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A Conceptual Study on Green Banking

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ABSTRACT:

Green banking is different from traditional banking, as green banking focus on promoting environment friendly banking. Green banking is also known as ethical banking. According to Clark Schultz (2012) Green banking means promoting environmental-friendly practices and reducing your carbon footprint from your banking activities. According to PravakarSahoo and Bihoo Prasad Nayak (2008) 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, so it is suggested to initiate to promote green banking in India. The concept of green banking helps to create cleaner and greener future as Green Banking has direct impact on the environment.

The paper aims to understand the concept of green banking and identify the opportunities and challenges the banks face in implementing green banking.

Keywords: Green Banking, initiatives for green banking

Introduction:

The adoption of various strategies by the financial institutions influence the economic growth and development of the country both in terms of quality and quantity. As environmental issues are gaining greater importance, there is a pressure on all industries, including financial institutions to implement Green Initiatives. Banking sector plays a crucial and decisive role in promoting environment sustainable and socially responsible investments as it increases the value and lowers loss ratio as higher quality loan portfolio results in higher earnings. Thus, encouraging environmentally responsible investments and prudent lending should be one of the responsibilities of the banking sector.

It 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 as simple as possible and the use of IT and physical infrastructure as efficient and effective as possible, with zero or minimal impact on the environment. Green banking refers to how environmental friendly the bank is and how committed it is to go green and how ethical they are. The Green initiatives taken up by the banks or a concept of Green banking means using all the available resources of the banks with responsibility and care, avoiding waste and giving priority to choices that take sustainability into account. It also means promoting environmental-friendly practices and reducing the carbon footprint from the banking activities. The reasons for going green are manifold, and the key points among them are: increasing energy consumption and energy prices, growing consumer interest in environmentally-friendly goods and services, higher expectations by the public on banks environmental responsibilities and emerging regulatory and compliance requirements.

Implementation of green banking can in many forms. 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.

Review of literature:

Jeucken and Bouma (1999) in their study identified four stages or attitudes of banking toward sustainability. The first stage is defensive banking, in which bank is non-active and tries to delay or oppose the new legislation as it may damage the interest of banks directly or indirectly. The Second stage is preventive banking in which bank has to comply with legislation to avoid any constraint on its activities. The third stage is offensive banking in which banks are concerned about internal as well as external activities. The final stage is sustainable banking, which is, a win-win solution. Banks under this stage looks for highest sustainable rate of return not for highest financial rate of return.

Getzner and Kra'uter (2004) in their research paper tested the respondents' willingness to invest in green shares. Authors found education, income, environmental awareness and the expected profit are the main explanatory variables.

Vinay Kumar Nagu(2012) in his research found that primary benefit of E- CRM in the banking sector is the reduced cost of operation, locks in target prices, and increases in customer loyalty. While secondary importance is given to customer cognitive, competitive products and a high security system, low priority is given to different contact options for customers to contact and minimize the administrative work. While in overview of transactions, localizations of transactions real time overview of liquidity position, organizational activity and one point of contact, one bank is giving less importance to some factors, while the other is giving more importance. The finding shows that definite benefits which are derived from a banks perspective by using E – CRM are: Reduced cost of operation; increased customer loyalty, Staff training, Evaluation of Customer Feedback.

Rajiv Khosla and ParulMunjal (2013) in their study indicated that on the whole, good scopes exist for all the banks to popularize their value added services, particularly in the rural areas. Those banks which will be successful in creating customers by offering innovative and advanced services a head of their competitors will reap more benefits. For this reason, it is recommended that bank should target their promotional activities towards literate, young and resourceful brigade who possess a rich potential to use e – banking services for long as can be generalized from this study.

Objectives of the study:

- 1) To understand the concept of green banking
- 2) To analyze the green initiatives adopted by various banks

Concept of green banking:

A green bank referred as green investment bank, clean energy finance authority, or clean energy finance corporation is a financial institution typically public or quasi-public, that uses innovative financing techniques and market development tools in partnership with the private sector to accelerate deployment of clean energy technologies. Green banks use public funds to leverage private investment in clean energy technologies that, despite being commercially viable, have struggled to establish a widespread presence in consumer markets. Green banks seek to reduce energy costs for ratepayers, stimulate private sector investment and economic activity, and expedite the transition to a low-carbon economy.

Green Banking is any form of banking from that the country and nation gets environmentally benefits. An orthodox bank becomes a green bank by directing its core operations toward the betterment of environment. The banking sector can play an intermediary role between economic development and environment protection by promoting environmentally sustainable and socially responsible investment. The concept of green banking was developed in the western countries. Green Banking was formally started in 2003 with a view to protecting the environment. Then the Equator Principles (EPs) were launched and were initially adopted by some leading global banks, such as Citigroup Inc, The Royal Bank of Scotland, Westpac Banking Corporation. In March 2009, Congressman Chris Van Hollen of USA introduced a Green Bank Act with the aim of establishing a green bank under the ownership of the US government. After introduce the Green Banking initial decision was to minimize the paper use in banking works because to make all kinds of papers need to cutting trees as raw materials (its minimize the green forestation) and for this reason naturally its reduce the Oxygen and increase the carbon-dioxide in airspace/ globe .There are two ways of green banking practices. One is in-house green banking; another is practice by the bankers in their business area. Creating clean and hygienic banking environment, green building, reforestation, online banking, waste management, installation of solar panel on the rooftop of the bank and using high mileage vehicles, reducing sound pollution, using webcam for video conferencing instead of physical meetings, online statements, emailing documents are included in the inhouse Green Banking. Financing the green projects like Biogas Plant, Solar/Renewable Energy Plant, Bio-fertilizer Plant, Effluent Treatment Plant (ETP), Projects having ETP etc, working on specific green projects, voluntary activities of banks are major practices by the bankers in their business areas. Green banking undertakes proactive measures to protect environment and to address climate change challenges while financing along with efficient use of renewable, non-renewable, human and natural resources.

Features

Some important features of green banking operations are as follows:

1. Banks can help environment through automation and online banking.
2. Green banking focuses on social safety and security through changing the negative impacts of the society.
3. In financing, it always gives priority to investments / loans which consider risk factors regarding environmental conditions.
4. It always cares for sustainable and green growth in industrialization and for social purposes.
5. It creates a congenial atmosphere inside and outside the bank.

6. It considers the clients as its family members, and as such, guide and supervise the projects to reduce pollution and thus implement scientific methods in the real sense by implementing environmental due diligence (EDD) checklist.
7. It reduces cost and energy, thus saving money and increasing GDP of a country

Green banking initiatives adopted by various banks:

1. State Bank of India (SBI): In order to promote paperless green banking for deposits, remittance and withdrawal SBI has started "Green channel counter" on 1st July 2010. In this counters customer need not fill up any pay in slips or draw cheques for withdrawal or depositing of money from their accounts, saving paper and thereby contributing to the concept of green banking. SBI thus became the first bank in the country to venture into generation of green power by installing windmills at various locations in the country. The bank has also introduced a scheme known as green homes, under this scheme the bank is offering concessions such as reduced margin, zero processing fees and low interest rate for on home loans for environment friendly residential projects rated by the Indian green building council (IGBC). Bank in recent days has also launched a loan product called 'Carbon Credit Plus' to finance the future clean development mechanism (CDM) projects.

2. Punjab National Bank (PNB): According to corporate social responsibility report 2010-2011 (PNB, 2011) they had initially taken various steps to reducing emission and energy consumption. As energy conservation initiative bank has begun conducting electricity audit of offices. Bank is also emphasizing mainly on green buildings and earnestly encouraging simple green practices such as opting for energy efficient lights, CFL bulbs, printing on both sides of paper purchasing composite fax machines which can necessarily perform multiple functions, immediate repair of water leakage, use of master sensor master switches for light which reduces consumption of extra unit of energy

3. Bank of India (BOI): Provision of providing mobile banking, phone banking, internet banking and electronic cards was added as alternate delivery channel to reduce the use of paper in banking procedure. Bank has issued e-transaction advices to corporate customers and reduction in paper usage as well as encouraging electronic statements among retail customers. Various green initiatives such as distribution of tree saplings and also creating awareness among society have been undertaken by the bank.

4. Initiatives taken by ICICI Bank: The bank offers green products and services like Insta banking which is a service which gives convenience and easiness to the customers to do banking anywhere and anytime through mobile banking, internet banking, IVR banking etc. This certainly reduces the carbon footprint of the customers as they do not require the physical statement or travel to bank branches. The bank also conducted paperless initiatives like e-greetings and e-statements which has helped to save 30,000 trees from being felled and sixteen crore litres of water through green initiatives. Besides this ICICI Bank attempts to support other organizations in their endeavours to 'Go green' by managing and funding green technology projects.

5. Canara Bank: Canara bank in 2013 had taken many green initiatives as a part of green banking initiative; bank had adopted environmental friendly measures such as internet banking, tele banking, mobile banking, solar powered biometric operations etc. Canara bank has also set up e-lounges for high tech banking facilities like passbook printing kiosk, internet banking, ATM, online trading and cash or cheque acceptor. The bank also has implemented e-governance for HR function and several other administration areas to reduce the paperwork in bank transactions. Due preference and weight age to projects are given in terms of lending policy which can earn carbon credits like windmills, solar energy products etc. Besides these the bank is also not extending any finance to the units which are producing ozone depletion substances such as carbon tetrachloride, chlorofluoro carbon, aerosol products, solvents etc.

6. Syndicate Bank: Bank has taken steps towards effective implementation of "Green initiative in corporate governance" by allowing paperless compliances through electronic mode. Also transactions through alternative channel to reduce the usage of paper based payment instruments are actively encouraged. Through e-lounge facilities, ATM's and internet banking, bank is encouraging banking transactions through e-mode thus paving way for a greater role towards green initiatives.

7. Central Bank of India: It launched "Go Green" campaign for its esteemed customers with a purpose to promote green banking which is queue less banking and also promotes use of recyclable products for banks stationery using TYVEK materials. Here customers are motivated to opt for e-statements, use internet banking and also use e-voucher machine for transactions.

8. HDFC Bank Ltd: It has launched a system of sending the personal identification number (PIN) for debit card holders through SMS instead of usual dispatch by post. Bank has also incorporated environment friendly features into their infrastructure which involves energy conservation, air quality management etc. Phase out policy- replacing inefficient lighting options with LED lights in large offices, use of central pollution control board (CPCB) compliant diesel gensets server and also desktop virtualization reducing much of the power consumption. Establishment of multiple alternate service points to enable easy transactions in paperless environment. Employee awareness campaigns to promote an environment friendly practice

9. Yes Bank: It is a first Indian signatory to carbon disclosure project and also has documented its carbon footprint. It is the first Indian bank originating from private sector which has become signatory to UNEP statements by financial institutions on environmental norms and sustainable development. Yes bank has also advocated a proactive response to climate change from its peers in industries, banking community and society as well.

10. IDBI Bank: This bank took a leap step towards green initiative in corporate governance through which bank sends all the documents relating to general meeting notices, annual reports, other notices etc. to their shareholders in electronic form. IDBI bank also has an exclusive team working on clean development mechanism (CDM) and other advisory services. It has also implemented a refinance scheme for most of the energy saving projects especially for micro, small and medium scale enterprises.

Conclusion:

There is constant increase in awareness regarding conserving and protecting the environment. As such green banking is an emerging concept. It certainly integrates management of environment with the banking activities and also aims at reducing carbon footprints. In a rapidly changing market economy where globalization of markets are intensified the competition, banks should certainly play an important role to take ecological and environmental aspects as part of their lending principle which would also force industries to go for mandated investment for environment management. Banking and financial sector should be made to work for sustainable development. Green banks are at start-up mode in India. Lot of channels are unutilized by the Indian banks for greening their activities even though they have started adopting green practices. On the outset for India there is a huge lot of opportunity available which they can exploit and move their goal of economic development. Green banking thus not only means sustainable use of resources but also adopting green lending principles. Finally Proper training and educational programs by banks for the green initiatives will actually make Green Banking a success.

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