

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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**GREEN BANKING: A SUSTAINABLE BANKING FOR ENVIRONMENTAL SUSTAINABILITY**

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**ABSTRACT**

*Environmentalism is a social movement that shows the concern for environment conservation and improvement of the state of the environment. The concept for environmental sustainability by the banks has given rise to concept of green banking. In an emerging economy like India, environmental management needs to be the key focus area of the business fraternity and especially the banking industry being the major intermediary. This would help the firms in the emerging economies to utilize their limited resources in an optimum way without harming the natural environment and face the global challenge of sustainability in successful manner. In the present paper green banking and sustainability has been discussed in detail. The paper also highlights on the stage, initiatives, benefits and future of green banking in Indian context.*

**KEYWORDS**

environmentalism, sustainability, fraternity, conservation, global challenge.

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**INTRODUCTION**

The banking industry influences economic growth and development, both in terms of quality and quantity, leading to a change in the nature of economic growth. Therefore, banking sector plays a crucial role in promoting environmentally sustainable and socially responsible investment. Banks may not be the polluters themselves but they usually have a banking relationship with some companies/investment projects that are polluters or could be in future. Therefore, banking sector plays a crucial role in promoting environmentally sustainable and socially responsible investment.

The concept of "Green Banking" will be mutually beneficial to the banks, industries and the economy. Green financing is the part of green banking. Green banking means promoting environmental friendly practices and reducing your carbon footprints from your banking activities. Green banking aims at improving the operations and technology along with making the clients habits environment friendly in the banking business. It is like normal banking along with the consideration for social as well as environmental factors for protecting the environment. It is the way of conducting the banking business along with considering the social and environmental impacts of its activities

Environment management in the banking business is considered likely to be risk management. It increases the enterprise value and lowers loss ratio as higher quality loan portfolio results in higher earnings. Therefore, encouraging environmentally responsible investments and prudent leading should be one of the responsibilities of the banking sector. Pravakar Sahoo and Bidhu Prasad Nayak (Indian Economic Journal) "Green Banking" – say an effort by the banks to make the industries grow green and in the process restore the natural environment. This concept of "Green Banking" would be mutually beneficial to the banks, industries and the economy. Green banking will also ensure the greening of the industries but it will also facilitate in improving the asset quality of the banks in future.

The banking operation targets a certain long-term rate of return on their credit and investment. Nevertheless, every credit extension and investment carry the risk of nonpayment and reduction of value (in case of direct investment) due to environmental liabilities. Therefore, it is of importance to the banking sector to follow certain environmental evaluation of the projects before financing. There are studies showing positive correlation between environmental performance and financial performance (Hamilton, 1995; Hart, 1995; Blacconiere and Pattern, 1993). Thus, it is essential for the financial institutions in the present to consider environmental performance in deciding whether to invest in companies or advise the clients in doing so.

**OBJECTIVES OF THE STUDY**

1. To understand the concept of green banking philosophy adoption by the banks.
2. To identify the steps necessary for the adoption of green banking.
3. To identify the sustainable banking practices for environmental sustainability.
4. To analyze green banking initiatives taken up in India and to analyzed steps taken by some of the Indian banks in this regard.

**METHODOLOGY**

The study mainly includes literature review from secondary data. The secondary source includes information published in articles, journals and by various organizations and other internet sites.

**GREEN BANKING: DEFINITION**

Though green banking (environment-friendly banking, ethical banking or sustainable banking) can be defined in a number of ways, in a broader perspective, it is the environment-friendly banking practices that promote their customers to reduce the carbon footprint through their banking activities. The Indian Banks Association defines it as "Green Bank functions like a normal bank along with considering the social and environmental factors for the protection of the natural resources". According to RBI (IDRBT, 2013), green banking is to make internal bank processes, physical infrastructure and Information Technology effective towards environment by reducing its negative impact on the environment to the minimum level. The UNEP-FI (2007) states that sustainable bank considers the impacts of its operations, various products and services for the current as well as future generation. In order to promote reduction in the external carbon emission, the banks should focus on financing the technology and projects that are environment friendly. Green banking aims at improving the operations and technology along with making the clients habits environment friendly in the banking business. It is like normal banking along with consideration for the social as well as environmental factors for protecting the environment. It is the way of conducting the banking business along with considering the social and environmental impacts of its activities (Jha and Bhoome, 2013; Mishra, 2013; Biswas, 2011). There are other definitions for green banking concept but the central meaning is the same i.e. protecting the environment and resources for future generation by looking for sustainable development.

**GREEN BANKING – CONCEPTUAL OVERVIEW**

Green Banking itself insinuates promoting environmental friendly banking practices and reducing carbon footprint from banking activities. To add simplicity to this term, it is a form of banking which ensures less utilization of natural resources and optimal reduction of wastage of paper/carbon footprint.

Green banking is being practiced by all banks, which consider all the social and environmental/ecological factors with an aim to protect the environment and conserve natural resources. Green banking practices are also labeled as “ethical banking” or a sustainable banking. The key idea behind this banking concept is to enhance the conservation of earth’s environment/habitats resources.

How can it be done?

1. Promoting the usage of online banking instead of branch banking.
2. Paying bills online.
3. Opening up CDs and money market accounts through online banking, instead of large multi-branch banks.

### IMPORTANCE OF GREEN BANKING

Until recently, green banking just seemed like an initiative and such environmental concerns did not really seem to be relevant to a bank’s operations. Initially, a bank checking their client’s environmental worthiness would have been considered as prying into a private business. However, now the perception looks towards how this brings risks to their business. Although the banking and financial institutions are not directly affected by the environmental degradation, there are indirect costs to banks. Credit, legal and reputations risks have constantly been haunting these banks unless such initiatives are taken.

### STEPS IN GREEN BANKING

#### GO ONLINE

Online banking is the thriving concept in young and corporate India. Online banking helps in additional conservation of energy and natural resources. Online banking includes:

- a. Paying bills online
- b. Remote deposit
- c. Online fund transfers

It helps in savings paper, energy and expenditure of natural resources due to banking activities. Customers can save money by avoiding late payments of fees and save time by avoiding standing into queues and paying the bill.

#### USE GREEN CHECKING ACCOUNTS

Customers can check their account details through ATM machines provided in bank kiosks or special touch screens in the branches of different banks. This can be called green checking of account. Often usage of online banking services like online bill payment, using debit cards for payments against payments, and online statement help the environment against detritions. Banks should promote green checking by giving some incentives to customers by giving higher rate of interests, waiver or discount in fees etc.

#### USE GREEN LOANS FOR HOME IMPROVEMENT

The Ministry of Non-renewable Resource in association with some nationalized and scheduled commercial banks in India undertook an initiative to go green by allowing low interest loans to the customers who would like to buy solar equipment; the rate of interest is as low as 4% p.a. The new Green Home Loan Scheme from SBI, for instance, supports environmental friendly residential projects and offers various concessions. These loans are sanctioned for projects rated by the Indian Green Building Council (IGBC) and offer several financial benefits – 5% concession in margin, 0.25% concession interest rate and processing fee waiver.

#### POWER SAVINGS EQUIPMENT

Bank directly contribute to controlling climate change and as an initial step they intend to start a campaign to replace all fused GSL bulbs, in all owned premises offices and residential Banks have also initiated a feasibility study to make rain water harvesting mandatory in all the Bank’s owned premises. In December 2009 IndusInd Bank inaugurated Mumbai’s first solar-powered ATM as part of its ‘Green Office Project’ campaign titled ‘Hum aur Hariyali’.

#### USE GREEN CREDIT CARDS

Banks are promoting different schemes of using plastic money rather than currency notes in order to save environment.

#### USE OF SOLAR AND WIND ENERGY

Using solar and wind energy is one of the noble causes for going green. State Bank of India (SBI) has become the first bank in the country to venture into generation of green power by installing windmills for captive use. As green power by installing windmills for captive use. As part of its green banking initiative, SBI has installed 10 windmills with an aggregate capacity of 15 MW in the state of Tamil Nadu, Maharashtra and Gujarat.

#### MOBILE BANKING

Mobile banking saves time and energy of the customers. It also helps in reducing use of energy and paper of the bank. Most of the Indian banks have introduced this paper-less facility in order to be eco-friendly.

### ADVANTAGES OF GREEN BANKING

- Basically Ethical banking avoids as much paper work as possible and rely on online/electronic transactions for processing so that you get green credit cards and green mortgages. Less paper work means less cutting of trees.
- Creating awareness to business people about environmental and social responsibility enabling them to do an environmental friendly business practice.
- Use of online banking instead of branch banking saves time.
- Green banks adopt and implement environmental standards for lending, which is really a proactive idea that would enable eco-friendly business practices which would benefit our future generations.
- When you are awarded with a loan, the interest of that loan is comparatively less with normal bank because ethical banks give more importance to environmental friendly factors – ecological gains. Natural resources conservation is also one of the underlying principles in a green bank while assessing capital /operating loans to extracting industrial business sector.

### DISADVANTAGES OF GREEN BANKING

- Difficult to operate: Banking sites can be difficult to navigate at first. Getting acquainted with the banking sites software may require some time to read the tutorials in order to become comfortable in your virtual lobby.
- Customer Care: There is no personal contact with any of the staff, and if talk to any staff through the telephone, you have guarantee you are talking to the best person available.
- Security Concern: Even though online banking sites are heavily encrypted, with the developing technology, it’s hard to rule out the “hackers” who may access your bank accounts.
- Technical Breakdowns: As with all technologies, online banking websites sometimes go down. If this happen when you closed your local bank or credit card accounts, you will definitely go penniless.

### ENVIRONMENTAL MANAGEMENT BY THE BANK

Banks play major role in the country’s economy and in the sustainable development. Bank being the major financier indirectly contributes to the environmental degradation by financing the projects and the industries whose activities put negative impact to the environment. Thus, the bank by their active participation in the lending business in a judicious manner can contribute greatly to the environment and to the society. Banks are now adopting various strategies where the projects are scrutinized using a set of tools that take environmental considerations. Banks are also encouraging projects that show its concern for the environment

in the form of sustainable development, use of renewable natural resources, waste minimization, pollution prevention, occupational health and safety, energy efficient, care of human health and many similar attributes that tries for the betterment of the society.

## SUSTAINABLE DEVELOPMENT AND SUSTAINABLE BANKING

According to the "report of the World Commission on Environment and Development Sustainable Development" (United Nations, 1987), Sustainable Development is the way of using the resources that not only meet the human needs of present and future generation but also preserve the environment. The field of sustainable development comprises of three constituents - environmental sustainability, economic sustainability and socio-economic sustainability. Sustainable banking as per the United Nations Environment Programme Finance Initiative (UNEP-FI, 2007) is defined as "the process by which the banks consider the impact of their various operational activities and their products and services for meeting the needs of the current as well as the future generations".

## STAGES OF SUSTAINABLE BANKING

Marcel Jeucken in his book "Sustainable Finance and Banking" (2001) has mentioned four phases action, that banks should adopt for sustainability. These stages include defensive banking, preventive banking, Offensive banking and Sustainable Banking.

As depicted in Fig. 2 below, this model consists of the four phases which have been mentioned above. Each outer layer contains the previous layer expect of the first layer i.e. the defensive banking. According to Bouma et al. (2001), every bank normally follows these stages but the attainment of sustainable approach is the most difficult one for the banks. The banks continue to evolve according to the stakeholder expectation. Here the terms 'defensive', 'preventative' and 'offensive' are defined in context of environmental issues.

CHART 1



## A TYPOLOGY OF BANKING AND SUSTAINABLE DEVELOPMENT

### DEFENSIVE BANKING

In this phase, banks are not active and resist the environmental legislations as it affects the banks' interest. Consideration of the environmental issues at this stage is an avoidable cost.

### PREVENTATIVE BANKING

Due to various driving forces like government pressure, non-government organizations, pressure from society etc, banks integrate the environmental issues and risk management activities in to their daily business activities (Bouma et al, 2001)

### OFFENSIVE BANKING

In this stage, the banks not only consider their internal activities but also consider their external activities. The banks in this stage develop and market environmental-friendly projects. For example, Green financing i.e. investing in to environmental friendly projects. The focus is on financing various projects which work on renewable energy, investment funds that invest on environment friendly assets and release of various reports based on the environmental performance.

### SUSTAINABLE BANKING

At this stage all the activities of banks are sustainable. Banks do not invest in the ecologically unsound business despite huge profit. The banks do not aim towards highest financial rate of return. The key motive is to get the highest sustainable rate of return. Currently, sustainable banking is possible only for the niche players of the field. Few example for this are- Triodos Bank in Netherlands and Co-operative bank in the UK.

## GREEN BANKING INITIATIVES IN INDIA

The Government of India has issued guidelines/ instructions to banks on Green Initiatives. In order to implement the green initiatives of the government, all public sector banks and all regional rural were asked to:

1. Increase use of Electronic Payment.
2. Increase use of Core Banking Solutions (CBS)
3. Increase use of Video Conferencing.
4. Offer centralized payment system

## STEPS TAKEN BY SOME OF THE INDIAN BANKS

- State Bank of India launched its 'Green Channel Counter' facility at 57 selected branches as a step towards paperless 'Green Banking' for deposit, withdrawal and remittance transactions. With this facility the customers need to fill up any pay-in slips or draw cheques for depositing or withdrawing money from their accounts. At the Green Channel counter, there is a Point of Sale Machine (POS), on which the customer swipes his card. He is then asked by the machine to select the type of transaction, viz. (0) Cash Deposit, (1) Cash Withdrawal and (2) Funds Transfer. And thus the transaction is completed without paper usage.
- SBI became 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, it installed 10 windmills with an aggregate capacity of 15 MW in the states of Tamil Nadu, Maharashtra and Gujarat.
- Under its campaign 'Hum our Hariyali', IndusInd Bank Ltd inaugurated Mumbai's first solar-powered ATM to save on 1980 Kwh of energy annually. It is also supporting various environment friendly finance programmes and projects.
- IDBI has been actively complementing Government of India's policies, initiatives and targets set for sustainable economic development and environment protection.

- ICICI Bank's Green initiatives range from Green offerings/incentives, Green engagement to Green communication to their customers. Paperless initiatives like e-statements and e-greetings helped ICICI Bank save 30,000 trees from being felled in 2009-10 besides cutting down spending on stationery by Rs. 7.36 crore.
- The recycling initiative of Axis bank under the Green Banking banner has helped the bank productively use around 21,572 kilograms of dry waste during the year.
- Punjab National Bank launched green e-vigilance for the bank which involves paperless dealings in complaint and vigilance procedures through e-network which drastically cuts down cost and time.

### **FUTURE OF GREEN BANKING IN INDIA**

Indian economy is an emerging economy and there is a huge potential of growth of Indian banks by adoption of innovative approach in their strategy making process. There is a need of an approach towards paradigm shift by setting up of the business model which would consider all the three aspect of triple bottom line approach i.e. the people, the planet and the profit. The future of green banking seems to be very promising in India as lots of green products and services are expected in the future. Green excellence awards and recognitions, Green rating agencies, Green investment funds, Green insurance and Green accounting and disclosure are some of the things that would be heard and seen in operation in the near future. Proper green banking implementation will act as a check to the polluting industries. Banks can act like a guideline towards the economic transformation and create a platform that would create many opportunities for financing and investment policy and contribute towards creation of a low carbon economy.

### **SUGGESTIONS**

1. Make customers more and more aware about green banking through their websites.
2. Promoting different forms of electronic banking.
3. Creating customer's awareness thorough the media.
4. Carbon footprint reduction by saving energy and paper.
5. Carbon footprint reduction by offering transportation services for their employees.
6. Providing environment friendly rewards to customers.
7. By financing more and more environment-friendly projects.
8. Join hands in more and more environment preserving causes.
9. Focus of green IT infrastructure

### **CONCLUSION**

Green banking refers to the initiatives taken by the banks to encourage environment-friendly investment. Green banking as a concept is a proactive and smart way of thinking towards future sustainability. In the emerging economies, it is very important for the banks to be pro-active and accelerate the rate of the growth of the economy. As there is a continuous change in the environmental factors leading the banks face intense competition in the global market, the banks need to adhere to the stringent public policies and strict law suits. Banks need to apply morality of sustainability and responsibility to their business model, strategy formulation for products and services, operations and their financing activities and become stronger. By adopting the environmental factors in their lending activities, banks can recover the return from their investments and make the polluting industries become environment-friendly.

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### **WEBSITE**

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