



GREEN BANKING: AN OVERVIEW

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ABSTRACT

Ecological preservation and sustainable development are recognized globally as overriding imperatives for protection of our planet from the ill-effects of global-warming and climate change. Banks and financial institutions can play a major role in global efforts to mitigate environmental risks and make this planet a better place to live. Companies are now increasingly interested in implementing strategies which will help in addressing environmental issues and contribute towards sustainable development. One step in this direction is Green Banking. Green banking is an umbrella term which refers to those practices and guidelines that make banks environmentally, economically and socially responsible. It means that banking business should be conducted in such areas and in such a manner which would help in overall reduction of external carbon-emission and internal carbon footprint.

Keywords: carbon footprint, climate-change, environmental risk, green banking initiatives, sustainability.

1. INTRODUCTION

The most complicated issue that the world is facing today is climate-change. There have been continuous endeavours across the world to measure and mitigate the risk of climate change caused by human activities. Many countries, including India, have made commitments necessary to do so. As socially responsible corporate citizens (SRCC), Indian banks have a major role and responsibility in supplementing government efforts towards substantial reduction in carbon emission. Although banks are considered environment friendly and do not impact the environment greatly through their own 'internal' operations, the 'external' impact on the environment through their customers activities is substantial. The banking sector is one of the major sources of financing industrial projects such as steel, paper, cement, chemicals, fertilizers, power, textiles, etc., which cause maximum carbon emission. Therefore, the banking sector can play an intermediary role between economic development and environmental protection, for promoting environmentally sustainable and socially responsible investment. 'Green banking' refers to the banking business conducted in such areas and in such a manner that helps the overall reduction of external carbon emission and internal carbon footprint. To aid the reduction of external carbon emission, banks should finance green technology and pollution reducing projects. Although, banking is never considered a polluting industry, the present scale of banking operations have considerably increased the carbon footprint of banks due to their massive use of energy (e.g., lightning, air conditioning, electronic/electrical equipment's, IT, etc.), high paper wastage, lack of green buildings,etc. Therefore, banks should adopt such technologies, processes and products which result in substantial reduction of their carbon footprint as well as develop a sustainable business.



2. LITERATURE REVIEW

Adoption of greener banking practices will not only be useful for environment, but also benefit in greater operational efficiencies. In the early 1990s, the United Nations Environment Programme (UNEP) launched what is now known as the UNEP Finance Initiative (UNEPFI) with the objective of integrating the environmental and social dimension to the financial performance and risk associated with it in the financial sector. First Green Bank is a commercial bank based in Mt. Dora, Florida, United States which commenced its operations in 2009. Some of the big international banks like ABN Amro, Deutsche, Standard Chartered, HSBC Bank etc. look at environment issues discussed under Kyoto Protocol. Recognizing the warning of global warming the State bank of India has initiated urgent measures to combat the climate change by reducing the bank's own carbon footprint and sensitizing the bank's clients to adopt low carbon emission practices (Sharma, N., 2011). As far as Green Banking in India is concerned, the banking and financial institutions are running behind the schedules compared to global trends.(nayak). Moreover, there is negligible awareness of green banking among the customers, even the bank staff (Verma M. K., 2012). In the context Indian policymaking, National Environmental Policy (NEP) in 2006 brings out clear policies, principles and also rules to implement environmental rules and regulations. The impact of banking services on the environment is huge because, banks consume natural resources which add to the pressure on the environment (Srivatsa H. S., 2011). ATMs have been widely adopted but the level of adoption of other electronic banking means despite their potential are yet to pick in a big way (Joshua A J & Koshy M P 2011).

3. STRATEGIES FOR GREEN BANKING APPROACH

The recent developments in Indian banking technology have transformed banking from the traditional system towards a more inclusive one incorporating the interests of customers, the bank and the environment. Nowadays, banking operations can be carried out through various banking delivery channels away from the bank branches. ATM is the most popular banking delivery channel and the extraordinary success of ATMs had made the banking sector courageous to develop more innovative alternative delivery channels such as Internet banking, mobile banking, green channel counters, kiosk banking, credit card, debit card, etc.

Steps in Green Banking

The incorporation of social and environmental strategies into the development goals of the banks can help them in arriving to an effective environmental management system. As per the empirical study done by Jha, N. and Bhome, S.(May'13), following are some of the steps that can be taken for going green in banking:-

- A. **Going Online:-** Online banking is a new and fast-developing concept in young and corporate India. It helps in conservation of energy and natural resources. Online Banking incorporates:1. Paying bills online, 2. Remote deposit, 3. Online fund transfers and 4. Online statements. Online savings account and mobile banking is the easiest way to do your bit to bank green and help the environment. Online banking creates savings from less paper, less energy, and less expenditure of natural resources from banking activities. Customers can save money by avoiding late payments of fees and save time by avoiding standing to queues and paying the bill from home online. These are also highly effective ways to keep track of your finances and to avoid late payment fees. Paying bills online is something of a lifestyle change, but it can be done. Telephone bills, cable bills, utility bills, credit card payments and mortgage payments can all be paid electronically.



- B. Using Green Checking Accounts:-** Customers can check their accounts on ATM or special touch screens in the banks. This can be called as green checking of account. Using a green checking account helps the environment by utilizing more online banking services including online bill payment, debit cards, and online statements. Banks should promote green checking by giving some incentives to customers by giving higher rate of interests, waiver or discount in fees etc.
- C. Green Loans for Home Improvements:-** The Ministry of Non-renewable Resource in association with some nationalized and scheduled banks undertook an initiative to go green by paying low interest loans to those customers interested in buying solar equipment. Before you undertake a major home improvement project, study if the project can be done in an eco-friendly manner and if you might qualify for a green loan from a bank Green loan are perfect for energy-saving project around the house.
For example, the new Green Home Loan Scheme from SBI will support environmentally-friendly residential projects and offer various concessions. These loans will be sanctioned for projects rated by the Indian Green Building Council (IGBC) and offer several financial benefits –a 5 percent concession in margin, 0.25 percent concession in interest rate and processing fee waiver.
- D. Power Saving Equipment:-** Banks can 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 areas. Banks can also make 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'.
- E. Saving Paper:-** Bank should purchase recycled paper products with the highest post-consumer waste content possible. This includes monthly statements, brochures, ATM receipts, annual reports, newsletters, copy paper, envelopes etc. Whenever available, vegetable-based inks are used instead of less environmentally friendly oil-based inks.
- F. Green Credit Cards:-** Some of the banks introduced Green Credit Card. The benefit of using a green credit card is that banks will donate funds to an environment-friendly non-profit organization from every rupee you spend on your credit card to a worthwhile cause of environment protection.
- G. 7. Use Of Solar And Wind Energy:-** Using solar and wind energy is one of the noble cause 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 part of its green banking initiative, SBI has installed 10 windmills with an aggregate capacity of 15 MW in the states of Tamil Nadu, Maharashtra and Gujarat.
- H. 8. Mobile Banking:-** Mobile banking is tricky. On the one hand, it is great to have the ability to check balances, transfer funds or pay bills from you phone. One the other hand, it 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 introduced this paper-less facility.

4. NEED OF THE HOUR

Green banking is an integral part of the Bank's environmental policy as applied through its wider Corporate Social Responsibility strategy. The adoption of green banking strategies will help the bank to deal with these risks involved in their business operation.(Biswas, N. 2011)



- Engage with key stakeholders and create awareness of environmental issues and their impact on the economy, the environment and the society.(Singh, Y. 2015)
- Banks can involve themselves in carbon credit business, wherein they can provide all the services in the area of clean development mechanisms and carbon credit business
- Banks can support projects ranging from community cleanups to national initiatives on climate change, water, air, biodiversity and more.
- Ginovsky (2009) had emphasized that in order to implement ecologically friendly practices, banks should launch new banking products which promotes the sustainable practices and also needs to restructure their back office operations.
- Set SMART (Specific, Measurable, Attainable, Realistic, and Timely) green goals as the internal targets to reduce carbon footprint along with timelines. (Singh, Y. 2015)
- The banks can manage environmental risk by designing proper environmental management systems to evaluate the risks involved in the investment projects. Thereafter, those risks can be internalized by introducing differential interest rates and other techniques. Also, the bank can withdraw itself from financing high-risk projects.
- Green banking signifies generating such financial products and services that support commercial development with environmental benefits.
- The banking institutions should prepare an environmental risk and liability guidelines on development of protective policies and reporting for each project they finance or invest (Jeucken, 2001).

5. ROAD AHEAD

The perception towards complying with environmentally-safe norms and standards is changing over time. People are gradually becoming more conscious about environmental issues. Therefore, the banks have huge scope to attract them to adopt environment friendly green banking practices.

Environmental friendly or green technologies also make economic sense for the banking industry. Today it is believed that adopting environmentally sustainable banking saves costs and time, minimizes the risk, enhances the reputation of banks and contributes to the common good of environmental sustainability. So it serves both the purposes of commerce as well as social responsibility.

Realizing its importance, more and more people are gradually becoming computer literate and number of mobile and internet users is increasing day by day, thereby, facilitating widespread implementation of green banking practices throughout the country.

However, as pointed out by Biswas, N. (2011), banks need to be more cautious in India about the environmental aspects of their clients and products because (a) the future of exports-market is likely to experience stringent environmental rules and so eco-friendly products will have better market. (b) increase in demand for pollution-control technologies will require more financial assistance from banks. (c) Reserve Bank of India (RBI) may follow environmental guidelines for the banks on the lines of IFC and Asian Development Bank. (d) big investment projects supported by international organizations like the World Bank and ADB require Environmental Impact Assessment (EIA). so the banks should lay roadmaps and chalk out plans to implement procedures like (i) assessment of risk due to environment (ii) Environmental audit management (iii) assessment of credit requirement and loan follow up before investing on different projects.



However, since banking sector is profit driven, it might need incentives from the government to assist in environmental protection which is beneficial for the citizens and society, as a whole, and also to the banking sector itself in the long-run.

6. CONCLUSION

Banks are responsible corporate citizens. Banks believe that every small 'GREEN' step taken today would go a long way in building a greener future and that each one of them can work towards to better global environment. 'Go Green' is an organization wide initiative to lead banks, their processes and their customers to cost efficient automated channels. This will help in reducing carbon-footprint as well as in building awareness and consciousness about environment, nation and society . All over the world, banks and financial institutions are concerned about the overall impact of depletion of environment. To sustain the development of the Indian economy bank and financial institution have to work more hard as compare to big foreign banks as they are playing important role in maintaining the sustainability of their country economy. Overall, green banking is really a good way for people to be more aware about global warming and will contribute a lot to the environment and make this earth a better place to live for future generations. There is definitely a huge opportunity in clean, renewable energy technologies, emissions reduction and reduced-carbon transportation which can be slowly and steadily be achieved if we get cooperation from all sectors of the economy and bank being an integral part of our economy must lead from the front. Currently, in India, the concept of green banking is catching up and banks are actively looking for ways to portray themselves as a Green Bank.

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