GREEN BANKING – A PRACTICAL APPROACH FOR FUTURE SUSTAINABILITY

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ABSTRACT

Climate change is the most complicated issue the world is facing. Across the globe there have been continuous endeavors to measure and mitigate the risk of climate change caused by human activity. As socially responsible corporate citizens (SRCC), Indian banks have a major role and responsibility in supplementing government efforts towards substantial reduction in carbon emission. The best way for a bank to develop commercially is to look at the big pictures and act in a way that benefits consumers, the economy, society and the environment. Banks are part of complex human, social and environmental ecosystems, so it is in their self interest to keep those ecosystems going. This paper tries to find out the ways to go green through ‘Green Banking’. The paper aims to study the major avenues for greening banks. The data were obtained from journals, books, magazines, articles and reports prepared by research scholars. According to the findings, there is negligible awareness of green banking among bank’s staff and customers. There is a 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.
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.

Enterprises are now increasingly interested in establishing and implementing strategies that will help them to address environmental issues and also pursue new opportunities. The reasons for going green are manifold, and the key among them are: 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. Further, enterprise will increasingly feel the effects of environmental issues that impact their competitive landscape in ways not envisaged earlier. For instance, investors have started discounting the share prices of companies that poorly address the environmental problems they create. When making purchasing, leasing or outsourcing decisions, many customers now take into consideration the company's environmental records and initiatives. Investors are increasingly placing their money on initiatives that are green or that develop and promote green products and services. Government agencies, investors and the public are demanding more disclosures from enterprises regarding their carbon footprint and their environmental initiatives and achievements. As a result, enterprises with the technology and vision to provide products and services that address environmental issues will enjoy a competitive edge.

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 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 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 environmentally friendly and have any implications...
in the future, and loan will be awarded only when all the environmental safety standards are followed.

**REVIEW OF LITERATURE**

There are studies showing positive correlation between environmental performance and financial performance (Hamilton, 1995; Hart, 1995; Blacconiere and Pattern, 1993). Thus, it is imperative for the banking institutions in the present context to consider environmental performance in deciding whether to invest in companies or advise clients to do so. The formation of different rules for environmental management like resource conservation, clean water act, clean air act, toxic substance control act are also viewed as potentially significant contributor to the recent increase in environmental liability for banking institutions. Adoption of these principles will offer significant benefits to banking institutions, to consumers and also the stakeholders. Credit risks are also associated with lending on the security of real estate whose value has diminished owing to environmental problems (additional loss in the event of default). Further, risk of loan default by debtors due to environmental liabilities because of fines and legal liabilities and due to reduced priority of repayment under bankruptcy. In few cases, banks have been held responsible for actions occurring in which they held a secured interest (Schmidheiny and Zorraquin, 1996 and Ellis, Millians and Bodeau, 1992).

In few cases the environmental management system resulted in lower risk, greater environmental stewardship and increase in operating profit. The banking and financial institutions should prepare an environmental risk and liability guidelines on development of protective policies and reporting for each project they finance or invest (Jeucken, 2001). They can also have an environmental assessment requirement for the projects seeking finance. Banks also can issue Environmental hazards management procedures for the each project and follow through. The present green consumerism is more concerned with the quality of the products more than the quantity. In future, market will reward those industries or the companies, which emerge as the efficient users of the energy and raw materials and will penalize the less efficient one. Further, the investors in the stock market are equally aware of environmental pollution and would take a stand against those industries/institutions that do not comply with pollution norms (Gupta, 2003; Goldar, 2007). So the preferences of the investors will dry up in the case of polluting units and market capitalization will go down significantly. Thus, financial institutions should help developing the right instruments to meet the needs of industry to control environmental impact.

**INTERNATIONAL INITIATIVES**

The financial sector’s growing adherence to environmental management system is attributed to the direct and indirect pressures from international and local Non Governmental Organizations (NGOs), multilateral agencies and in some cases the market through consumers. In the early 1990s, the United Nations Environment Programme (UNEP) launched what is now known as the UNEP Finance Initiative (UNEPFI). Some 200 financial institutions around the globe are signatories of this initiative statement to promote sustainable development within the framework of market mechanisms toward common environmental goals10. The objective is to integrate the environmental and social dimension to the financial performance and risk associated with it in the financial sector. As the commitment of this UNEPFI statement goes, sustainable
development is regarded basic to the sound business management. It advocates for a precautionary approach towards environmental management and suggests integrating environmental considerations into the regular business operations, asset management, and other business decisions of the banks11. IFC’s environmental unit was established in 1991 for reviewing each project for environmental assessment. Similarly, the US Export-Import Bank regularly reviews while financing exports on the ground whether they are environmentally sound. It will be noteworthy to mention that Netherland-based ABN-Amro bank has developed certain Reputational Risk Management (RRM) policies to identify, assess and manage non-financial present within it business engagements. Similarly, some of the big international banks like ABN Amro, Deutsche, Standard Chartered, HSBC Bank etc. look at environment issues discussed under Kyoto Protocol. Going further, the Dutch Government has made a formal request to banks in achieving sustainable development. The dialogue between banks and government was established in 1999 to initiate policies for environmental improvements through the development of new financial products and services.

Similarly, Earth (FoE) and the Rainforest Action Network (RAN) challenged the industry with high-profile campaign that highlighted cases in which commercial banks were “bankrolling disasters” in 2000 in the US. In 2002, a global coalition of NGOs formed a network named ‘BankTract’ to promote sustainable finance in the commercial sector. This coalition came up with a resolution constituting six principles promoting environmental protection and social justice by banks and this is popularly known as Collevecchio Declaration. The six principles that this declaration advocated included commitments to sustainability, no-harm, responsibility, accountability, transparency and sustainable market, and governance. More than 200 organizations have endorsed this declaration and urged the banks to incorporate these commitments into their business operation. The declaration states that “Finance and Commerce has been at the center of a historic detachment between the world’s natural resource base, production and consumption. As we reach the boundaries of ecological boundaries of the ecological limit upon which all commerce relies, the financial sector should take its share of responsibility for reversing the effects this detachment has produced”.

All these concerns for sustainable finance or green finance have compelled the banking institutions to devise a common and coherent set of environmental and social policies and guidelines that can be used to evaluate the projects. A small group of banks along with IFC came together to initiate the process of designing the common guidelines in October 2002 and came up with a guidelines in June 2003 that is known as Equator Principles with 10 leading commercial banks adopting these voluntary set of principles. This equator principle was subsequently updated and the new revised sets of principles are launched in July 2006. The coverage of projects being financed is expanded in this revised set of principles by lowering the finance threshold from $50 million to $10 million. Presently 46 financial institutions from 16 countries with business operation in more than 100 countries have embraced this equator principle. So this principle has become a common standard of project finance that incorporated environmental and social issues in project finance.

The activities of the equator banks (banks adopting equator principles) are being reviewed by NGOs worldwide and are being published whenever it is realized that they are not committed to Equator Principle. IFC along with the Financial Times has initiated ‘Sustainable Banking
Award” since 2006. More than 104 financial institutions out of 151 entries from 51 countries have made it to the final lists of award in 2007. The number of banks applying was up by more than 100 per cent compared to the previous year’s 48 banks from 28 countries.

All the international initiatives towards integrating environmental concerns into business operation of banks are voluntary in nature and are meant to promote a common good of a better ecosystem. Voluntary commitment has its own shortcoming in a competitive market. Unless the market for green money will increase, the lenders will always have an incentive to procrastinate their social commitment and prioritize the commercial interest in the short run. So demand for green money is a precondition of green banking if it will be voluntary. A Government legislation that makes banks accountable for the misdeeds of their clients will help promote green banking.

INDIAN INITIATIVES

Green banking requires a paradigmatic change in thinking about economics, business and finance. Its success would be greater if all governments started to revise their economic paradigms from being ‘monetary economics’ to ‘ecological economics’ and begin to transform their accounting principles from purely being financial into ecological/operational energy accounting patterns. It will help in ecological balance. State Bank of India (SBI) as part of its Green Banking Policy has set up three windmills to generate 15 MW of power in Tamil Nadu, Maharashtra and Gujarat for its own consumption, first in country to think of generating green power as a direct substitute to polluting thermal power and implement the renewable energy project for captive use. These captive renewable power plants are first of its kind in India. If someone is interested to construct a new house through home loan from SBI, called green housing, then he/she will enjoy several benefits like, 5% concession in margin, 0.25% concession in interest rate and waiver of processing fees, only if his/her housing project (plan and estimate) is approved/ rated by Indian Green Building Council (IGBC). Introduction of Green Channel Counter (GCC) at its retail branches of from 01/07/2010 (SBI day) provide three basic service to its customers, i.e. cash deposit, cash withdrawal and fund transfer up to Rs.40,000 a day which reduces the use of paper and transaction time. A large number of Small Scale Industries (SSIs) functioning in unorganized sector are polluting more though it is invisible. Small Industries Development Bank of India (SIDBI), the main lender in the Micro, Small and Medium Enterprises (MSME) sector requires the SSIs to obtain a No Objection Certificate (NOC) of consent to establish from the respective State Pollution Control Boards (SPCB), which is a precondition before sanctioning the credit. Solar ATMs by Indus Ind. Bank as part of its green campaign ‘Hum aur Hariyali’ will replace use of conventional energy for eight hours per day with eco-friendly and renewable solar energy, which will save 1980 KW per hours energy every year and reduce carbon dioxide emissions by 1942 kgs. This solar ATM can store and transmit power on demand in case of power failure, which will save Rs.20,000 per year in case of a commercial user with grid power supply and Rs.40,200 in case of diesel generator. Union Bank has decided to undertake an electrical energy audit annually and installed solar water heaters at various facilities maintained by them. IDBI Bank, a member of the Council of National Action Plan on Climate Change (NAPCC) and signatory to investor Carbon Disclosure Project (CDP), which aims to create a relationship between shareholders and corporations regarding the implications for shareholder value and commercial operations presented by climate change. Launching of Green Governance Award under ICICI Bank’s Corporate Environmental
Stewardship Programme with Bombay Natural History Society (BNHS) to sensitize various corporate bodies, financial institutions/banks and government agencies involved in project planning, on issues regarding biodiversity, wildlife habitats, various environmental laws and conventions are meant to recognize the efforts of companies and other organizations that promote biodiversity conservation of habitats, flora and fauna. Yes Bank under community development initiatives, called ‘Planet Earth’ is promoting clean and green drives, energy efficiency practices, workplace health and safety and the development of local disaster management plans at its retail branches. Indian Sustainable Development Fund of ABNAMRO Bank (now Royal Bank of Scotland) has opened a new emerging market for socially responsible investors (SRI) to meet global standards for environmental, social and corporate governance (ESG) issues.

OBJECTIVES

- To study concept of ‘Green Banking’
- To enumerate effective methods for green banking
- To create awareness about Green Banking

MAJOR AVENUES FOR GREENING BANKS

1. GREEN PROCESSES

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. Key among them is:

SUPPLY CHAIN MANAGEMENT

- Adopt techniques and plans to minimize inventory and wasted freight
- Adopt networked design using a carbon footprint.

ENTERPRISE RESOURCE MANAGEMENT

- Facilitate 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.

2. 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, 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
- Offering credit cards co-branded with environmental charities.

3. 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.

4. OTHER GREEN BANKING ACTIVITIES

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.

To highlight the means to create awareness in internal as well as external subsystems among target groups and impart education to attain sustainable development through green banking

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.

CONCLUSION AND SUGGESTIONS

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.

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