



# The Influence of Green Banking Practices and Strategies towards Sustainable Development and Growth in India

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## **ABSTRACT**

*The new global economy has paved way for a more dramatic conditions that has led to the ecological imbalances in the country. The changing society has recognized the need for more sustainable ecological balance so that the coming generations can survive in a better environment. Keeping this in view, the business are also focusing on environmental sustainability and striving for eco-friendly production methods and techniques. Banking sector being an integral part of Indian economy providing services to businesses and the individuals is also taking a major step to change its banking practices to adopt environmental sustainability practices by adopting green banking strategies and pave way for green financing. The aim of Green banking is to implement environmentally friendly practices in offering banking services through promotion of digital transactions thereby reducing carbon footprints in its operations. Hence, environmental concern which is gaining prominence has become the core crux for the banks to adopt green banking strategies to make contributions for green economy. The study attempted to addresses the latest sustainability developments in Indian banks by appropriate green banking practices and strategies and the challenges they face during implementation. The analysis is purely based on the secondary data source. In conclusion, the study also stresses upon the significance of awareness among clients and customers, the core values that the green banks deliver to develop green image as a part of environmental responsibility.*

**KEY WORDS:** *Green Banking, Sustainable Development, Environmental responsibility, Green Financing, Digital Transactions*

## **INTRODUCTION**

The disastrous impact of recent storms, floods, droughts, and excessive heat that many people have experienced

around the world, motivate us to think seriously about global warming and its impact and to do whatever we can to address this problem. Environment is no longer the exclusive concern of the government and the direct polluters. Governments, enterprises, and people, all have roles to play in combating global warming and building a sustainable environment. The financial sector is undoubtedly the viable sector as it provides financial resources for the growth of the economy. The banks, as a part of financial sector are functioning as major agents in providing credit and investment needs of the people. Environmental concern is gaining greater importance and this concern had made the banks to reshape and restructure their policies and procedures to blow up the ecological imbalances caused due to rapid industrialization. Keeping this perspective in view, banks had to consider the economic issues as well as ecological concerns while financing the projects for sustainability development. Moreover, the act of corporate social responsibility which is not only confined to corporate firms, but also had laid stress on the banks as contribution to green economy. World today is demanding for ecological sustainability and hence banks tend to transform themselves to inculcate green practices in internal processes as well as developing green financial products to strengthen banks' environmental image and profitability. Green initiatives in banks have become the core objectives for Banks to reduce carbon footprints in banking activities and financial products thereby discharging environmental responsibility. Creating encompassing banking policies that would promote sustainable economic development is referred to as "green banking." Adopting green strategies and initiatives have created value addition for the financial sector. They created a synergy for development of green trust and green reputation in the banking field. 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 environmentally 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. Foreign banks are practicing green banking on a much serious note. Indian banks are still taking the first steps in this form of banking. However, many of them actively pursue this strategy. Green banking means promoting environmentally sound practices and reducing a bank's carbon footprint. It comes in several forms. Using online banking instead of bank branches, paying bills online instead of mail, opening commercial deposits and money market accounts at online banks, etc.

The focus of Green Banks is

- ❖ To promote environmentally friendly practices
- ❖ To minimize carbon foot prints in the operations inside the banks and promotion of green financial products
- ❖ To develop sustainable banking and ethical banking
- ❖ For aiming and promoting environmental concerns.

Banking industry plays a crucial role in promoting environmentally sustainable and socially responsible investments (SRI). Banks may not be the polluters themselves but they will probably have a banking relationship with some companies/investment projects that are polluters or could be in future, such as metallurgical industries, paper and pulp, pesticides/insecticides, fertilizers, chemical/pharmaceuticals and textile. Industries, which are ill equipped to control pollution now, are the possible polluters of future. Banks may ask such ill equipped industries to adopt pollution control device before sanction of credit as a pre-condition.

### **GREEN BANKING**

Green banking, widely known as an ethical bank, is similar to regular banking in that it takes into account all social and environmental factors. Environmental regulation was the initial focus of ethical banking. These banks function similarly to typical banks in that they also seek to safeguard the environment, and they are overseen by the same authorities. Green banking and conventional banking are very different from one another. Green banks place more emphasis on environmental considerations and strive to promote ethical business practices that are also socially responsible whereas in a conventional banking system only financial activities are carried out without any concern for the ecology. Before granting a loan, green banks carefully consider whether the project will have any long-term effects on the environment. Only then will a loan be granted if the project adheres to all environmental safety regulations. Green banking can be simply defined as green banking is encouraging eco-friendly behaviour and lowering a bank's carbon footprint.

These practices include:

- ❖ Switching to internet banking from branch banking.
- ❖ Payment of invoices electronically rather than through mail.
- ❖ Opening an online bank account rather than one with a big network of branches.
- ❖ Identifying the regional banks that are making the most efforts to aid neighborhood environmental initiatives.

### **OBJECTIVES OF THE STUDY**

The main objectives of the study are designed as follows

- ❖ To understand the impact of green banking practices on sustainable development
- ❖ To analyze the adoption of green banking strategies by Indian Banks
- ❖ To study the role of green banking transactions to reduce carbon footprints
- ❖ To find out the effect of green banking practices on changing habits of the society

### **METHODOLOGY OF THE STUDY**

As this is a preliminary study, the methodology was constructed based on review of the literature and the source of data is secondary source. This study was conducted in two stages. The first step was an updated review of the literature on the sustainability of green banking and the banking sector, in particular green banks, to confirm the results and suggest directions for moving forward. The second step was to collect data on Indian banks from secondary publication sources. The Green Bank Report and other pertinent data provided on banks and other

websites were the second public sources.

## MAJOR AVENUES FOR GREENING BANKS

### 1. GREEN PRODUCTS AND SERVICES

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 and anywhere.
- ❖ Automatic payments reduce the need to write and send cheque 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 homeowners invest in energy-efficiency upgrades for their home.
- ❖ **Green Loans:** Giving funds to a project or company that is thought to be environmentally beneficial is referred to as a "green loan."
- ❖ **Green mortgages:** These mortgages offer a financial reduction or a larger loan than is typically allowed in exchange for making energy-efficient upgrades or purchasing a home that complies with specific energy efficiency standards
- ❖ **Green Credit Cards:** Credit cards are becoming green, whether these are through the use of eco-friendly rewards, the adoption of biodegradable credit card materials, or the promotion of paperless banking
- ❖ **Solar ATM:** ATMs are now a crucial component of the payment system. In remote isolated places with little electricity, ATM problems are fairly common. The issue of ATM in operation brought on by power interruptions can be resolved with solar ATMs. Approximately 250 crore was funded by NABARD to Commercial and regional rural banks to provide around 5000 ATMS throughout the country. 2.5 million rural residents who lack access to electricity and the internet will profit from this. Solar ATMs use less than 100 watts of power and can operate effectively up to 50 degrees. Conventional ATMs use 500 to 600 watts of power and may stop working at temperatures above 35 degrees. Additionally, the cost of solar-powered ATMs is 30% less than the cost of a traditional ATM, and its operational cost is also considerably reduced.
- ❖ **Green Bonds:** The main distinction between a green bond and a regular bond is that money is being raised to support "green" projects. This is a novel method of funding renewable energy initiatives. India's first green bonds denominated in dollars were issued by EXIM Bank. 500 million dollars of green bonds were issued by the bank in March 2017 to finance projects with environmental concerns in countries like Bangladesh and Sri Lanka. 100 billion rupees were also raised by Yes Bank through 10-year bonds. An analyst at Bloomberg New Energy Finance named Shantanu Jaiswal claims that green bonds frequently have lower interest rates than loans provided by traditional banks. Consequently, green bonds provide

independent power producers with better yields than conventional types of debt.

- ❖ **Green Channel Counters (GCC):** Commercial banks took an innovative step using Green Channel Counters (GCC) to transition from traditional paper-based banking to card-based green banking. GCC wants to speed up transactions. The quickest, easiest, and safest way to handle daily banking transactions

## 2. GREEN BANKING STRATEGIES

Indian banks have access to green banking as a viable business strategy (Verma, 2012). The following tactics could be used by banks or have little to no effect on banking.

- ❖ **Carbon Credit Business:** All nations are required to cut carbon emissions and greenhouse gas emissions under the Kyoto Protocol in order to safeguard the environment. The Certified Emission Reduction (CER), often known as carbon credits, is required for these emissions. Banks of India can start this business because the London carbon credit market is estimated to be worth 30 billion euros.
- ❖ **Green Bank Financial Products:** Banks can create cutting-edge green products or provide low-interest green loans. Due to the fact that they account for the majority of all banks' portfolios, the home loan and vehicle loan segments use a "green" lending process. Loans for small business should be based on ISO 14000 certification and national environmental policies.
- ❖ **Paperless Banking:** All banks now offer e-banking goods and services in addition to switching to CBS or ATM platforms. Banks now have plenty of opportunities to implement paperless or paper-based banking, PSU banks continue to utilise a significant amount of paper whereas private and foreign banks have started employing electronics for office correspondence.
- ❖ **Energy Awareness:** Banks are required to utilise compact fluorescent lighting, install energy-efficient equipment in their offices, and guard against equipment misuse. The hardware, office waste management, and energy-efficient technology items that banks should produce as a result of green banking. Banks can donate hospitals, schools, and other institutions energy-saving technology as a part of corporate social responsibility.
- ❖ **Use of public transportation systems:** Banks must provide shared transportation for groups of officials in the same office.
- ❖ **Green Buildings:** Banks can incorporate green buildings to safeguard the environment as they have possessed their own homes, branches, or ATMs.
- ❖ **Social Responsibility Services:** The Bank of India may introduce a range of social responsibility initiatives as part of the Green Banking agenda, including camps for tree planting, park upkeep, and pollution testing.

## ROLE OF GREEN BANKING TO ACHIEVE ITS NET-ZERO AMBITIONS

### How India can achieve its net-zero ambitions?

Prime Minister Narendra Modi pledged to achieve zero carbon emissions by 2070 during a COP26 brainstorming session in Glasgow last year. He also described India's ambitious objective of producing 500 GW of energy from



non-fossil sources as part of Panchamrit's five-party promise. By 2030, cut carbon intensity and emissions by up to 45%. Additionally, between 2021 and 2030, the prime minister vowed to reduce carbon emissions by 1 billion tonnes. Until 2070. These investments will assist India's industrial, transportation, and energy sectors in decarbonizing. India may have a substantial \$3.5 trillion investment gap as a result of its zero objectives, according to CEEW estimates. Subsequently, Banks are willing to play a significant part in achieving these investment goals or bridging any gaps. Since the financial services sector is thought to be responsible for 72% of the potential financial impact of change, the banking sector is also leading the way in addressing its effects.

### **Tackling climatic changes by banks in India:**

India's commercial activity has been supported by the banking industry throughout the country's development as a significant economic force. Even if various other channels, such as the bond and equities markets, have expanded enormously alongside it, it is still a significant source of finance for industries. Therefore, it must be considered as a key factor in reducing the effects of climate change. Financial institutions must keep working to finance the nation's green infrastructure in order to support the transition to Net-Zero emissions. Although banks don't directly contribute much to climate change, they do it indirectly through financing many businesses. In many industries today, the shift to zero is being aided by technology, which is rapidly developing. Transportation electrification, developing energy-efficient structures, lowering greenhouse gas emissions in the industrial and agricultural sectors, changing energy infrastructure to produce clean electricity, and advancing hydrogen fuel cells and carbon capture are a few examples. Both use and storage call for significant cost outlays. for a quick transition to NetZero, increased to \$2 trillion.

### **Importance of Green Finance:**

The banking sector is being guided by the Sustainable Markets Initiative's Financial Services Taskforce (FSTF) for suggestions regarding redefining the definition on sustainable financing for future investments and measures were suggested for effective financing mechanisms for reducing carbon emissions. Green finance philosophy was accorded in India in the year 2007. The Reserve Bank of India then developed measures to encourage banks to support sustainability objectives. Small-scale renewable energy projects were included by the central bank in 2015 as part of the Priority Sector Lending programme. Indian banks developed internal policies to cut back on lending to industries with high carbon emissions and switch to a green finance philosophy for loans in response. In addition, some carbon-intensive industries have rethought their business models and switched to environmentally friendly production methods. According to data released by the Central Bank of India, cumulative outstanding bank loans to the non-traditional energy sector amounted to around Rs 365.43 billion (about \$4.8 billion), accounting for 7.9% of outstanding bank loans to the energy sector as of March 2020.

The bank also issues “green” bonds to facilitate work on eco -protective projects. However, the value of these bonds is insignificant compared to the total issuance of Indian bonds. Since January 2018, the country has issued approximately \$8 billion worth of green bonds, or 0.7% of all bonds. For example, Among the first institutions to offer green bonds in 2015–16 were Yes Bank and Axis Bank.

### **The Green Finance Road to 2070:**

The banks in their transition from conventional banking to green banking faces great challenges as they have to take up measures which are not habituated to the customers. For this purpose, banks have to collaborate with international financial institutions for funding to develop novel financing models that are pertinent to and specific to Indian challenges and utilize technology to accelerate the sustainability process could very well be the solution to these problems. In order to adopt the sustainable eco- system, the policy framework is crucial because it will help bank's function and build this sustainable environment. Tax incentives for green finance are only one example of a fiscal move that will assist lower transaction costs and encourage better lending. In order to expand the green bond market and develop new green financial instruments, India also requires a green infrastructure investment fund. Ultimately, there is a shared desire for change that will be beneficial and sustainable. The entire sector must be active for this to operate. Since every industry is interconnected, a single push might not be sufficient to turn a corner. The major change ought to be in focus. Making a significant difference will be made possible through increasing public awareness, disseminating information, and sustaining research and development.

### **FINDINGS OF THE STUDY**

This study is based on secondary data. The Secondary data were obtained from-Annual Reports of RBI, Reports of concerned banks, Reports of various committees Journals, Books, Magazines, Newspapers, Articles and Reports prepared by research a scholar; Internet has been the pool of information during whole period. Following are the observations on the basis of this study:

1. From the empirical study, it is found that the main drivers for employing environmental and social initiatives included:

- ❖ Environmental and social pressure from society
- ❖ Improved brand reputation
- ❖ Opportunities for innovation
- ❖ Improved stakeholder relations
- ❖ Preparedness for future compliance requirements in order of majority.

2. The survey results exhibit that PSBs operating in India are ill prepared as far as sustainability issues are concerned. Majority of banks identified 'Risk of failure of business to peers' and 'Lack of RBI mandates' as main barriers to adopting sustainability. The other reasons identified by them are unavailability of skilled employees; Insufficient budgets to train employees; Complex reporting frameworks and Lack of interest shown by customers and investors.

3. The value proposition for corporations to go green includes many of the same issues as that for individual consumers but on a much large scope and with additional concerns. Corporations may share a desire to reduce carbon footprint and enhance security by eliminating paper waste, but they are also extremely concerned with

eliminating or decreasing errors due to manual processing and with creating a profitable bottom line. For these reasons and more, corporations are actively pursuing green programs, many companies are taking active steps to reduce waste, implement sustainability measures and increase profitability by going green.

4. Green Ethical banks adopt and implement environmental standards for lending, which is really a proactive idea that would enable eco-friendly business practices which would benefit our future generations.

5. When we are awarded with a loan, the interest of that loan is comparatively less with normal banks because green banks give more importance to environmental friendly factors - ecological gains.

## **SUGGESTIONS AND CONCLUSION**

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 economic productivity. In addition to mitigating risks, green banking opens up new markets and avenues for product differentiation. 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. There has not been much initiative in this regard by the banks and other financial institutions in India though they play an active role in India's 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. They are not as green as other foreign banks and financial institutions. None of our banks or financial institutions has adopted equator principle even for the sake of records. None of them are signatory to the UNEP Financial Initiative statement. It is time now that India takes some major steps to gradually adhere to the equator principles-guidelines that use environment-sensitive parameters, apart from financial, to fund projects.

Suggestions that can be adopted by Banks to encourage Green Banking

- ❖ Set up outlets to promote green business
- ❖ Construct a Website and spread the news
- ❖ Educate through the Bank's Intranet and Public website
- ❖ Making it a part of annual environmental report

There is a big problem amongst the bankers that many people are not well trained and equipped with the modern automated system as a result of which the results are not as we are looking for. Hence training and development of relevant skills within bank employees are important to speed up the reforms. Banks have to increase their speed in embedding the issues of climate change and act in more responsible manner as sustainable finance promotion is the call of the hour as it identifies not only the financial growth but also takes explicit account of environmental, social and governance (ESG) issues in investment process.

Green banking contributes to environmental improvement and economic growth. Most traditional banks did not aggressively pursue investment opportunities or engage in green banking until a few years ago. In the green sector or companies. The growth of Indian banks is substantially low when compared to the banks in the



developed countries. The global markets are looking for social and ethical banking system with environmental conscious and Indian banks have to strive for green banking if they desire to compete in the global markets. This strategy has only recently become common among small alternative and cooperative banks, as well as service providers of various financial products, venture capital companies and insurance companies.

Furthermore, banks should prioritise lending to those sectors of the economy that have already made significant strides toward being green and those that are doing so. The banks, businesses, and economy will all profit from this "Green Banking" idea. In addition to ensuring the greening of sectors, "green banking" will make it easier to raise the asset quality of banks in the future. The adoption of "Green Banking" as a successful company presents both many potentials and difficulties for Indian banks. If done honestly, green banking will serve as a powerful ex ante deterrent for the polluting sectors that ignore the other institutional regulatory systems. Indian banks must therefore employ green technologies to ensure a sustainable banking industry.

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