



## **GREEN BANKING IN INDIA AND GLOBAL PERSPECTIVE – A REVIEW**

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### **1.0 Introduction**

The present era of industrialization and globalization has added a lot of comfort and luxury to human life but has also lead to an alarming situation of huge environmental degradation incorporated with all involved activities. Today, the entire sector in the world economy is facing huge challenge to deal with the environmental problems and their related impacts in their day to day businesses. Not only the business firms have realized the importance of the environment but more than that an immense awareness is seen among the consumers and general public for the same. Due to all these reasons the business organizations have started modifying their activities and strategies so as to ensure protection to our natural resources and environment. In this context the financial sector and especially the banks can play an important role in promoting environmental sustainability.

Green banking means promoting environment friendly practices and reducing carbon footprint from banking activities. This comes in many forms viz.

- Using online banking instead of branch banking.
- Paying bills online instead of mailing them.
- Opening of commercial deposits and money market accounts in online banks.
- Finding the local bank in your area that is taking the biggest steps to support local green initiatives.

In many cultures, “Green” is an affirmation of life. It indicates growth, fruitfulness and spiritual rejuvenation. Being Green is growth. It is becoming more efficient in the operation of personal and business life by eliminating wasteful spending. Being Green is being fruitful. It is taking advantage of new technology, tools and trends that improve personal and business life at a fraction of the cost of traditional methods. Being Green is spiritually rejuvenating. It is our commitment to live a lush and abundant, economically empowered, debt free and credit worthy lifestyle.

Green banking helps to create effective and far reaching market based solutions to address a range of environmental problems, including climate change, deforestation, air quality issues and biodiversity loss, while at the same time identifying and securing opportunities that benefit customers. The sustainable development can best be achieved by allowing markets to work within an appropriate framework of cost efficient regulations and economic instruments. One of the major economic agents influencing overall industrial activity and economic growth is the financial institutions such as banking sector. The banking sector influences the economic growth and development in terms of both quality and quantity, there by changing the nature of economic growth. Banking sector is one of the major sources of financing investment for commercial projects which is one of the most important economic activities for economic growth. Therefore, banking sector can play a crucial role in promoting environmentally sustainable and socially responsible investment (SRI).

Internationally, there is a growing concern about the role of banking and institutional investors for environmentally responsible/socially responsible investment projects. Banking and other financial institutions are more effective towards achieving this goal for the kind of intermediary role they play in any economy and for their potential reach to the number of investors. Environment is no longer the exclusive concern of the government and the direct polluters, but also the other partners and stake- holders in the business like financial institutions such as banking institutions can play a very important role in fostering linkage between economic development and environmental protection. To substantiate, quality of service, the implementation of environmental conservation measures, support to the deprived section of the society, concern about the quality of life and nature are the basic principles that the financial institutions are relying on in their business strategy in recent years.

There are many differences compared with normal banking, Green Banks give more weight to environmental factors, their aim is to provide good environmental and social business practice, they check all the factors before lending a loan, whether the project is environmental friendly and has any implications in the future, you will awarded a loan only when you follow all the environmental safety standards.

Banks are the major economic agents influencing the industrial sector for lending and financing the projects. They are playing an important role in promoting a sustainable environment. They persuade the economic development and growth of the country. As society is now more concerned and aware about the environmental issues, there is need for banks to adopt green strategies into their operations. Although they have moderate impact on the environment as compared to other carbon sensitive industries like oil, gas, steel, etc but they are the major source of long term funding for various industries that



pollute the environment heavily (IRDBT, 2014). Currently, in India, the concept of green banking is new but banks are actively looking for the ways to portray themselves as a Green Bank.

## 2.0 Objectives of the Study

- To understand the concept of green banking.
- To analyze the developments and challenges in Indian and global scenario.

## 3.0 Research Design

- Secondary Research which focused on Research Papers and related articles.

## 4.0 Literature Review

### RBI guidelines regarding Green Banking:

According to RBI (IRDBT, 2014), green banking is to make internal bank processes, physical infrastructure and IT infrastructure as effective and efficient as possible, with zero or minimal impact on the environment. They had introduced green rating standards for Indian banks, which are termed as 'Green Coin Ratings'. Under this rating system, banks are judged on the basis of carbon emissions from their operations and on the amount of recycling, refurbishment and reuse material being used in their building furnishings and in the systems used by them like servers, computers, printers, networks, etc. They are also being judged on the amount of green projects finance by them and rewards or recognitions given to borrowers for turning their businesses greener.



Source: Institute of Development and Research in Banking Technology, 2013

**Figure 1: Green Coin Rating**

Khawaspatil, S.G. and More, R.P. (2013), in their research article concluded that in spite of a lot of opportunity in green banking and RBI notifications, Indian banks are far behind in implementation of green banking. Only few banks have initiated in this regard. There is a lot of scope for all banks and they can not only save our earth but also transform the whole world towards energy consciousness. Banks must educate their customers about green banking and adopt all strategies to save earth and build banks image.

Vikas nath, Nitin nayak & Ankit goel, green banking practices – a review, 2014 highlights the benefit, confronting challenges, strategic aspects of green banking and initiatives by Indian banks regarding green banking adoption. They are of the opinion that banks in India are running behind their counterparts from developed economies. No doubt, they have started adopting green practices, but still their impact on environment is increasing. Green banks are at start up mode in India.

They should expand the use of environmental information in their business operations, credit extension and investment decisions. The endeavor will help them proactively improve their environmental performance and creating long term values for their business.



Yadwinder Singh , Environmental Management Through Green Banking: A study of Commercial Banks in India ,2015 - In his research article he analyzed the social responsibility of banking sector. He concluded that the role of banks in controlling the environmental damage is extremely important. Green banks are at start-up mode in India .Even though they have started adopting green practices, but still a lot of channels are unutilized by the Indian banks for greening their activities. Moreover they could adopt the green practices only in selected branches. Financial institutions can do a lot to assist efforts for corporate social responsibility and achieve sustainability.

Ragupathi .M , Green Banking Initiatives of Commercial Banks in India ,2015 has concluded that traditional banks did not practice green banking or actively seek investment opportunities in environmentally- friendly sectors or businesses. Recently these strategies became more prevalent, not only among smaller alternative and cooperative banks, but also among diversified financial service providers, asset management firms and insurance companies. Although these companies may differ with regard to their stated motivations for increasing green products and services, the growth, variation and innovation behind such developments indicate that we are in the midst of a promising drive towards integrating green financial products into mainstream banking.

### **5.0 Green Banking – A Global Scenario**

SBI has become the first bank in the country to venture into generation of green power by installing windmills for captive use, as part of its green banking initiative. These windmills are set up with a objective of reducing the dependence on the polluting thermal power and not on purely economic or business considerations. SBI will try to be energy neutral and reduce its carbon footprints. . Banks can reduce their carbon footprints by adopting the following measures:

- a. Paper-less Banking: As banks have computerized their branches, there is ample scope for doing paperless or less-paper banking. Mostly PSBs use huge quantities of paper for office correspondence, audit reporting, recording public transactions etc. These banks can switch over to electronic correspondence and reporting. Banks should encourage their customers also to switch over to electronic transactions and popularize e-statements.
- b. Energy Consciousness: Developing energy- consciousness, adopting effective office time management and automation solutions and using compact fluorescent lighting ( CFL) can help banks save energy consumption considerably. Banks can conduct energy audits in all their offices for effective energy management. They can also switch over to renewable energy (solar, wind, etc.) to manage their offices and ATMs.
- c. Using Mass Transportation System: PSBs can become fuel efficient organization by providing common transport for group of officials posted at one office.
- d. Green Buildings: The Indian banking industry uses more than one lakh premises for their offices and residential houses throughout the country. These banks should develop and use green buildings for their office and employee accommodation.

These measures will not only help banks reduce their carbon footprint but also save the operational costs considerably. Speakers at workshop organized by Bank Asia observed that Green Banking can be an avenue to reduce pollution and save the environmental aiding sustainable economic growth. Geothermal heating and cooling systems, energy efficient lighting, using recycled materials for construction and adopting conservation policies are the green business principles adopted by Chicago's new green bank. Halton National Bank in Sri Lanka will add energy savings of 30% and water savings of 70% which will help offset the cost of building the environmentally friendly branch. Pallavan Grama Bank has opened a solar-powered bank branch in Ammapettai in the Erode district, which was partially supported by the Union and Tamil Nadu Governments. Silicon Valley Bank is a clear leader in funding green projects. They focus on the areas of population growth, pollution and limited natural resources. New Resource Bank offers a personal banking option that makes life easier for its customers as they support the green banking mission. Triodos Bank is a global bank with a focus on financing organizations such as organic food businesses, renewable energy enterprises and nature conservation project are the major green practices adopted by them. Bangladesh Bank issued policy guidelines for developing Green Banking practices and Environmental Risk Management and circulars to handle climate change. Besides this The Central Bank introduced facility for financing solar energy, biogas and effluent treatment plant at only 5 percent interest rate .New York Bank focuses on Green Bank, which will expand the clean energy market by boosting private sector investment.

The Commercial Bank of Ceylon has commissioned the first of a new generation of automated cash deposit terminals that completely eliminate the use of paper, in another example of the Bank's continuing investment in Green technology and sustainable development.



The new Green Banking Channel was formally commissioned by Commercial Bank Managing Director/CEO Jegan Durairatnam on 30 June 2015. The Bank said it plans to commission more such machines across its branch network, to significantly reduce the use of paper in deposit transactions “This new machine enables our customers to join the Bank in its efforts to save trees and help the planet, while enjoying even greater convenience than before,” Commercial Bank Chief Operating Officer S. Renganathan said. “With no deposit slips to fill in, their time at the terminal will be reduced even further, making for shorter or no queues.”

### **6.0 Challenges & Issues in an Indian Scenario**

Green banks while adopting green banking face following challenges:

- **Diversification problems:** Green banks restrict their business transactions to those business entities who qualify screening process done by green banks. With limited number of customers they will have a smaller base to support them.
- **Startup face:** Many banks in green business are very new and are in startup face, generally it takes 3 to 4 years for a bank to start making money thus it does not help banks during recession.
- **Higher operating cost:** Green banks require talented, experienced staff to provide proper services to customers. Experienced loan officers are needed with additional experience in dealing with green businesses and customers.
- **Reputational risk:** If banks are involved in those projects which are damaging the environment they are prone to loss of their reputations. There are also few cases where environmental management system has resulted in cost saving, increase in bond value( Heim, Get al, 2005)
- **Credit risk:** Credit risks arise due to lending to those customers whose businesses are affected by the cost of pollution, changes in environmental regulations and new requirements on emissions levels. It is higher due to probability of customer default as a result of uncalculated expenses for capital investment in production facilities, loss of market share and third party claims.

### **Green Banking Initiatives by Indian Banks**

Green Banking Initiatives by Indian public sector banks

#### **State Bank of India (SBI)**

- SBI had launched Green Channel Counter (GCC) facility at their branches in 2010 to change the traditional way of paper based banking (SBI, 2014).
- The bank had also collaborated with Suzlon Energy Ltd for the generation of wind power for selected branches by setting of windmills in Gujrat, Tamil Nadu and Maharastra (Business Standard, 2014).
- It has become a signatory to the Carbon Disclosure Project in which they undertake various environmentally and socially sustainable initiatives through its branches spread across the length and breadth of the country (WWF-INDIA, 2014).
- Export Import Bank of India (EXIM) and SBI entered into an agreement to jointly provide long term loans up to 14 years to Spain based company Astonfield Renewable Resources and GrupoT-Solar Global SA for building solar plant in India (Yadav & Pathak, 2013).

#### **Punjab National Bank (PNB)**

- According to Corporate Social Responsibility Report 2010-11 (PNB, 2011), they had taken various steps for reducing emission and energy consumption.
- PNB is conducting Electricity Audit of offices as an energy conversation initiative and maintained a separate audit sheet for assessing the impact of green initiatives taken by them.
- The bank had organized more than 290 Tree Plantation Drives.
- It started emphasizing on green building practices such as energy efficient lights, immediate repair of water leakage, printing on both sides of paper, mater sensors for lights, fans, etc.
- The organization had signed a ‘Green Pledge’ with Ministry of New and Renewable energy under which they had set up the butterfly park at the compound of Guruvayur temple which houses 18 types of medicinal plants.
- They had formulated guidelines to ensure that all the necessary approvals and permissions, including from Pollution Control Board has been obtained before disbursement of term loans and for the project loans, compliance with environment and social safeguards including rehabilitation and resettlement of project affected people is to be ensured as pre-disbursement condition.



- The bank is also considering stepping of sustainable development with particular reference to the Equators Principles on project finance.
- The organization had sanctioned nine wind energy projects with an aggregation limit of 185.81 crore and they were also awarded with a second prize for 'Best Wind Energy Power Financer' by wind power India 2011.

### **Bank of Baroda**

According to the annual report of BOB (2013), they had taken various green banking initiatives such as: -

- While financing a commercial project, BOB is giving preference to environmentally friendly green projects such as windmills, biomass and solar power projects which help in earning the carbon credits.
- The organization had made considerable changes in their lending policy, i.e. it is compulsory for industries to obtain 'No Objection Certificate' from the Pollution Control Board and also they are not extending any finance to environmental hazardous industries which are using ozone depletion substances such as halos-1211,1301,2402 used in foam products, chlorofluoro carbon CFC 11,12,113, solvents in cleaning and aerosol products.
- The bank had taken several technological initiatives such as compliance with e-business guidelines, use of internet banking, mobile banking to promote paperless banking and also increasing the installation of ATM's in most of un covered areas to reduce the petrol or diesel consumption in travelling and helps in maintaining a clean environment.
- As a part of green initiative, they had made changes to desktop virtualization, backup consolidation and server virtualization improve data center operational efficiency.
- The bank is also promoting measures for pollution control and environmental conservation.

### **7.0 Conclusion and Wayforward**

In a rapidly changing market economy where globalization of markets has intensified the competition, the industries and firms are vulnerable to stringent public policies, severe law suits or consumer boycotts. This would affect the banks and financial institutions to recover their return from investment. Thus, the banks should play a pro-active role to take environmental and ecological aspects as part of their lending principle which would force industries to go form an dated investment for environmental management, use of appropriate technologies and management systems.

In addition to mitigating risks, green banking opens up new markets and avenues for product differentiation. India's growth story and commitments to cut its carbon intensity by 20-25 percent from 2005 levels by the year 2020 provides tremendous opportunities for Indian banks- from funding sustainable projects to offering innovative products and services in the areas of green banking. The survival of the banking industry is inversely proportional to the level of global warming. Therefore, for sustainable banking, Indian banks should adopt green banking as a business model without any further delay.

As green bank has rapidly expanded its operations, the challenge for its leadership has been on managing this growth successfully and prudently. Indian banks need to be made fully aware of the environmental and social guidelines to which banks worldwide are agreeing to. As far as green banking is concerned, Indian banks are far behind their counterparts from developed countries. If Indian banks desire to enter global markets, it is important that they recognize their environmental and social responsibilities.

This concept of "Green Banking" will be mutually beneficial to the banks, industries and the economy. Not only "Green Banking" will ensure the greening of the industries but it will also facilitate in improving the asset quality of the banks in future.

### **Way Forward**

The banks should change their routine operations through the adoption of paperless banking, online banking, mobile banking, mass transportation system, green cards made up of recycled plastic and efficient use of resources.

- Concept of LEED certified green buildings should be adopted by banks, i.e. use of renewable energy generated through solar power plants, energy star-rated light fixtures, motion sensors, sewage treatment plant for re-using water waste, urinal and wash basin sensors, rainwater harvesting system, recycling of dry waste, etc. It will also improve the public relations and employee satisfaction and thereby it reduces the attrition rate of employees.
- The banks should start investing in low carbon technologies and develop new sustainable products and servicesthat will mitigate the risks of climate change. They should indulge themselves in carbon credit business or can invest in those projects which can earn carbon credits.





- It is important to adopt environmental standards for the lending and financing principles so that borrowers could direct themselves towards reducing the carbon footprint by using the appropriate technologies. They can go for discounted loan rates for the hybrid products, adoption of Equators Principles, green mortgages, green loans, etc.
- They should design the environmental system to evaluate the risk involved before investing in different projects that could be an Environmental Impact Assessment (EIA), Annual Reporting System (ARS), Environmental Audit Management (EAM) etc.
- Green banks are at start up mode in India. They should expand the use of environmental information in their business operations, credit extension and investment decisions. The endeavor will help them proactively improve their environmental performance and creating long term values for their business.

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