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# Green Banking in India – Necessity and Significance in the current scenario

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## ABSTRACT

Green Banking means combination of operational improvements, technology and changing client habits in banking business. Adopting green banking is not only useful for environment but also benefits in greater operational efficiency. This paper analyzes the evolution of green banking concepts in India, its necessity and significance. It also highlights the major benefits and challenges of Green Banking. Banks should go green and play a pro-active role in India's emerging economy. This paper has also presented the status of Indian Banks as far as Green banking adoption is concerned. It also highlights the green banking initiatives been taken by the Indian Banking Industry. It gives a detailed study on the findings that there have not been many initiatives in this regard by banks and financial institutions in India though they play an active role in India's emerging economy. The objective of this study is to find out what initiative has been taken by the Indian Banking Industry to adopt Green Banking. This article also presents the to find out different ways to overcome such hindrances. Observational method and descriptive research design has been adopted for this research and secondary data has been chosen for the research.

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## Introduction

It means promoting environmental-friendly practices and reducing carbon footprint banking activities. This comes in many forms. Using online banking instead of branch banking. Paying bills online instead of mailing them, opening up CDs and money market accounts at online banks, instead of large multi-branch banks, or finding the local bank in the area that is taking the biggest steps to support local green initiatives. Any combination of the above personal banking practices can help the environment. So this leads to the question, which banks are green. In general, online banks and smaller community banks have better track record than larger banks. Green banking can benefit the environment either by reducing the carbon footprint of consumers or banks. Either works. Same with paper. Either a bank or a consumer can conserve paper and benefit the environment. Ideally, a green banking initiative will involve both. Online banking is an example of this. When a bank's customer go online, the environmental benefits work both ways. Green Bank Report in the form of green banking on the consumer side include: Gjreen Checking - converting checking accounts to online banking, Green Money Market Accounts - converting savings accounts to online banking, Green CDs – bonus rates for online banking, Green Loans – better rates for energy-efficiency projects, Green Mortgages – better rates for energy-efficient houses, Online Bill Payment, Reward Checking Accounts. For banking professionals green banking involves the tenets of sustainability, ethical lending, conservation and energy efficiency. Many banks are making dedicated efforts in their local community in these areas. Green banking is like a normal bank, which considers all the social and environmental/ecological factors with an aim to protect the environment and conserve natural resources. It is also called as an ethical bank or a sustainable bank. They are controlled by the same authorities but with an additional agenda towards taking care of the Earth's environment/habitats/resources. Green Banking as a concept is a proactive and smart way of thinking with a vision for future sustainability of our only Spaceship Earth. The SBI in India has

also gone with an operational segment of green banking. Green banking requires a paradigmatic change in thinking about economics, business and finance. Its success would be greater if the world governments started to revise their economic paradigms from being 'monetary economics' to 'ecological economics' and begin to transform their accounting principles from purely being financial into ecological/operational energy accounting patterns.

An ethical bank, also known as a social, alternative, civic, or sustainable bank, is a bank concerned with the social and environmental impacts of its investments and loans. Ethical banks are part of a larger societal movement towards more social and environmental responsibility in the financial sector. This movement includes: ethical investment, socially responsible investment, corporate social responsibility, and is also related to such movements as the fair trade movement, ethical consumerism, boycotting, etc. Other areas, such as fair trade, have comprehensive codes and regulations to which all industries that wish to be certified as fair trade must adhere. Ethical banking has not developed to this point; because of this it is difficult to create a concrete definition distinguishing exactly what it is that sets an ethical bank apart from conventional banks. Ethical banks are regulated by the same authorities as traditional banks and have to abide by the same rules. While there are differences between ethical banks, they do share a common set of principles, the most prominent being transparency and social and/or environmental aims of the projects they finance. Ethical banks sometimes work with narrower profit margins than traditional ones, and therefore they may have few offices and operate mostly by phone, Internet, or mail. Ethical banking is considered one of several forms of alternative banking, and shares some approaches with Islamic banking.

### Objective:

Green Banking is a key succession planning tool that provides the country with combination of improved operational

technologies with the changing habits of clients in banking business.

- Analyzing the theoretical aspect of Green Banking.
- Describing about different prospects of Green Banking
- Identifying its necessity and significance.
- Describing different strategies adopted for Green Banking.
- Identifying the initiatives taken in the country and world wide for implementing Green Banking.

#### **Literature Review:**

According to the words of Hamilton in 1995, Hart in 1995, Blacconiers and Pattern in 1995, different studies show positive correlation between the environmental and financial performance. Therefore it is necessary for the banking institutions to consider environmental performance in deciding whether to invest in companies or advise the clients to do so in the present scenario.

Schmidheiny and Zorraquine in 1996 and Ellis, Millians and Bodeau in 1992 described that for banking institutions, the formation of different rules for environmental management like resource conservation, clean water act, toxic substance control act are also viewed as potentially significant contributor to the recent increase in the environmental liability.

There are certain cases where environmental management system has resulted in cost savings, increase in bond value etc. The environmental management has resulted in lower risk, greater environmental stewardship and increase in operating profit. This statement is given by Heim. G ETAL, 2005.

According to Jeuken in 2001, there should be preparation of environmental risk and liability guidelines on development of protective policies and reporting for each project that the banking and financial institution finance or invest.

In the words of Gupta in 2003, Golder 2007, the financial institution should develop the right instruments to meet the needs of industry to control environmental impact as the investors in the stock market are equally aware of environmental pollution and would take a stand against those institution who do not comply with pollution norms.

In 1996, According to Schmidheiny and Zorraquine, banks play a hindrance role for sustainable development as a) they prefer short term pay back period as compared to sustainable development where they need long term investment, b) investment which take into account of environmental side effects usually have lower rate of return in short term. But still banks are not hindering the achievement of sustainability.

Government must design proper legislation of environmental rules for banks and ensure enforcement. The legislations are not yet framed in India, but things can change overnight resulting in major compliances problems for the companies and increased risk for the banks that have lent to them.

#### **Research Methodology:**

Research Methodology is a way to systematically solve the research problems. It may be understood as a science of studying how research is done scientifically. In it we are studying the research problems along with the logic behind them. It is necessary for the researcher to know not only the research method techniques but also the methodology.

It is descriptive type of research. The data has been collected from secondary sources such as from books, journals, records, and internet. Some data have been collected by referring to some books and web sites from internet. This research has also been done through observation.

#### **Necessity of Green Banking in India:**

From the last one and half decade, the record depicts that India is on a higher growth path and for this the most important role is played by the industrial sector for its growth. Still Indian industry faces the challenge of controlling environmental impact of their business as such, reducing pollution and emission of their dues. Though Government is trying to solve these issues by framing environmental legislation and practices, still these are not enough as the poor track records of enforcement; public awareness and inability derive competitive advantage by producing eco-friendly products.

India is the world's sixth largest and second fastest growing country in terms of producing green house gases. Delhi, Mumbai and Chennai are the three of the world's ten populated cities. The major polluting industries in India are:

1. Primary metallurgy industries
2. Paper and pulp
3. Pesticides and insecticides
4. Refineries
5. Fertilizers
6. Tanneries
7. Sugar
8. Textile
9. Chemicals/Pharmaceuticals etc

The banking and financial institutions should take care of environmental management of these polluting industries by improving the overall environment, the quality and conservation of life, level of efficiency in using materials and energy, quality of services and products.

Green Banks are intended to provide low cost financing to clean energy projects. Low cost lending can substantially reduce the cost of a clean energy project, making it cost competitive with fossil fuel generation or close to cost competitive and thus requiring much lower subsidies. A green bank would be a funding institution, because it could conservatively leverage its scare government and private funding. In many cases the green bank provides enough low cost funding so that when matched by commercial funding, the tranche provided by the bank would make the project financially viable to the developer.

Green banks are needed to lower the cost of clean energy projects because they are particularly sensitive to cost constraints. The reasons why new, clean technologies should be supported are as follows:

1. All technologies are becoming less expensive each year with every prospect that they will be fully competitive on their own with existing fossil fuel plants as new natural gas plants.
2. The clean technology industry is likely to be a multi trillion dollar industry on the global level.
3. The support for clean energy is designed to correct a market failure.
4. Unlike Solyndra, which was producing a new technology with uncertain demand, many new clean technologies raises little technological risk or market risk?
5. Clean energy technologies have large environmental and energy benefits.

#### **Significance of Green Banking**

Years ago, the business operations of banks and financial institutions did not consider environmental concerns to be relevant. Usually, the banking sector are now interfering the environmental degrading activities of clients in their business. Still it is being identified that dealing with environment brings risk to the business. Even if environmental degradation do not affect the banking and financial institution directly, still they incur certain indirect costs. World wide, the competent

authorities have imposed strict environmental disciplines which the industries have to follow to run their business. And in case there is failure, it will result in the closure of the business/industry leading to default to the bank.

In the current years, it is seen that there are several countries adopting policies which has made the banks responsible for the misdeeds of their clients. As a result of this problem, the financial institution requires to engage proactively with the stakeholders on environmental and social policy issues and assess the impacts of their client's investment. In turn, this would force the customers to take care of their management of environmental and social policy issues relating to investment. By avoiding the following risks that are involved in the banking sector, the importance of green banking becomes immense for both the banks and economy. The risks are:

#### **Credit Risk:**

This risk arises indirectly where banks lend to those customers whose businesses are negatively affected by the cost of cleaning up pollution or due to changes in environmental regulation. The cost of meeting new requirements on discharge levels may be adequate to put some companies out of business. Credit risks may be higher due to the possibility of the customers as he fails to pay, because of the uncalculated expenses for capital investment in production facilities, loss of market share and third party liability claim. Credit risks are also linked with providing on the security of real estate whose value has reduced owing to environmental problems. There are certain cases where banks have been accountable for actions occurring in which they held a secured interest.

#### **Legal Risk:**

It occurs in diverse forms. Most evidently, banks like other companies are at risk if they themselves do not act in accordance with the appropriate environmental legislation. But more specifically, they are at risk of direct lender liability for cleanup costs or claims for damages if they have actually taken control of contaminated or pollution causing assets. An environmental management system helps a bank to reduce risks and costs, enhance its image and take advantage of revenue opportunities.

#### **Reputation Risk:**

Because of the consciousness about environment safety, banking institutions are more prone to lose their reputation if they are involved in big projects, which are viewed as socially and environmentally damaging. There are certain cases where the environmental management system has resulted in cost savings, increase in bond value etc, and in some cases it has resulted in lower risk, greater environmental stewardship and in increase of operating profit. This type of risk involves in the financing of ecologically and ethically questionable projects.

#### **Current Scenario of Green Banking:**

The sustainable banking awards given by Financial Times did not have a single nationalized or major private bank. Yes Bank and ABN Amro which are minor players in the banking sector are the only two which feature in the list. This is what shows the negligence of green banking in India. RBI should take necessary steps and provide guidelines for the same. State Bank of India has tied up with Managing Emissions, a Mumbai based company involved in a business of setting up projects for renewable energy efficiency with carbon embedded assets, to provide 20,000 energy efficient plants to rural India through micro-finance loans. Recent green innovations of SBI include

1. Adapting 51 branches to green banking with paperless card less transaction lines to process deposits check cashing and other normal banking activities in India.
2. Supporting the construction of wind farms in India.

3. Making a commitment that new building will adopt green building standard including utilizing natural lighting and recycled water.

4. Implementing policies aimed at achieving carbon neutrality

5. Online money transfer between United States and India from branch banks.

#### **Initiatives to be taken for Green Banking in India**

1. There should be paperless statements, bills and annual reports.
2. The conservation charities are given donations as an incentive for choosing green products.
3. Homeowners are given special line of credit for investment in energy efficient upgrades.
4. Acquire low cost eco deposits specifically for eco loans where customers get bonus credits as fixed or percentage points based on the profits generated by these funds.
5. Propose or suggest eco loans for eco farming green buildings and cars, and green technology initiatives at reduced interest rates.
6. Mobilization of social media is done through mobile technology and online kiosks at branches for promotions and marketing instead of pamphlets and brochures.
7. Review operational processes and cut down on paper based documentation and disclosure at all stages.
8. Expand the existing mobile payment systems to reach the unbanked.
9. Invest in new core banking solutions to launch new eco products with reduced time to market.

#### **World wide initiatives taken for Green Banking:**

1. The Equator principle has been adopted by Canadian banks as a set of globally recognized voluntary guidelines which is established to access and manage the social and environmental risk in project financing.
2. Bank of China has exceeded RMB190 billion of green audit card issue at the end of 2010, with new issuances by more than 40 billion.
3. At the end of 2011, China Development Bank had lent 658 billion Yuan to energy saving emission reducing projects, accounting for 12.7% of the bank's outstanding loans.
4. China Development Bank Corp. which finances over 50% of overseas projects of Chinese enterprises has financed Chinese Company that operates an iron ore mine in Africa. These funds are apparently utilized to move surface soil to place of safety to protect local flora.
5. The State Bank of India has introduced "green channel countries" and no queue banking in over 5000 branches across India doing away with deposit slips.

#### **Challenges of Green Banking:**

The main challenges faced by Indian Banks are:

1. Majority of banks are identified as "Risk of failure of business to peers".
2. Lack of RBI mandates as main barriers to adopting sustainability.
3. Unavailability of skilled employees.
4. Insufficient budgets to train employees.
5. Complex reporting frameworks.
6. Lack of interest shown by customers and investors.

Other than these challenges, there are also certain supportive causes. They are:

1. Diversification Matters: Through screening of customers, Green Banks will be limiting and restricting their business to those entities those who will qualify. If they focus their loans to certain industries, they will open themselves up to being much more vulnerable to economic shifts.

2. These banks are still startups: It takes a typical bank about 3 to 4 yrs to start making money. There are many green banks those who are in business today, but still they are in start up mode as they are very new.

3. Banks are "specialized": The main goal of a green bank is to do good by supporting those who are taking care of the environment. But saving the environment does not necessarily equate to "making a profit". This statement has been proven wrong as the green banks have started that they can survive, even if they face restrictive requirements for doing business.

#### Conclusion:

India being the fourth largest polluting country, the need for green banking is higher than anywhere else. Green Banking if implemented sincerely will act as an effective ex ante deterrent for the polluting industries that give a pass by to the other institutional regulatory mechanisms. The banking and financial sector should be made to work for sustainable development. As far as green banking is concerned, India's banks and financial institutions are running behind time. None of the banks or financial institutions has adopted equator principle. Now it is the time to change green and India should take major steps to stick on equator principles to fund projects.

In the present context, it is equally important for banks to guard themselves against the conservation of the now performing assets into non-performing one in the future. Realization of these facts by banks will certainly make them fast adopt the concept of Green Banking. The industries, which are ill equipped to control pollution, are the possible polluters of future. A day may come when legislation may take a hard step against these environmental culprits and may order the closer of these units.

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