheme, thereby benefiting from rupee-cost averaging, the compounding of returns, and the cultivation of a disciplined savings habit. The growth of SIP contributions over the last decade has been substantial, and industry commentary attributes this growth to rising financial literacy, digital on boarding, and regulatory initiatives such as SEBI's introduction of low-ticket "sachet" SIPs intended to widen financial inclusion.

At the same time, AMCs have begun to launch a growing range of ESG-themed schemes and to embed ESG considerations into mainstream fund management processes. This convergence of two trends — the popularity of SIPs as a retail investment mechanism, and the rise of ESG as an investment philosophy — raises an important question: what role do AMCs play in using the SIP mechanism to mainstream sustainable investment among retail investors? This paper addresses that question by examining the mechanisms through which AMCs design, market, and manage ESG-oriented SIP products, the regulatory environment that shapes these efforts, and the challenges that remain.

2. Literature Review

The academic and practitioner literature on SIPs has largely focused on their behavioural and financial advantages. Studies on rupee-cost averaging suggest that staggered investment reduces the effect of market timing risk relative to lump-sum investment, though the magnitude of this advantage depends on market conditions and time horizon. Zenti's comparative analysis of lump-sum and systematic investment strategies found that the relative performance of the two approaches varies with the trend and volatility of the underlying market. Survey-based research on Indian retail investors has consistently found that the primary motivations for adopting SIPs are risk mitigation, the

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convenience of automated investing, and the cultivation of long-term financial discipline, while limited awareness and operational complexity remain key barriers to wider adoption.

A separate but converging strand of literature addresses ESG investing and its performance implications. A substantial body of meta-analytic evidence — most notably the widely cited aggregation of academic studies on the relationship between ESG factors and corporate financial performance — indicates that the incorporation of ESG criteria is more often associated with neutral-to-positive financial outcomes than with a financial penalty, challenging the historical assumption that sustainable investing necessarily entails a trade-off in returns. Complementing this, commentary on the evolution of investor expectations has described a shift among institutional investors from viewing ESG as a peripheral, values-based screen to treating it as a material input into risk assessment and capital allocation.

In the Indian context, research and regulatory commentary on ESG mutual funds has tracked the rapid but uneven growth of the segment: assets under management in India's ESG fund category rose sharply between 2020 and 2024, aided by SEBI's Business Responsibility and Sustainability Reporting (BRSR) mandate, before experiencing a period of retail outflows that industry observers attribute to performance concentration in a narrow set of sectors and to investor scepticism regarding the authenticity of ESG labelling. Existing studies on Indian mutual fund distribution have examined investor behaviour and scheme performance separately, but there remains limited literature that explicitly connects the SIP distribution mechanism with the specific goal of mainstreaming ESG investment — the gap this paper seeks to address.

3. Objectives of the Study

1. To examine the mechanisms through which Asset Management Companies design and manage ESG-oriented mutual fund schemes in India.
2. To assess how Systematic Investment Plans function as a distribution and behavioural mechanism for mainstreaming ESG investment among retail investors.
3. To analyse the regulatory framework governing ESG disclosures and fund labelling in India, with particular reference to SEBI and BRSR requirements.
4. To identify the challenges including greenwashing risk, disclosure inconsistency, and investor awareness gaps that constrain the effectiveness of AMCs in promoting ESG-aligned SIPs.

4. Research Methodology

This paper adopts a descriptive and analytical research design based on secondary data. Material was drawn from SEBI circulars and consultation papers, publicly available AMC and Association of Mutual Funds in India (AMFI) disclosures, industry and regulatory commentary on ESG investing in India, and peer-reviewed and working-paper literature on SIPs and ESG performance. The paper synthesises this material to construct a conceptual account of the AMC-SIP-ESG linkage rather than presenting new primary or econometric data; this qualitative, literature-based approach is appropriate given the objective of mapping an evolving regulatory and institutional landscape rather than testing a specific quantitative hypothesis.

5. Role of Asset Management Companies in ESG Aligned SIP Investing

5.1 Product Design and ESG Scheme Architecture

AMCs act as the primary product architects of ESG investing for Indian retail investors. Under SEBI's regulatory framework, mutual funds may launch ESG schemes under six recognised strategies — exclusion, integration, best-in-class and positive screening, impact investing, sustainable objectives, and transition-related investing — with each scheme required to disclose its chosen strategy in its name. AMCs are required to invest a minimum of eighty percent of scheme assets in equity instruments aligned with the declared strategy, and at least sixty-five percent of assets in companies that provide comprehensive BRSR disclosures with assurance on core BRSR indicators. By offering these schemes with SIP facilities from inception, AMCs make ESG-aligned investing accessible to retail investors at low ticket sizes, rather than confining it to institutional or high-net-worth portfolios.

5.2 Distribution and Behavioural Mainstreaming through SIPs

Beyond product design, AMCs use their distribution networks — digital platforms, mutual fund distributors, and registered investment advisers — to actively market ESG-themed SIPs as a long-term wealth-creation option aligned with investors' values. Because SIPs commit investors to periodic contributions over an extended horizon, they are structurally well-suited to ESG investing, which is itself premised on the idea that sustainability-related risks and opportunities materialise over the medium-to-long term rather than in short trading cycles. In this sense, the SIP mechanism reinforces the long-horizon logic of ESG investing: an investor who might hesitate to allocate a large lump sum to a thematic, sector-concentrated ESG fund may be more willing to build exposure gradually through small periodic instalments, while also benefiting from cost averaging during periods of sector-specific volatility.

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5.3 Stewardship, Engagement, and Fund Manager Accountability

AMCs are also increasingly expected to act as active stewards of the companies held within ESG portfolios. Under SEBI's disclosure norms, AMCs must disclose votes cast on resolutions of investee companies and provide fund-manager commentary explaining how ESG considerations informed portfolio decisions. This stewardship dimension extends the AMC's role beyond passive product manufacturing to active engagement with investee companies on sustainability practices, thereby using pooled retail capital — including capital mobilised through SIPs — as a lever of corporate influence.

5.4 Investor Education and Financial Literacy

A further, less visible function performed by AMCs is investor education. Because ESG terminology, rating methodologies, and scheme strategies are not yet well understood by the average retail investor, AMCs and industry bodies such as AMFI have undertaken campaigns to explain ESG concepts alongside conventional SIP literacy programmes. This educational role is significant because the credibility of ESG-labelled SIP products depends on investors being able to distinguish authentic ESG integration from superficial labelling.

6. Regulatory Framework Governing ESG SIP Investing in India

SEBI has progressively strengthened the regulatory scaffolding around ESG investing since 2018, when the Business Responsibility Report requirement was first expanded. In 2021, SEBI replaced this with the Business Responsibility and Sustainability Report (BRSR), mandating standardised sustainability disclosures from the top 1,000 listed companies. In 2023, SEBI introduced the BRSR Core — a subset of nine key performance indicators, including greenhouse gas emissions intensity, water footprint, and workforce diversity, subject to independent assurance — and simultaneously issued a dedicated circular permitting AMCs to launch multiple ESG schemes under distinct, clearly labelled strategies, coupled with mandatory disclosure of BRSR scores, ESG ratings, and proxy-voting records. In 2025, SEBI extended value-chain ESG disclosure requirements to a wider set of listed entities and issued a formal framework for ESG-labelled debt securities, further embedding sustainability considerations into the instruments available to AMCs.

Collectively, this framework is designed to address two linked regulatory concerns: first, ensuring that companies held in ESG portfolios are subject to credible and comparable sustainability disclosures; and second, curbing mis-selling and greenwashing by requiring AMCs to substantiate ESG claims through independent assurance and transparent voting disclosures. For SIP investors in particular, this regulatory scaffolding matters because SIP commitments are typically made with a multi-year horizon, so the credibility of the underlying ESG label has a compounding effect on investor trust over time.

7. Challenges and Constraints

7.1 Greenwashing and Rating Inconsistency

Despite regulatory tightening, ESG rating methodologies used by different providers often diverge, since there is no single global standard for scoring corporate sustainability performance. This divergence creates a risk that a scheme's ESG credentials may be difficult for an ordinary retail investor to independently verify, and that AMCs may face reputational exposure if a fund's ESG label is later perceived as overstated relative to its actual portfolio composition.

7.2 Sectoral Concentration and Return Volatility

Because BRSR-compliant disclosure is currently concentrated among larger, well-resourced listed companies, ESG fund portfolios in India tend to be tilted towards sectors such as information technology, financial services, and select consumer and renewable-energy names. This concentration can expose ESG-themed SIP investors to sector-specific volatility that would not affect a more diversified, non-thematic SIP investor to the same degree.

7.3 Investor Awareness and Trust Deficit

Survey and industry evidence suggests that a significant proportion of retail investors remain unfamiliar with ESG terminology and scheme strategies, and that ESG funds experienced retail outflows after early performance did not consistently outperform conventional diversified equity funds. This suggests that the marketing of ESG-SIP products as being both value-aligned and return-competitive needs to be carefully calibrated to avoid disappointing investor expectations.

7.4 Data and Disclosure Gaps Among Smaller Companies

Value-chain ESG disclosure requirements are still being phased in and currently apply mainly to the largest listed entities and their major suppliers and customers, leaving small and mid-sized enterprises largely outside the disclosure net. This limits the universe of companies that AMCs can confidently include in ESG-labelled schemes without relying on estimated or third-party inferred data.

8. Discussion

The analysis suggests that AMCs function as intermediaries that translate regulatory intent into retail-accessible

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investment products, and that the SIP mechanism serves as an especially effective distribution channel for this purpose because it aligns structurally with the long-term orientation that ESG investing requires. Where conventional financial products may struggle to sustain investor commitment through periods of underperformance, the automatic, low-friction nature of a SIP commitment can help retain investor participation in ESG schemes through market cycles, provided that investors trust the underlying ESG claims. This points to a mutually reinforcing relationship: robust SEBI disclosure requirements build investor trust in ESG labelling, which in turn makes investors more willing to commit to long-horizon SIPs in ESG schemes, which in turn gives AMCs a more stable capital base to pursue engagement and stewardship with investee companies. Conversely, any erosion of trust whether through inconsistent ratings, sectoral underperformance, or perceived greenwashing risks undermining this cycle and could contribute to the redemption pressure that segments of the Indian ESG fund industry have already experienced.

9. Conclusion

Asset Management Companies sit at the intersection of regulatory policy and retail investor behaviour in India's evolving sustainable finance ecosystem. Through product design, stewardship activity, and investor education, AMCs have begun to operationalise ESG principles within a mainstream retail investment vehicle the mutual fund and Systematic Investment Plans have proven to be a particularly well-suited channel for this purpose, given their disciplined, long-horizon structure and their demonstrated appeal among Indian retail savers. Continued progress will depend on the consistent enforcement of BRSR-linked disclosure norms, the harmonisation of ESG rating methodologies, and sustained investor-education efforts by AMCs and industry bodies. If these conditions are met, ESG-aligned SIPs have the potential to serve as a durable mechanism for mobilising retail savings towards sustainable development objectives, complementing regulatory and institutional efforts to green India's capital markets.

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