

# Green Banking: A step towards Sustainable Development

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**Abstract:** *In this era of globalization the depletion of greenery is being missed badly and it is time to sustain ecological balance. Everybody in this society is becoming more and more concerned and worried about the natural environment hence business organizations and corporations have started modifying their working. This is a serious and sincere attempt to increase greenery to the maximum possible. Banks are the real catalyst, as they are having big hand in the development of economy. So Indian banks can play big role in the implementation of green banking in India. The present paper aims to study the concept and need of green banking. Further an attempt has been made to study the certain strategies of adopting green banking.*

**Keywords:** *Green Banking, Sustainability Banking, Ethical Banking, Socially responsible Banking.*

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## INTRODUCTION

Green banking means combining operational improvements, technology and changing client habits in banking business. It means promoting environmental-friendly practices and reducing carbon footprint from banking activities. This comes in many forms such as – 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 (Singh and Singh, 2000). Considering the social responsibility towards environment protection, the role of green banking is expected to be observed at all levels of business process in this globalized world.

Jeucken (2001) compared 3 world regions Europe, North America and Oceania for the period 1998-2000 on the basis of environmental and annual reports of banks and analyzed some important differences between regions, countries, and banks with regard to sustainable banking. The results showed that a defensive position towards the environmental issue is adopted by 53% of the banks and a large number of banks are unaware of the role that they can play for sustainable development. Sahoo, Pravakar and Nayak, Bibhu Prasad (2008), in their research article on “Green Banking in India” highlighted that banking sector is one of the major stake holders in the industrial sector; it can find itself faced with credit risk and liability risk. Further, environmental impact might affect the quality of assets and also rate of returns of banks in the long run. Thus the banks should go green and play a pro-active role to take environmental and ecological aspects as part of their lending principle, which would force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems.

Bihari, Suresh Chandra (2010), in his research article analyzed the social responsibility of banking sector. He concluded that the role of banks in controlling the environmental damage is extremely important. As per relatively indirect nature of their environmental and social impacts, banks need to examine the effects of their lending and investment decisions. Incorporating environmental and social criteria into business decision making can reduce the adverse impacts of operating activities. Financial institutions can do a lot to assist efforts for corporate social responsibility and achieve sustainability.

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 bank's image. After reviewing the studies done in India and abroad, it is very evident that many banks are putting their best endeavors to achieve sustainable development by initiating green practices. The response to this environmental turbulence is tardy.

### **Need of the study**

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 reputation risks have constantly been haunting these banks unless such initiatives are taken.

### **Growth of Green Banking**

The most important theme of twenty first century are the Environmental protection and sustainable ecological balance and it become a important issue that must be considered by all functional areas including banking. Green banking involves environmental and social responsibility. This word is new in Indian banking and it appeared in 2009 when there were concern on environment conservation and it was realized that banks can play a big role in this movement. Green Banking encompasses a wide variety of banking services. The banks are providing finance to primary metallurgical industries, paper and pulp, pesticides / Insecticides, fertilizers, chemical / pharmaceuticals, textiles etc and bank may play a big role by scrutiny of investment projects from the environmental angle.

Banks have now started to obtain NOC from respective state pollution control board. Many banks are promoting online banking services as a form of green banking. Benefits of online banking include less paperwork and less driving to branch offices by bank customers. Green banking also reduces the expenditure of bank and branch by minimizing the use of paper work and mailing fees. Thus green banking not only important for environmental point of view but also mitigate the credit risk, legal risk and reputation risk (Verma, 2012).

The few banks who have adopted green banking in their banking business include:

#### **RBI-Central Bank of India**

RBI is very attentive on this issue and notified all commercial banks on the issues of CSR, sustainable development and non-financial reporting and advised all banks must incorporate these issues in their banking business. Though RBI has advised but only few banks have started green banking. In spite of all instructions by RBI, regulator Indian banking is far behind than global counterparts. Except one or two banks from private or foreign banks are participating in "Financial Times Sustainable Banking Awards". In 2009, only YES bank, NABARD and SIDBI from India have participated in this award. Recently some banks have adopted measures for reducing carbon emissions, as India has committed to reduce its carbon intensity by 20-25 % from 2005 levels by 2020. Some of the banks have initiatives in this sector. The details of these banks are as under:

#### **State Bank of India**

SBI has launched green banking policy and set up windmills in Tamil Nadu, Maharashtra and Gujarat to generate 15 MW power. This is the first bank in India which is in green banking and promoting green power projects. SBI has launched Green Housing or Green Home projects to support projects those will be environment friendly. In this scheme bank offer various concessions- reduced margins, lower rate of interest and zero processing fee. These loans will be sanctioned for projects rated by Indian Green Building Council (IGBC).

#### **ICICIBank**

ICICI bank has made tie up with Bombay Natural History Society to sensitize projects related with wildlife biodiversity, projects suiting environment. Bank is offering 50 % concession on fuel efficient car models. Bank has also assisted a company in the development of eco-friendly air- conditioner, these will consume only 35 % power based on compressor based technology.

#### **IndusInd Bank**

IndusInd bank has installed first ATM based on solar power at Mumbai. Bank has green banking under name "Hum Aur Hariyali" and also prepared Green Office Manual.

#### **Union Bank Of India**

Union bank of India has decided to undertake an electrical energy audit annually. Bank has also installed solar water heaters at various facilities.

#### **YES Bank**

Bank has started 'Planet Earth' project to create awareness in local communities surrounding their bank branches. The themes of this project are pollution prevention, recycling and minimizing waste, conserving energy, conserving water and improving sanitation and cleanliness

## II. GREEN BANKING STRATEGIES

Indian Banks can adopt green banking as business model for sustainable banking (Verma, 2012). Some of following strategies little reflected in their banking business or must be adopted by banks.

1. **Carbon Credit Business:** Under the Kyoto Protocol, all Nations must reduce green house gases emission and reduce carbon to protect our environment. These emissions must be certified by Certified Emission Reductions (CERs), commonly known as carbon credit. The Indian Bank may start this business as in London the business of carbon credit is around 30 Billion Euro.

2. **Green Banking Financial Products:** Banks can develop innovative green based products or may offer green loans on low rate of interest. As Housing and Car loan segments constitute the main portfolio of all banks so they adopt green loans facility. SME loans on the basis of National Environmental Policy and its certification through ISO 14000.

3. **Paperless Banking:** All banks are shifting on CBS or ATM platform, also providing electronic banking products and services. So there is ample scope for banks to adopt paperless or less-paper banking. Private and foreign banks are using electronics for their office correspondence but still in PSU banks they are using huge paper quantity.

4. **Energy Consciousness:** Banks have to install energy efficient equipments in their office, use CFL and avoid mis-utilization of these equipments. Banks have to transform this green banking in hardware, waste Management in office, energy efficient technology products. Banks can donate energy saving equipments to schools and hospitals etc.

5. **Using Mass Transportations Systems:** Banks have to provide common transport for groups of officials posted at one office.

6. **Green Buildings:** Banks have their residential houses, branches or ATMs, so banks may adopt green buildings to protect our environment.

7 **Social Responsibility Services:** As part of green banking strategy, Indian banks can initiate various social responsibility services such as tree plantation camps, maintenance of parks and pollution checkup camps etc.

## III. CONCLUSION

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

Green banking, if implemented sincerely will act as an effective preventive measure 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 Indian banks and financial institutions are running behind time. It is high time that Indian banking systems strongly adhere to equator principle – guidelines that use environment sensitive parameters, apart from financial parameters, to fund projects.

Finally, it is observed that banks in India are moving towards sustainability through social banking and innovative service operations and offerings. The sample considered here for analysis has proved this point very clearly. The trend is evident in both public sector as well as private sector banks. It is found that both types of banks have embraced service innovation as a part of their future banking strategy and are moving continuously towards customer-centric and service-centric banks. It is also found that the innovation is not limited only to product or process innovations but also to business model innovation, operations innovation, markets innovation, and more importantly, paradigmatic innovations

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