

A Future Perspective Study of Green Banking

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ABSTRACT: Environmental degradation and climate change is one of the most pressing issues at present. Thus, sustainable development and preservation of environment are now a day's recognized important all across the world. Banking sector being an intermediary sector plays a major role in an economy. Although, banking is never considered a polluting industry, the present scale of banking operations has considerably increased the carbon footprint of banks due to their massive use of energy. Green Banking refers to the initiative by banks to encourage environment friendly investments, to give lending priority to those industries which have already turned green or are trying to grow green and thereby help to restore the natural environment. Considering its importance, RBI has given guidelines for greening banking in two levels: Greening Processes, Products, Services, and Strategies i.e. making day-to-day business operations, banking products and services greener by following simple practices and making them environmentally friendly and Greening Infrastructure i.e. making IT infrastructure (including data center) and physical infrastructure (including buildings) greener and taking initiatives so that a bank could itself generate electricity for its own consumption. Realizing the importance of green banking, various banks have taken strong initiatives to reduce their carbon footprints. In the end, the paper generates following recommendations for banks: paperless statements, online bill payment, online saving account etc. Green banking has strong future prospects with customers also valuing and giving preference to green banks.

Keywords: Sustainable Development, Degradation, Green Banking, Green Processes

Introduction

Environmental degradation and climate change is one of the most complicated issues at present. Inaction to stop this would significantly affect not only current but also future generations and our further progress. However, silver lining to the cloud is that there is now greater awareness and a growing commitment to address environmental problems. Thus, sustainable development and preservation of environment are now recognized globally as overriding imperatives to protect our planet from the ravages inflicted on it by mankind through their various activities.

Various global initiatives are underway to counter the ill effects of development that we encounter today such as global warming and climate change. A common thread running across all these initiatives is the focus on reducing the demand for fossil fuels by implementing the 3R's viz. Reduce, Reuse and Recycle.

Banking sector being an intermediary sector plays a major role in an economy. 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., lighting, air conditioning, electronic/electrical equipments, IT, etc., high paper wastage, lack of green buildings, etc.

Therefore, banks should adopt technology, process and products which result in substantial reduction of their carbon footprint as well as develop a sustainable business. Further banks are sources of funds for industries having high carbon footprint.

Green Banking refers to the initiative by banks to encourage environment friendly investments, to give lending priority to those industries which have already turned green or are trying to grow green and thereby help to restore the natural environment. This initiative of green banking is mutually beneficial to the banks, industries and the economy.

The Indian banks are still taking baby steps into this form of banking. Still, many of them are keen to actively pursue this strategy.

Through this paper, we tried to explore the importance of Green Banking and highlighted important lessons for sustainable banking and development in India and discusses the future prospects of green banking.

Green Banking

Green Banking means promoting environmentally friendly practices and reducing the carbon footprint from the banking activities. Institute for Development and Research in Banking Technology defines Green Banking as 'Green Banking is an umbrella term referring to practices and guidelines that make banks sustainable in economic, environmental, and social dimensions. It aims to make banking processes and the use of IT and physical infrastructure as efficient and effective as possible, with zero or minimal impact on the environment.

It is defined as means of promoting environmental friendly practices and reducing carbon footprint by banking activities. Green Banking is an umbrella term referring to practices and guidelines that make banks sustainable in economic, environment, and social dimensions. It aims to make banking processes and the use of IT and physical infrastructure as efficient and effective as possible, with zero or minimal impact on the environment.

Green approach is not benefiting only the environment but it is beneficial for organizations in many ways. Various studies have shown that there is positive correlation between the environmental performance and financial performance. Along with environmental benefits, the the green approach have also resulted in increased profit, reduced cost and increased competitiveness. Some of the other benefits include: increasing energy consumption and energy prices, growing consumer interest in environmentally-friendly goods and services, higher expectations by the public on enterprises' environmental responsibilities and emerging stricter regulatory and compliance requirements.

Guidelines by Reserve Bank of India for Green Banks

Considering the nature of banking processes and infrastructures, RBI has formulated proper framework for greening banking in two levels.

- A. Greening Processes, Products, Services, and Strategies: Making day-to-day business operations, banking products and services greener by following simple practices and making them environmentally friendly.
- B. Greening Infrastructure: Making IT infrastructure (including data center) and physical infrastructure (including buildings) greener and taking initiatives so that a bank could itself generate electricity for its own consumption.

A Green Bank requires each of its functional units and activities to be green – environmentally friendly and help to improve environmental sustainability. Several opportunities are available for banks to green their functional units and activities such as:

- **Supply Chain Management**
Adopt techniques and plans to minimize inventory wastage. Adopt networked design using a carbon footprint.
- **Enterprise Resource Management**
Facilitate and Encourage paperless transactions. Adopt techniques for workforce and parts optimization as well as intelligent device management.
- **Customer Relationship Management**
Use electronic means, wherever possible, to maintain contact with and correspond with customers and potential customers, and minimize paper-based correspondences.
- **Sourcing and Procurement**
Select vendors by the sustainability rating of their products, services and operations
- **Product Life Cycle Management**
Design and offer banking products and services in such a way that consume less resources and energy and thereby reduce carbon footprint. Implement effective systems for product end-of life management that have minimal impact on the environment.

Green Offerings

Banks are developing new products and services that respond to consumer demand for sustainable choices. Following are some of the options that banks should offer to their customers, if they are not offering already:

- Electronic and telephone banking, facilitating customers to perform most of their banking needs anytime, anywhere

- Automatic payments reduce the need to write and send cheques by mail
- Electronic (paperless) statements, product information, guides and annual reports to customers and stakeholders
- Offering and promoting mutual funds that focus investment in 'green' companies
- Offering a special line of credit to help home owners invest in energy-efficiency upgrades for their home.
- Offering credit cards co-branded with environmental charities.

Green Banking Strategies

- Engage with key stakeholders and create awareness of environmental issues and their impact on the economy, the environment, and the society. Also, explain to them the business and environmental value and the necessity of greening the bank processes, products, and services.
- Conduct energy audits and review equipments purchases and disposal policies and practices.
- Assess IT's environmental and cost impact and identify areas to be "greened"
- Set SMART (Specific, Measurable, Attainable, Realistic, and Timely) green goals as the internal targets to reduce your carbon footprint along with timelines. Develop criteria for measuring progress towards the goals
- Develop and implement a green policy that aims to achieve higher utilization of systems while reducing energy use and lessening their environmental impact
- Encourage, motivate, and energize the workforce to follow the green path and to come up with and implement their own ideas. In addition, also encourage clients, suppliers, and outsourcers to adopt green practices
- Monitor the progress regularly; watch industry trends and new developments. Revise the green policy as required
- Publicize your environmental policy, actions, and achievements and thereby get credits and accolades from customers, peers, industry groups, environmental advocates, government agencies, and society at large.
- Banks may formulate innovative financial solutions and redesign the existing ones so as to incorporate environmental perspectives
- Banks may provide loans with concessions to corporates or individuals who undertake environment-friendly projects such as projects employing sun, wind equipment, manufacturers of fuel-efficient automobiles
- Banks can introduce green funds for customers who would like to invest in environment-friendly projects.
- 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.

Green Banking Initiatives by Banks

Many Indian banks have been realizing the importance and they are taking up various GREEN BANKING initiatives. Some of the initiatives taken by Indian banks are:

Indusind Bank

- "*Human aur Hariyali*" campaign which introduced solar powered ATM's. The bank expects to save 1980 Kwh of energy annually. They are also supporting environment friendly finance programmes and providing incentives to go green.

IDBI Bank

- Exclusive group for working on climate change and more specifically carbon credits advisory to the clients to deal with clean development mechanism (CDM), carbon credits of Kyoto protocol and voluntary emission reduction (VERs) authority.

- Entered into agreements with multilateral agencies and buyers of carbon credit like KfW Banker rupee, Federal republic of Germany to offer complete range of CDM related services tailor made to suit the needs of the clients.

State Bank of India

- Green home loan scheme which supports environment friendly housing projects and offer subsidy and interest rates reduction.

ICICI Bank

- 50% waiver in processing fee of cars that use alternate mode of energy like electricity and CNG. Cars like Reva, LPG or CNG versions of Tata and Maruti variants.

Axis Bank

- Facility of e-statement and for each e-statement registration by a customer, Axis bank will donate a note book to the needy and poor.

Recommendations for Banks

- Net Banking: Online banking is when customers perform most of their banking related functions without visiting the bank, personally. To do so, customers must possess an internet banking ID and a password provided by the bank in which the individual customer has an account.
- Online Savings Account: Online savings account and mobile banking is the easiest way to help the environment. Green banking includes setting up direct deposit to receive your paychecks, receiving electronic statements from your bank and by paying bills online. All of these steps can drastically reduce the amount of paper produced by your bank. Online banking and mobile banking are also highly effective ways to keep track of your finances and to avoid late payment fees. Another green banking step you can take is to suggest that the company you work for sign up for a product called "Remote Deposit". Remote customers have to physically deliver each check to their bank to make a deposit. Remote deposits also allow banks to easily clear checks digitally.
- Paperless Statements: Sending out bank statements by mail has a strong carbon footprint. Signing up for online banking at most banks includes an option for customers to receive their statements electronically through a secure log – in. Copies of banking records and statements can then be stored electronically instead of in a filing cabinet. Receiving statements electronically also reduces the chance of identity theft.
- Use Direct Deposit: Most employers will give employees the option to receive their paycheck electronically. Not only does this speed up the availability of your money and save you a trip to the bank, it saves paper, lots of paper work etc.
- Online Bill Payments: 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. In fact, some online banking customers have thrown away their checkbooks and completely converted to online payments. Not only is the recordkeeping much easier, but again massive amounts of paper is saved.
- Reward Debit and Credit Cards: Some banks have joined up with environment-friendly groups like The Sierra Club or Defenders of Wildlife to create reward debit cards and reward credit cards. Participating banks will make a small charitable donation as a percentage of your online banking activity to help the environment.

Future Prospects of Green Banking

In future the Green banking will become the order of the day. And it is expected that lot of associated green products, green services and green regulations would come into picture.

- Recognize and reward the environment conscious financial institutions- The Reserve Bank of India or regulatory authority will recognize and reward the environment conscious providers of green loans on an annual basis. By doing this environmentally irresponsible firms may run the risk of hurting their bottom-line as well as their image in the market.
- GRISIL - Green Rating and Information Services of India Ltd - Green rating agencies will be set up to provide green analysis of lenders and users of green loans via different ratings.
- Eco friendly Investment funds - Green mutual funds will be in markets and climate conscious customers can invest in environment friendly projects. Moreover investment in these would attract tax concessions as well.
- Green insurance - The IRDA shall come up with green insurance in which cover is provided for different kinds of environmental risks

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