Journal of Poverty, Investment and Development www.iiste.org
ISSN 2422-846X An International Peer-reviewed Journal
Vol.14, 2015

GREEN BANKING IN INDIA

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ABSTRACT
Change is the need of hour for survival in all spheres .Global warming, also called as "Green House Effect" is a global issue that calls for a global response. The world has seen much focus on economic progress and mankind has made giant steps in its journey through time. Today's business is all about being green. From Wal-Mart to Apple, everyone is talking about how green their approach, packaging, or methods are. But green business is really in its infancy, and the future of being green will no doubt distill down to some very real and definable goals and practices. 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. Green Banking is a concept in which banks are making an effort to restore the natural environment and to make the industries go green. Green banking means promoting environmental friendly practices and reducing carbon footprint from banking activities. It will not only ensure greening of industries but it will also facilitate in improving the asset quality of banks in future. Businesses in India are turning green due to public pressure and government regulation. Besides attracting capital investment, green companies have realized that waste management and pollution control have their own benefits. So, to substantiate quality of service, implementation of environmental conservation measures, support to deprived section of society, and concern about quality of life, nature are the basic principles that financial institutions are relying on in their business strategies in recent years. This paper covers introduction, importance of green banking, green banking initiatives, environmental management by banking institutions, and enforcement of environmental management and role of government and green banking strategies.
Keywords: Green Banking Initiatives, Environmental Protection, Green Banking, Green House Effect Online -Banking, RBI, Global Warming.

1.1 INTRODUCTION
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 toward taking care of the Earth's environment/habitats/resources. In a world where both cheap credit and measures to protect the environment are few and far between, there is in fact a banking initiative which is combining both. Green banking encompasses everything from a loan to purchase an energy efficient car, cash to help save energy in the home, and loans for businesses who want to go green. As green initiatives sweep across the globe, more and more financial institutions are taking note and taking action. The approach to green banking or sustainable banking as it is also known varies from organization to organization. However, one definition is that is sustainable banking means using all of the banks resources with responsibility and care, avoiding waste and giving priority to choices that take sustainability into account. Banks, like corporate clients, have realized that sustainability and profitability go hand in hand as organizations looks to cut costs, streamline operations and create long-term processes Green banking will not only ensure the greening of industry but it will also facilitate in improving the asset quality of banks in future. One of the major agents influencing overall industrial activity and economic growth is the financial institution such as banking sector, multilateral agencies, multilateral financial and development institutions has great role for providing environmentally responsible/ socially responsible investment projects.
"Green Banking is an effort by the banks to make the industries grow green and in the process restore the natural environment." It means combining operational improvements and technology, and changing client habits. For example, remote deposit means growth without bricks and mortar, ACH payments slash outgoing mail and e-statements save trees -- money spent on these initiatives will bring returns long after the current period of tight belts. Green Bank looks at green banking in three areas -- operational, technological and client acceptance. Improvements have been made in the operational area such as replacing daily courier service with scans and electronic delivery. All of the employees receive paychecks and reimbursement checks electronically. There are different ways in becoming green with banking:
a.GreenAccounts
b.OnlineStatements
c. Internet Banking Registration

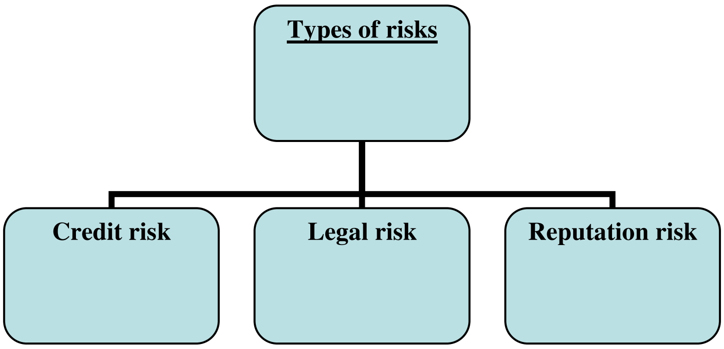
It means receiving monthly statement electronically instead of traditional Banking statements. In this way one is helping in reduction of paper consumption and waste. A good online banking system is the linchpin of reduced costs, improved performance and competitiveness. Providing the service at no cost to retail and business customers. The logical progression of online banking -- converting existing customers to online bill payment -- is a harder step and can require a lot of legwork. Once customers get here, there is the chance of moving to completely electronic banking.

Even as the market slows in the face of economic upheaval, many financial institutions and corporate are keeping a focus on green. For banks the activities are manifesting with policies that focus on green lending trends and investment strategies. Financial institutions are also pledging commitment to sustainability further by signing on to initiatives like the Equator Principles.

The International Organization for Standardization (ISO) has issued series of comprehensive guidelines for incorporating environmental protection and pollution prevention objectives into industrial activity world-wide known collectively as ISO-14,000.

1.2 IMPORTANCE OF GREEN BANKING

Traditionally, banking sectors concern for environmentally degrading activities of clients is like interfering or meddling in the business affair. However, now it is being perceived that dealing with environment brings risk to business. Due to strict environmental disciplines imposed by the competent authorities across the countries, industries would have to follow certain standards to run their businesses. In case of failures, it would lead to closure of industries leading to a likelihood of default to the bank. For example, the enactment of comprehensive environmental response, compensation and liability act in 1980. Therefore, the financial institutions need to engage proactively with shareholders on environmental and social policy issue and evaluate the impact of the client's investment. The importance of green banking is immense for both the banks and the economy by avoiding the following risk involved in banking sector:-



1) **Credit Risk**

It can arise indirectly where banks are lending to customers whose businesses are adversely affected by cost of cleaning of pollution or due to changes in environmental regulation. The cost of meeting new requirements on emission levels may be efficient to put some companies out business. Credit risks may be higher due to the probability of customer default as a result of uncalculated expenses for capital investment in production facilities, loss of market share and third party liability claim. Further, risk of loan default by debtors due to environmental liabilities because of fines and legal liabilities and due to reduced priority of repayment under bankruptcy.

2) **Legal Risk**

Banks like other companies are at risk if they themselves do not comply with relevant environmental legislation. But more specifically, they are at risk of direct lender liability for clean up costs or claim for damages if they have actually taken possession of contaminated or pollution causing assets. So, environmental management system helps the bank to reduce risk and cost, enhance its image and take advantage of revenue opportunities.

3) **Reputation Risk**

With the growing awareness about the environment safety, banking institutions are more grown to loose their reputation if they are involved in big projects, which are viewed as socially and environmentally damaging. In certain cases, environmental management system resulted in lower risk, greater environmental stewardship and increase in operating profit. The polluting industries face more resistance and often forced to close down or face massive boycott by the consumers. Green banking solves the problem faced by the environmental regulation and enforcement authorities relate to size and location of polluting unit.

1.3 Green Banking Product Coverage Includes

• Green mortgages
• Green loans
• Green credit cards
• Green savings accounts
• Green checking accounts
• Green CDs
• Green money market accounts
• Mobile Banking
• Online banking
• Remote deposit (RDC)

1.4 Green Banking: Initiatives

The purpose of Green Banking initiatives taken by central bank is to ascertain required measures to save the environment and reduce pollution while serving or financing customers and improve in-house environment management through efficient and effective use of resources in all the branch and head offices of banks. Bangladesh Bank is well aware of the environmental degradation situation and has already given time-to-time directions to all scheduled banks. Commercial Banks are now required to ensure necessary measures to protect environmental pollution while financing a new project or providing working capital to the existing enterprises. Banks have been advised to facilitate their clients with utmost care financing for installation of Effluent Treatment Plant (ETP) in the industrial units and to finance in Solar Energy, Bio-gas, ETP and Hybrid Hoffman Kiln (HHK) in brick field under refinance programme of Bangladesh Bank.
By implementing this policy banks intend to accomplish the following objectives:
* Increase goodwill or improve brand image by showing their commitment to save and protect the environment;
* Reduce giving loans to certain environmentally harmful projects;
* Check the necessary environmentally due diligence factors before lending a loan/investment;
* Make efficient and effective use of resources and channel financing in an environment friendly manner;
Introducing new technology in banking operations that would not only benefit customers but also increase the productivity of employees;
* Reduce carbon foot print in all branches and head offices of all banks;
* Create awareness amongst the stakeholders about environmental and social responsibility enabling them to adopt environmentally friendly business practices.

1.4.1 International Initiatives

In early 1990's, the United Nations Environmental Programme (UNEP) launched what is now known as UNEP Finance Initiative. 200 financial institutions around the globe are signatories of this initiative statement to promote sustainable development within the framework of market mechanisms towards common environmental goals. The objectives of this organization are to integrate the environmental and social dimensions to financial performance and risk associated with it in financial sector.

ABN-Ambro Bank has developed certain reputation risk management policies to identify, access and mange non-financial present within business engagement. Going further, the Dutch Government has made a formal request to the banks in achieving sustainable development. The dialogue between banks and government was established in 1999 to initiate policies for environmental improvements through the development of new financial products and services.

In 2002, a global coalition of NGOs formed a network named "Bank Tract" to promote sustainable finance in the commercial sector. This coalition came up with a resolution constituting six principles promoting environmental protection and social justice by banks and this is popularly known as Collecvecchio Declaration. The six principles that this declaration advocated included commitments to sustainability, no-harm, responsibility, accountability, transparency and sustainable market, and governance. More than 200 organizations have endorsed this declaration states that "Finance and Commerce has been at the center of a historic detachment between the world's natural resource base, production and consumption.

A small group of banks along with IFC came together to initiate the process of designing the common guidelines in October 2002 and came up with a guidelines in June 2003 that is known as *Equator Principles* with 10 leading commercial banks adopting these voluntary set of principles. This equator principle was subsequently updated and the new revised sets of principles are launches in July 2006. The coverage of projects being financed is expanded in this revised set of principles by lowering the finance threshold from $50 million to $10 million.

Unless the market for green money will increase, the lenders will always have an initiative to procrastinate their social commitments and prioritize the commercial interest in social run. So, demand for green money is pre condition of green banking.

1.4.2 Green Banking In India

Banking sector is generally considered as environmental friendly in terms of emissions and pollutions. Internal environmental impact of the banking sector such as use of energy, paper and water are relatively low and clean. Environmental impact of banks is not physically related to their banking activities but with the customer's activities. So, there are various activities done by banks to promote green banking in India which are as follows:-

1 **ICICI Bank's** Green initiatives aimed at customers are driven by the objective of collaborating with each of the customers and making 'Green' a part of all the lives. These initiatives range from Green offerings/ incentives, Green engagement to Green communication to the customers. Green products and services provided by ICICI Banks are:-

'Instabanking' - It is the platform that brings together all alternate channels under one umbrella and gives customers the convenience of banking anytime anywhere through Internet banking, i-Mobile banking, IVR Banking. This reduces the carbon footprint of the customers by ensuring they do not have to resort to physical statements or travel to their branches.

Vehicle Finance- As an initiative towards more environment friendly way of life, Auto loans offers you 50% waiver on processing fee on car models which uses alternate mode of energy. The models identified for the purpose are, ***Maruti's LPG version of Maruti 800, Omni and Versa***, ***Hyundai's Santro Eco***, ***Civic Hybrid of Honda***, ***Reva electric cars***, ***TataIndicaCNG*** *and* ***MahindraLoganCNGversions***. Each car that hits the road impacts the environment...make an informed choice for a better earth.

Home Finance- ICICI Home Finance offers reduced processing fees to customers who purchase homes in 'Leadership in Energy and Environmental Design' (LEED) certified buildings.

2**. SBI** to set up wind mills in 3 Indian states:-Seeking to promote green energy as part of its Green Banking Policy, public sector bank State Bank of India is planning to set up windmills in the three Indian states of Tamil Nadu, Maharashtra and Gujarat.A total of 15 MW of power is expected to be generated through the new mills in these states as part of the project, bank sources said.In the southern Indian state of Tamil Nadu, a windmill would be set up at Panapatti village in Coimbatore district and the SBI chairman would inaugurate it on April 23.While the mill in Tamil Nadu would generate 4.5 MW of power, the mills in the western states of Maharashtra nd Gujarat would have a capacity of 9 MW and 1.5 MW respectively.The windmill project is an effort to provide an environment friendly 'green power' as a substitute to polluting thermal power, they said.

3. **IndusInd Bank:-It had** opened the country's first solar-powered ATM and pioneered an eco-savvy change in the Indian banking sector. The picture below show us the first solar –powered ATM

SOLAR-POWERED ATM

4 **.HDFC Bank** had also provided green tips to promote green banking:- In order to save more of trees purchase recycled paper, print on reusable sheets, pint multiple pages on single sheets of paper, set defaults to print double-sided and print on both sides, print only the pages required, preview documents before printing, increase

margin width of the documents and change the default font size from 12 point to 10 which would shrink your document by about 10%.

1.5 Environmental Management By Banking Institutions

The financial institutions should encourage projects which take care of the following points while financing them. (a) Sustainable development and use of natural renewable resources, (b) Protection of human health, bio-diversity, occupational health and use of energy, (c) Population prevention and waste minimization, (d) There should be a third party expert to draw a plan for environment management plan.

FI's should keep following aspects in mind while financing any projects:-

1) Banking Institutions need to evaluate the value of real property and the potential environmental liability associated with real property. Therefore, the banks should have right to inspect the property or to have an environmental audit perform through the life of a loan.
2) Analyzing the project in terms of scale, nature and magnitude of environmental impact. The project should be evaluated on the basis of potential negative and positive environmental effects and then compared with the 'without project situation.'
3) Banks also need to monitor post transaction for the ideal environmental risk management program during project implementation and operation. There should be a physical inspection of production, resources and audit programs etc.
4) While investing or funding the projects the financial institutions should access the sensitive issue like vulnerable groups, involuntary displacement etc. and projects should be evaluated in terms of environmentally important areas including wet lands, forests, grasslands.
5) The next round of evaluation includes loan structuring, credit approval and loan management. Further banks have annual audits, quarterly environmental compliance certificates from independent third party and also from the government.

1.6 Role of the Government

Apart from industry and agriculture, banks as the financing agent of the economic and developmental activities of the world, could also play a crucial role in promoting overall sustainable development. It is in this respect that the concept of green banking has emerged and is recognized as an important strategy to address sustainable development concerns and creating awareness among people about environmental responsibility. Green banking has two dimensions. First, the way the banking business is being done – is it paperless or not. There is often a doubt that what big impact a monthly paper statement can have. It could be enormous. Estimates for US suggest if every household were able to switch to paperless bank billing, this would save an estimated 16,500,000 trees per year or about a 46,000 acre forest, 396,000 tonnes of CO_2 a year, 495,000 tonnes of air pollution per year and gain almost 2,145,000 tonnes of oxygen per year. There are several guidelines from the Reserve Bank on e-banking and banks are also putting sincere efforts towards adopting paperless banking.

The second dimension of green banking relates to where the bank puts its money. Green Banking entails banks to encourage environment friendly investments and give lending priority to those industries which have already turned green or are trying to go green and, thereby, help to restore the natural environment. There are no specific RBI regulations/guidelines for banks on green banking. Commercial Banking has been more attentive to the investment banking than the environmental problems; the environmental liabilities would play a larger role in the banks investment decision in near future. Further, the environmental audits are required to determine the environmental status of the facility, property and operations. To identify regulatory compliance status, past present problems and potential environmental risks and liabilities associated with the project, there should be an independent body or an environment investigation team. Government should enact legislation to force banks to consider producing a formal environmental policy statement and making publicity available. Role of Government in promoting Green Banking in India is as follows:-

1. **<u>Green jobs</u>:-** Green jobs are a potential area of creating more employment opportunities as there are good prospects of green jobs generation in non-conventional energy sector and other emerging sectors It is a job which is mainly concerned with agricultural, manufacturing, research and development, administrative, and service activities that contribute to preserving environmental quality, including jobs that help in protecting ecosystems and biodiversity..

2**<u>. Green Funds</u>:-** A mutual fund or other investment vehicle that will only invest in companies that are deemed socially conscious in their business dealings or directly promote environmental responsibility. A green fund can come in the form of a focused investment vehicle for companies engaged in environmentally supportive businesses, such as alternative energy, green transport, water and waste management, and sustainable living.

3**.<u>Green Buildings</u>:-G**reen building is the practice of creating structures and using processes that are environmentally responsible and resource-efficient throughout a building's life-cycle from siting to design, construction, operation, maintenance, renovation and deconstruction. For example- green buildings may incorporate sustainable materials in their construction (e.g., reused, recycled-content, or made from renewable resources); create healthy indoor environments with minimal pollutants (e.g., reduced product emissions); and/or feature landscaping that reduces water usage (e.g., by using native plants that survive without extra watering).

1.7 GREEN BANKING STRATEGIES

Indian banks can adopt green banking as a business model for sustainable banking by launching some of the following strategies.

1. Paperless Banking For Carbon Footprint Reduction: Carbon footprint is a measure of the Green House Gases (GHG). Almost all banks in India are computerized or operate on a core banking solution (CBS). Thus, there is ample scope for the banks to adopt paperless or less paper banking. These banks can switch over to electronic correspondence.

2. Green Banking Financial Products: Indian bank can introduce "Green Fund" to provide climate conscious customers the option of investing in environment friendly projects. Banks can also introduce green bank loans with financial concessions for environment friendly products and projects such as fuel efficient vehicles, green building projects, housing and house furnishing loans to install solar energy system etc.

3. 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, pollution checkup camps etc

4. Energy Consciousness: Developing energy consciousness adopting effective office time management and automation pollution and using compact fluorescent lighting (CFL) can help banks save on energy consumption considerably. They can also switch over to renewable energy (solar, wind etc) to manage their offices and ATMs.

5. Green Building: The Indian banking industry uses more than one lac premises for their offices and residential houses throughout the country. These banks should develop and use green buildings for their office and employee accommodations. A green building uses less energy, water and natural resources, creates less waste and is healthier for the people living therein compared to a standard building. These measures will not only help banks reduce their carbon footprint but also save their operational cost considerably.

6. Using Mass Transportation System: PSB can become fuel efficient organizations by providing common transport for groups of official posted at one office.

1.8 Conclusion

To conclude, today the definition of development is fast changing. The feeling is growing that we should re-order our priorities and move away from the single-dimensional model which has viewed economic performance only in terms of growth (GDP), without really considering the social and environmental sustainability of our growth. Banks, like the corporate clients, have realized that sustainability and profitability go hand in hand as organizations looks to cut costs, streamline operations and create long-term processes. Green banking if implemented sincerely will act as an active ex ante deterrent for the polluting industry that gives a pass by to the other institutional regulatory mechanism. There has not been much initiative in this regard by the banks and other financial institutions in India, though they play an effective role in India emerging economy. 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 principles even for the sake of records. Neither of them are signatory to UNEP financial initiative statement. It is time that now India take some major steps to gradually adhere equator principles, guidelines that use environment sensitive parameters, apart from financial, to fund projects.

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