

# Green Banking a new Era for Banks: A Study of Indian Organisation

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## Abstract-

Introduction of ATM machines was a major revolution for Indian banks to think green and take initiatives for environmental-friendly practices. Green banking refers to the environmental aspects of banking functions which directly or indirectly affect the environment and society at large. It is an initiative that work as an intermediary between economic development and environment protection, either by rationalising the activities or by promoting sustainable and socially responsible investments which are financed directly or indirectly through banks. The present study aims to conceptualize green banking and highlight different initiatives taken by the Indian banks towards eco-friendly practices.

*Keywords – Green Banking, Indian Banks, Green Initiative, Environment, Green Finance*

## Introduction

After the happening of tragedy events in 20<sup>th</sup> century, a global concern about the environment can be witnessed. Consequently, it was observed that no business can survive in the market with the sole objective of profit only. Every business have realised that low prices and superior quality products can no longer help a business to achieve competitive advantage in the market. They need to continuously provide something new and attractive to their customers in order to retain them. Moreover, people are now more concern about the environment than ever before. Organizations recognized this as an opportunity to tap customers by implementing green practices in their activities. All the economies as well as economic institutions started thinking about how they can contribute in preserving the natural environment by changing their courses of action thus maintaining sustainability. Initiatives taken by the banks for maintaining environment sustainability by promoting environmental friendly practices is referred as green banking. According to Janakiramon, R. & Karthikeyan, S (2016). "Green banking refers to the efforts of banking sector to keep the environment green and to minimize greenhouse effects through rationalizing their strategies, policies, decisions and activities pertaining to banking service, business and in-house operational activities". Green bank is a bank which considers all environmental and social factors while doing the business. Green banking activities include the promotion of environmental-friendly practices & reduction of carbon footprints.

Since banks are the major financing source for any business entity, banks could be given the responsibilities for checking or forcing businesses to be socially and ecologically responsible towards the activities which affects environment majorly. So, it can be inferred that banks have dual responsibilities towards environment, first, to be environment friendly and second, to force industrial sector to be environment friendly. To fulfil these responsibilities, there should be mandatory regulations on bank by the central banks or government. Otherwise, bank will not perform any of these responsibilities since there is a cost of fulfilling those responsibilities both in monetary terms and in non-monetary terms. Monetary cost will include the cost incurred in adopting new technology, giving training to employees for new technologies whereas non-monetary cost includes time involved in implementing the practices, checking the business activities with respect to precautionary measures taken by them to be environment friendly and renewal of certificates on a regular interval of those organizations who fulfil the requirements. These activities will not only include time and efforts but will also result in some monetary cost to the banks. Moreover, banks will also bear some implicit cost if a customer shifts to the competitor bank to avoid the regulations imposed by a particular bank for compliance of environmental measurement.

## Theoretical Background

Considering the status of natural environment and its impact on human's health, environmentalists are concerned about the way businesses are operating nowadays. They started thinking about the ways a business can be conducted profitably while contributing to the environment at the same time. This also results in the involvement of academicians who aimed to work for the required solution. Businesses initiated green practices in their day to day activities irrespective of the industries. Given below is the review of some of the studies conducted by authors in the field of green banking.

**Rehman et al (2013)** in their study titled "Green Banking Prospects in Bangladesh" have focused on analysing the environment of Bangladesh regarding green banking i.e. control, regulations, new opportunities for innovations and creation of financial products & service like banks should start E-recruitment system. Banks can also play major role in combating natural disasters by providing monetary support like interest free loans. Banks should also form reporting system for green banking and should ensure green environment through their CSR activities/funds. Banks should create awareness about the green banking products in masses through seminar, workshop, and campaigns. The study also mentioned the budget allocation of top 10 banks for green banking. It finally concludes that collective action of both banks and clients will make this green banking a reality.

**Aktar & M (2013)** in their study "Green banking in Bangladesh: A commitment towards the global Initiatives" has focused on the told map in Bangladesh and compared them with the global green banking initiative. Study concludes that Bangladesh is far behind its counterpart (developed Countries). It highlights that implementation status shows the understanding of the green banking by Bangladesh banks. Still there is no bank which is signatory of Equator Principles. Though banking industry in Bangladesh is yet to be strong for implementing phased manner of green banking, it is moving ahead with little steps. It also suggested that banks should set reduction targets of Greenhouse Gas (GHG), Clean Development Mechanism (CDM) for financing purpose, Environment Due Diligence (EDD) Checklist to assess environmental risk in quantitative terms.

**Agrawal (2014)** in her study reveals that RBI has given instruction to banks for implementing certain strategies through the circulars. It also focuses on what are the initiatives of banks towards green banking concepts and the green banking products which banks are developing in response to the consumers' awareness and demand. She studied the practices of top 5 Indian banks with respect to green banking by collecting the primary data through questionnaires about their methods of green banking. RBI established Institute of Development and Research and Banking Technology (IDRBT) which introduced standard rating for green banking practices to induce both infrastructure & operation of banks to be green. That standard is termed as "Green Coin Rating" which is based on several concepts like "rate of carbon emission out of its own operation, amount of reuse, recycle concepts in the system such as printer, networks etc.

**Singhal et al (2014)** focused on the concept of green banking and ways in which banks can protect environment, study has highlighted the Initiatives of banks toward green banking. The ways mentioned by the study are like financing the green projects, green mortgage, green funds, green credit card, mobile banking, energy conservation, development of human capital, online banking service, charge on offline payments, minimise plastic consumption, reduce air pollution, organize environment campaigns, solar energy, encouragement to clients to comply with environmental regulations and educate clients. Banks can themselves adopt green practices and also affect other businesses to be socially responsible.

**Oyegunle & Weber (2015)** has focused on the mandatory and voluntary provisions of sustainable finance in different countries. It also highlighted the internal and external pressure which drive that banking sector towards sustainability issues. Internal pressure includes social pressure & environment pollution and external pressure are from financial corporations such as International Finance Corporation (IFC) and peer pressure. Banks and financial institution generally don't come forward to integrate themselves with environmental and social (E&S) risk consideration. But after global financial crisis, it became important to integrate Sustainability Practices into internal process of banks and financial institutions. The study also mentioned that standardization is required for ensuring legislation regarding sustainable finance

**Singh (2015)** in his study "Environment Management through Green banking: A study of Commercial banks in India" attempted to categories the green marketing Initiatives in different phases according to adoption of Indian banks. He also focused on strategies to adopt green banking approach. He also mentioned green banking Initiatives across globe.

**Kaur (2016)** said that banks are majorly concern about their reputation and image in the markets that is the reason why they are conscious about green banking but it ultimately protect the environment and sustainable growth. The study has focused on the initiatives of different banks in India.

**Jatana & Jain (2016)** said that there are lots of opportunities for green banking in India. But there are only few banks who took initiatives toward green banking. Banks should take the initiative to literate the customers about green banking and they should adopt all strategies towards green initiatives. The study has focus on essentiality of green banking i that green banking is not an option but a compulsion due to the environmental changes. It also focus on the statement that public sector bank should encourage customers to use more green banking service.

**Biswas (2016)** said that if banks play a proactive role then there could be less of default on credit by the business and corporate corporations. So Bank must concern the ecological and environmental aspects of business before financing those projects or Investments.

**Brar (2016)** has done a comparative study of Initiatives of public & private sector banks in India. The study is focused on banks operating in Gurgaon region and compared the e-banking services provided by them. He used chi-square, Cramer's V & Garret ranking technique in analysis. The study concludes that commitment for green banking will require huge finance and that will put more burden on Indian banks. He found that private sector banks are more inclined to provide online service & online medium for creating awareness about green banking. But study also found that banks are still depending on paper based activities for advertising their products.

**Kulsum & Huda (2018)** observed the role of financial institutions especially banks to be important while considering green financing as they can help in the idea of eco-friendly business environment. The study has focused on the green banking policies as well as green banking models in Bangladesh. They also focused on in-house activities of bank and transformation of internal operations which lead banks toward green initiatives

## Objectives

- 1) To study the concept and the conceptual background of the green banking
- 2) To highlight global guidelines about green banking
- 3) To elaborate various initiatives taken by the Indian banks towards green banking

## Green Banking

Green banking is a new or innovative function which is adopted by banks for their concerns about the ecological and social responsibility. Green banking represents banking in green perspective, which means banking functions to be environment friendly whether it is economical functional of lending, financing or daily transactional functions, all of them should be done along with the environmental concern. For example while doing the daily transactional process if they adopt new technology and reduce usage of paper, that would result in savings of trees, if they adopt online banking and reduce their branches that would result in savings of energy and electricity, less of carbon emission. Banks are not considered to be for polluting industry (Sahoo & Nayak, 2008) but carbon footprint of Bank has increased due to massive uses of energy for Information technology, electronic equipment, air conditioner etc. Therefore banks should adopt technologies which lead to reduction in paperwork, use of energy and less carbon footprint. Green banking provides finance to green projects which includes Clean Energy projects and green infrastructure projects. In economic functions of lending or financing a project or investment of any corporate institution or any entity, they could ask them to get the certificate from the concerned authorities to prove that these projects or investments or their business activities would not harm environment and they are taking precautionary measures to fulfil their responsibilities towards the society, environment. This is called green financing. Green finance means lending or investing in programs projects investments that are concerned with environmental factors. Green financing is a part of green banking which make contribution towards the resource efficient and low carbon industry. It basically focuses on green industries which make contribution towards sustainable green economy

## Global Guidelines for Green Banking

### Equator Principles

The Equator Principles are voluntary guidelines which help in assessment and management of social and environmental risks of project before financing them. They are based on International Finance Corporation Performance Standards on social and environmental sustainability and on the World Bank Group Environmental, Health, and Safety (EHS) Guidelines. They are applicable to all industries and four financial products 1) Project finance advisory services 2) Project finance 3) Project-Related corporate loans and 4) Bridge loans. Currently there are 93 financial institutions in 37 countries which have officially adopted them.

### UNEP FI

UNEP FI focuses on better implementation of sustainability principles at different levels of operations in financial institutions through the incorporation of environmental, social, and governance factors in risk analysis. It is a public-private partnership between the United Nations Environment Program (UNEP) and the financial sector. It works with more than 200 members which includes leading banks, investment funds, and insurance companies for developing the linkages between sustainability and financial performance.

### Various Initiatives by the Indian banks towards the green Banking

If we see in global counter parts Indian banks are far behind the western countries and from many developing countries banks, except one or two private and foreign banks. In recent times banks started taken steps or measure either for reducing carbon footprint or for sustaining their reputation in public (Bahl, 2012).

In Indian banking sector, there are some agencies like SIDBI, IDBI and others working for green banking and green financing concepts but still people are not aware of those initiative, so how these initiatives can be brought into the light will be another agenda of this study, so that maximum benefits could be gained by all those stakeholder who are supposed to be facilitated under those schemes and projects. IDBI bank plays the major role in environmental banking for over 17 years. Exclusive group was created by IDBI to work for climate change, advisory service on carbon credit. SIDBI in India took some initiatives toward green financing by lending MSME for green and energy efficient technologies. There are some schemes of SIDBI for financing energy saving projects. For energy saving financing in MSME, line of credit was given to SIDBI by JAPAN INTERNATIONAL COOPERATION AGENCY (JICA).

SBI started "Green Channel Counter" in 2010 in which cheques and pay-in-slips are not required to withdraw/ deposit the money, thus saving the papers. It had launched "Green Home Scheme" for residential projects at concessional rate which are environment friendly. It introduced loan products like "Carbon Credit Plus" for "Clean Development Mechanism (CDM)" Projects and "Green Pin" by which you do not have to visit bank branch for getting ATM pin you can simply generate it through the ATM machine. It also launched windmill farm in Tamilnadu for their own energy consumption.

ICICI took Initiatives such as "Insta-banking" - a service to do internet banking; Mobile banking that doesn't require physical statement or visits to bank branches and thus reducing Carbon footprint. ICICI also introduced paperless Initiative such as e-statement, e-greetings which saved 30000 trees and supported firms to go green by funding green technology projects

HDFC launched system of sending PIN through SMS for debit card holders instead of sending it by post. HDFC group established environment targets to be completed annually like reduction of carbon emission, energy and water consumption.

Yes bank is first private sector bank from India to become signatory to Carbon disclosure project and UNEP Statement. It also support proactive role of its peers in climate changes issues. Yes Bank of India received Sustainable Bank of the Year Award in 2012 and 2011 as announced by International Financial Corporation (IFC) and Financial Times. Yes Bank is also a signatory of equators principle (international initiative); it established specialized investment advisory and sustainable investment banking division to promote water management, clean technology and renewable energy especially in SME sector.

Indus land Bank has launched solar powered Automated Teller Machines (ATM) which functions through solar power. It took various Initiatives such as e-learning, e-waste management, energy conservation etc.

### Conclusion and Suggestions

Degradation of environment and environmental pollution is major issues al the world economies and India also, Green Banking provide a new avenue for the bank for protection of environment and making competitive advantage. Indian banks are not as competitive in implementing Green Banking as in global counterpart, due lack of guidelines and suggestion by the concerned authority. Banks in India are not fully committed to adopt Equator principle and UNEP program. It's a time now for the Indian banking sector and regulating authority to take some measure to provide mandatory guidelines regarding green banking and banks have to take steps for mitigating environment problem & incorporate green principle in their lending mechanism for promoting green finance in the economy.

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