

Issues and Challenges of Banking Sector – An Economic Analysis

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ABSTRACT:

In this paper author seeks to present issues and Challenges of Banking Sector an Economic Analysis. Foreign banks are practicing green banking on a much serious note. The Indian banks are still taking baby steps into this form of banking. Still, many of them are keen to actively pursue this strategy. For example, an investment in a factory that pollutes heavily (and passes on the costs to the society at large) will generally have a higher financial rate of return than a factory that invests in expensive pollution control technology, as a result showing a lower rate of return. How will banks assess the two and which one of the two will be considered first for lending, although everyone knows that the second case will clearly be a better investment option in the long run. In this present scenario of globalization, Green Banking is a new phenomenon in the financial world. Banks as the financing agent of the economic and developmental activities have an important role in promoting overall sustainable development. Green banking is the term used by banks to make them much more responsible to the environment. The term green banking means developing inclusive banking strategies which will ensure sustainable economic development. 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. Green banking means combining operational improvements, technology and changing client habits in banking business. It means promoting environmental friendly practices.

Key Words: Green banking, Sustainable Development, CD's, Green Mortgage, Green Loan

INTRODUCTION

As we pass through 21st century, one thing that we miss very badly is the depletion of greenery. As everybody in this society is becoming more and more concerned and worried about the natural environment, business organizations and corporations have started modifying their working in an attempt to increase greenery to the maximum possible. Green banking means combining operational improvements, technology and changing client habits in banking business. It means promoting environmental-friendly practices. 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. Main emphasis has been made on the concept and scope of green banking in India so as to make our environment human friendly and enrich our economic productivity. This study also covers the recent developments are

made by Indian banks for sustainable development and challenges faced by banks in implementation. The research is based on the secondary data. Coming to the findings, there is utmost need to create awareness, implement and follow green banking as much as possible in today's business world of innovative technologies so as to make our environment human friendly and enrich the sustainability. The concept of environmental sustainability started in 1969 with the establishment of the National Environmental Policy Act (NEPA, 2014) in the United States whose purpose is to promote the general welfare, to maintain productive harmony between man and nature and to fulfill the economic and social welfare of the present and future generations. Green Banking is like a normal bank, which considers all the social and environmental factors; it is also called as an ethical bank. Ethical banks have started with the aim of protecting the environment. These banks are like a normal bank which aims to protect the environment and it is controlled by same authorities as what a traditional bank do. There are many differences compared with normal banking, Green Banks give more weight to environmental factors, their aim is to provide good environmental and social business practice, they check all the factors before lending a loan, whether the project is environmental friendly and has any implications in the future, you will awarded a loan only when you follow all the environmental safety standard

Defining green banking is relatively easy. Green Banking means promoting environmental – friendly practices and reducing your carbon footprint from your banking activities. This comes in many forms

1. Using online banking instead of branch banking.
2. Paying bills online instead of mailing them.
3. Opening up accounts at online banks, instead of large multi-branch banks
4. Finding the local bank in your area that is taking the biggest steps to support local green initiatives.

THE EMERGING TREND OF “GREEN BANKING”

The term "Green Banking" is being heard more often today. According to Indian Banks Association (IBA, 2014) “Green Bank 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 known as ethical bank or sustainable bank. Green banking can benefit the environment either by reducing the carbon footprint of consumers or banks. On-line banking is an example of an initiative of Green Banking. Benefits of online banking include less paperwork, less mail and less driving to branch offices by bank customers, which all have a positive impact on the environment. Interestingly, online banking can also increase the efficiency and profitability of a bank. A bank can lower their own costs that result from paper overload and bulk mailing fees if more of their customers use online banking. Green banking also can reduce the need for expensive branch banks. Green banking is also gaining importance in recent times. Most of the banks are undergoing

computerization, networking, and offering of online banking to customers reduces the use of paper directly and indirectly resulting in pollution control. Banks can also support eco-friendly groups, offer green lending and raise money for local environment initiatives. Banks that go to these significant lengths to be Ecofriendly are a little more difficult to find than the banks that claim to be green by merely offering online services. Banks that offer rate incentives on Certificates of Deposits, money market accounts, online savings accounts and checking accounts for online banking also help the green banking cause by rewarding online banking customers. There has been a remarkable improvement in the working of banks in terms of cutting costs, increasing productivity, improving the profitability, controlling and management of the Non-Performing Assets (NPAs), face the risks, carry out the Asset Liability Management, manage the changes in interest rates, handle the foreign exchange rate fluctuations, comply with the regulator's requirements and finally improve the customer service to their best satisfaction. Hart & Ahuja (1996) studied a positive correlation between environmental performance and financial performance. Initially, banks were doing analysis of their financial performance only, but now it is a time to do analysis of social and environmental performance as well. Green Banking is not only a CSR activity of an organization, but also it is about making the society habitable without any considerable damage. Internationally and domestically, several voluntary guidelines have been set up for the categorization, assessment and management of environmental and social risk in project financing like Equators Principles, National Environment Policy Act, World Bank E&S Norms, Carbon Disclosure Project, CERCLA, ISO 14000, BSE Greenex, etc.

The Financial Times and International Finance Corporation (IFC), a member of the World Bank Group had launched the Sustainable Finance Awards for the institutions that are integrating social, environmental and corporate governance considerations into their business operations. The awards highlight the partnership between financial and non financial companies that are finding commercially viable and innovative solutions to sustainability challenges. The five categories of Sustainable Finance awards as per Financial Times (www.ft.com) are:-

- Sustainable Bank of the Year
- Technology in Sustainable Finance
- Sustainable Investment of the Year
- Sustainable Investor of the Year
- Achievement in Inclusive Business

Despite many initiatives taken in the field of Green Banking, it has been found to be at the nascent stage in India. There is only one Indian organization Infrastructure Development Finance Company (IDFC) Ltd, which has signed. Equators Principles for determining, assessing and managing the environmental risks in the projects undertaken (Equator Principles Association, 2014). The section

of literature review gives a holistic picture of studies conducted in the field of Green Banking in India and abroad.

REVIEW OF LITERATURE

According to RBI (IRDBT, 2014), green banking is to make internal bank processes, physical infrastructure and IT infrastructure as effective and efficient as possible, with zero or minimal impact on the environment. They had introduced green rating standards for Indian banks, which are termed as 'Green Coin Ratings'. Under this rating system, banks are judged on the basis of carbon emissions from their operations and on the amount of recycling, refurbishment and reuse material being used in their building furnishings and in the systems used by them like servers, computers, printers, networks, etc. They are also being judged on the amount of green projects finance by them and rewards or recognitions given to borrowers for turning their businesses greener. Green banking services helps the banks towards the sustainable developments of the banks. In this context many authors expressed their opinions on the previous and recent developments and trends in the banking sector relating to the green banking.

Jeucken (2001) highlighted important differences between regions, countries and banks with regard to sustainable banking. Jeucken identified four stages: defensive, preventive, offensive and sustainable banking.

Chowdari Prasad (2002) has studied the Impact of Economic Reforms on Indian Banking and suggested how banking sector will face the changes and challenges. Hopwood, 2005, highlighted the need for change it would be agreed that transformation in the usual model for the sustainable development is essential in order to understand the evolution of the banking sector towards sustainability.

McKinsey & Co. (2007) On the top of all these, there is certainly the aspect of profitability and productivity for all these banks to achieve.

Douglas (2008) found four key findings: (a) banks are increasingly discussing climate change business opportunities in their annual reports, (b) twenty eight of the forty banks have calculated and disclosed their greenhouse gas emissions from operations, (c) growing demand for climate friendly financial products and services is leading banks into new markets, and (d) investment banks have taken a leading role in supporting emissions trading mechanisms and introducing new risk management products.

Sudip Kar Purkayastha (2010) Such measures also yield the banks in offering top class service to attain Customer Satisfaction, particularly at a time there is stiff competition amongst the different types of banks, i.e., Public, Private, Foreign and others.

Mohmed Aminul Islam (2010) Green Banking is also gaining importance in recent times. While the banking industry is undergoing computerization, networking and offering of on-line banking is naturally gaining momentum.

OBJECTIVES OF THE STUDY

- b) To find out the challenges in implementation of green banking in India.
- c) To find out the necessary steps required for proper implementation of green banking in India.

METHODOLOGY

This is an exploratory research thus methodology was based on literature review and secondary data. The research took place in two phases: The first phase was an up-to-date literature review on Green Banking and sustainable development in the banking sector and particularly in green banking that identified results, and suggested future steps. The second phase included data collection about Indian banks through secondary published sources. Secondary published sources were the reports on Green Banking and other relative information published on the banks and other internet sites.

SCOPE OF GREEN BANKING IN INDIA

a) Credit Risk: Due to climate change and global warming, there have been direct as well as indirect costs to banks. It has been observed that due to global warming, there have been extreme weather conditions which affect the economic assets financed by the banks, thus leading to high incidence of credit default. Credit risk can also arise indirectly when banks lend to companies whose businesses are adversely affected due to changes in environmental regulation. There has been a remarkable improvement in the working of banks in terms of cutting costs, increasing productivity, improving the profitability, controlling and management of the Non-Performing Assets (NPAs), face the risks, carry out the Asset Liability Management, manage the changes in interest rates, handle the foreign exchange rate fluctuations, comply with the regulator's requirements and finally improve the customer service to their best satisfaction. Green banking avoids as much paper work as possible and rely on online/ electronic transactions for processing so that we get green credit cards and green mortgages. Less paperwork means less cutting of trees. It also involves creating awareness to banking business people about environmental and social responsibility enabling them to do an environmental friendly business practice. Benefits towards the banks: Green banking is very important in mitigating the following risks involving the banking sector:

b) Legal risk: Banks, like other business entities, face legal risk if they do not comply with relevant environmental regulation. They may also face risk of direct lender liability for clean-up costs or claims for damages in case they actually take possession of pollution causing assets.

c) Reputation Risk: Due to increasing environmental awareness, banks are more prone to reputation risk, if their direct or indirect actions are viewed as socially and environmentally damaging. Reputation risks emerge from the financing of environmentally objectionable projects.

Benefits of Green Banking in India

a) Avoids Paper Work: Paperless banking 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 for office correspondence, audit, reporting etc. these banks can switch over to electronic correspondence and reporting thereby controlling deforestation.

b) Creating Awareness to Business People about Environment: Many NGOs and environmentalists are propagating environment consciousness among the public in general by arranging awareness programs and organizing seminars etc. Banks may associate themselves by sponsoring such programs. Besides, many corporate bodies are organizing similar program in their own line of business such as “free pollution check program” organized by a car manufacturer. Banks may tie with such corporate. These will help to brighten the image of the bank.

c) Loans at Comparatively Lesser Rates: 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.

d) Environmental Standards for Lending: Banks follow environmental standards for lending, is really a good idea and it will make business owners to change their business to environmental friendly which is good for our future generations.

e) Creating Awareness to Business People about Environment; Many NGOs and environmentalists are propagating environment consciousness among the public in general by arranging awareness programs and organizing seminars etc. Banks may associate themselves by sponsoring such programs.

f) Loans at Comparatively Lesser Rates: 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.

Other Benefits:

- Improving the service standards
- Automation of manual tasks
- Attracting and retention of staff
- Increase in profitability & sales
- Reducing Cycle time

- Drive customer loyalty
- Reduce costs to serve and sell
- Reduce administrative burden

GREEN BANKING STRATEGIES ADOPTED BY INDIAN BANKS

Green Banking in India: The Reserve Bank of India document titled 'Policy Environment' dated 8th November, 2010 includes on Pages No. 56 and 57 a reference to Green Banking and Green IT initiatives for banks in India. Like any other Corporates, banks in India too are adopting the principle of Corporate Social Responsibility (CSR) and are concerned about the protection of environment. Mainly, the computerized environment and facilities like on-line banking are helping the banks to promote the green banking concept [Shalini Mehta (2011)]. Paper work is being reduced consciously at all levels by bankers and customers. In addition to providing of on-site and off-site ATMs, some banks have gone ahead with innovative ideas like installing Bio-metric ATMs, Solar-based ATMs, White-labelled ATMs, Brown ATMs, SMS alerts, Mobile Banking etc. for the convenience of their customers [Ashok Singh (2010)]. Besides reducing any environmental pollution, these initiatives are helping the banks in reduction in their cost of operations and delays which results in increased customer satisfaction too [Devaprakash R. (2008)]. While offering several simple suggestions for practicing green banking arrangements, the specific initiatives taken by banks in India are - IndusInd Bank introducing solar powered ATMs, SBI adopting green banking policy and offering green home loans, Union Bank of India's energy efficiency measures, IDBI Bank's membership in National Action Plan on Climate Change, ICICI Bank's Corporate Environmental Stewardship initiatives and also Clean Technology Initiatives, YES Bank's community development initiatives, ABN Amro Bank's (now Royal Bank of Scotland) launching of Indian Sustainable Development Fund as also the Role played by RBI in its CSR initiatives. Green Banking goes a long way it serving its objectives. The incorporation of social and environmental strategies into the development goals of the banks helps them in arriving effective environmental management system. According to Krebsbach (2005), the banks, which adopted socially and environmentally responsible lending and investing strategies were altering their processes of bond underwriting, investment banking and corporate lending. These banks were enjoying a competitive advantage over others as society is aware about the environmental issues.

Vishwa Yatra Card: State Bank Vishwa Yatra Foreign Travel Card' is a prepaid Foreign Currency Card which travelers going abroad are guaranteed to find useful. It is a Chip based Card which stores encrypted and confidential information.State Bank Vishwa Yatra Foreign Travel Card is available in Eight Foreign Currencies viz.US Dollars (USD), Pound Sterling (GBP), Euro (EUR), Japanese Yen (YEN),Canadian Dollar (CAD), Australian Dollar (AUD), Saudi Riyal (SAR) and Singapore Dollar(SGD). Gift Card: Gift Card is also a prepaid Indian rupee VISA CARD –an excellent substitute of Gift Vouchers. Green Channel Counter: The Bank had launched 'Green Channel Counter'(GCC) facility on State Bank Day (01.07.2010), at 57 select branches of the

Bank spread across the country. This was an innovative step taken by the Bank towards changing the traditional way of paper based banking in a limited way, to card based 'Green Banking' focusing on reduction in paper usage as well as saving transaction time. This is a pioneering concept which would save both paper and time resources. Online banking services: Online banking services are helped the customers to reduce the carbon foot prints indirectly and make the convenience to the customer almost most of the important banking services. Some of these services do not require any manual intervention.

CONCLUSION

Green Banking has been boosting to improve the environment and promoting economic growth. Until a few years ago, most traditional banks did not practice green banking or actively seek investment opportunities in environmentally-friendly sectors or businesses. Indian banks are far behind their counterparts from developed countries. Mobile Banking Services: Mobile banking also known as M-Banking. M-banking is a term used for performing balance checks, account transactions, payments, credit applications and other banking transactions through a mobile device such as a mobile phone or Personal Digital Assistant (PDA). The earliest mobile banking services were offered over SMS, a service known as SMS banking. With the introduction of the first primitive smart phones with WAP support enabling the use of the mobile web in 1999, the first European banks started to offer mobile banking on this platform to their customers. If Indian banks desire to enter global markets, it is important that they recognize their environmental and social responsibilities. Only recently have these strategies become more prevalent, not only among smaller alternative and cooperative banks, but also among diversified financial service providers, asset management firms and insurance companies. Further, those industries which have already become green and those, which are making serious attempts to grow green, should be accorded priority to lending by the banks. This concept of "Green Banking" will be mutually beneficial to the banks, industries and the economy. Not only "Green Banking" will ensure the greening of the industries but it will also facilitate in improving the asset quality of the banks in future. There are lot of opportunities and challenges for Indian banks in adopting 'Green Banking' as profitable business. Green banking if implemented sincerely will act as an effective ex ante deterrent for the polluting industries that give a pass by to the other institutional regulatory mechanisms. Therefore, for sustainable banking, Indian banks should adopt green banking as a business model without any further delay.

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