



Green banking in India: An innovative initiative for sustainable development

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Abstract

Today across the world the biggest problem is environment management and reducing the damage to the natural resources and global warming. It is the responsibility of every individual as well as institutions in the world to work in this direction. Change is necessary for every organization to survive in the today's cutting-edge competition. Companies and organizations have taken so many steps to remain competent with the changing environment. Bank is also one of those organizations which are causing damage to the environment. However bank is not causing so much damage to the environment directly. But somehow banks are associated with harming environment because it is connected to the industries like paper, steel, chemicals, cement, power, fertilizers, textiles etc. As a bank provides finance facilities to these industries. Now the time has come and all the banks are trying to become 'Green' by adopting green banking practices. The present study presents the green banking challenges, benefits and methods of green banking adopted by various banking sectors in India.

Keywords: green banking, green bank, environment, cutting-edge competition.

Introduction

Banking sector is generally considered as environmental friendly in terms of emissions and pollutions. Internal environmental impact of the banking sector such as use of energy, paper and water are relatively low and clean. Environmental impact of banks is not physically related to their banking activities but with the customer's activities. Therefore, environmental impact of bank's external activity is huge though difficult to estimate. Moreover, environment management in the banking business is like risk management. It increases the enterprise 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. 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 method of finance can be called as "Green Banking", an effort by the banks to make the industries grow green and in the process restore the natural environment. 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. Internationally,



there is a growing concern about the role of banking and institutional investors for environmentally responsible/socially responsible investment projects.

Literature Review

Nelson (2006) did the case study on Madison Branch of Wisconsin Bank, which was the first branch of a Wisconsin bank to attain the LEED (Leadership in Energy and Environmental Design) certification in energy efficient building which costs 2% additional than non-energy efficient building but there was an instant pay back for the same. As per the report of the state of California, 2% additional cost of green building will yield life time savings of more than 10% of the original investment.

Ginovsky (2009) had emphasized that in order to implement ecologically friendly practices, banks should launch new banking products which promotes the sustainable practices and also needs to restructure their back office operations. The author suggested some strategies which bank should follow to go for green banking: Use of paperless banking which results in reducing the carbon footprint from internal banking operations. It also leads to saving cost to the bank because through automation they can avoid the cost of storage of paper and also the cost of courier vehicle fuel consumption and emissions; Adoption of Green Street lending, which means offering low rate of interest to consumers and businesses for installing solar energy systems and energy saving equipments like solar hot water systems, highly efficient furnaces, heat pumps and replacement windows.

Yadav & Pathak (2013) studied that Export Import Bank of India (EXIM) and SBI entered into an agreement to jointly provide long term loans up to 14 years to

Spain based company Astonfield Renewable Resources and Group T-Solar Global SA for building solar plant in India.

According to Dharwal & Agarwal (2013) green banking is a key in mitigating the credit risk, legal risk and reputation risk. The author had suggested some green banking strategies like carbon credit business, green financial products, green mortgages, carbon footprint reduction (paperless banking, energy consciousness, mass transportation system, green building), and social responsibility services towards the society. According to Malu *et al.* (2014), banks can play an important role in reducing the carbon footprint in the society. Earlier economic development means reducing poverty, inequality and unemployment in the society, but the concept of Economic development had changed to Sustainable development which means "development that meets the needs of the present without compromising the ability of future generation to meet their own needs (World Commission Environment and Development 1987).

Adopting green banking practices will not only be advantageous to the environment, but it will also be useful in greater operational efficiencies. But there has not been much initiative in this regard by the banks and other financial institutions in India. Indian banks are not taking any big initiative towards the direction of environment and they have really a big role to play (Sahoo P. & Nayak B. P., 2008, Biswas N., 2011). As responsible corporate citizen banks believe that every small green step taken today would go a long way in building a greener future (Thombre K. A., 2011). The impact of banking services on the environment is huge because, banks



consume natural resources which add to the pressure on the environment (Srivatsa H. S., 2011).

There are a few banks in India which have adopted green banking and financed some of green banking based projects. Moreover, there is negligible awareness of green banking among the customers, even the bank staff (Verma M. K., 2012). Green banking is a component of the global initiative by a group of stakeholders to save the environment (Bahl S., 2012).

Research methodology

This paper reviews the literature on the basis of secondary data collected from the sources such as articles, research papers, annual reports, sustainability reports, company’s official websites, etc.

Objectives of the Study

The main objective of the study is to get acquainted with the green banking concepts and its advantages and challenges. We also tried to focus on the methods of adopting green banking and the growth of ATM.

Green Banking Initiatives by Indian Banks

Green Banking Initiatives by Indian Banks include both public sector banks and private sector banks. Public sector banks are those where majority stake (more than 50%) is held by the government and public sector banks are those where majority stake is held by the private shareholders. Various green initiatives had taken by public sector and private sector banks in India. The table 1 depicts top four public and four private sector banks on the basis of their net profits.

Table 1: Top Performing Banks on the basis of their net profit

Public sector bank		Public sector bank	
Bank	Net Profit (Rs Crore)	Bank	Net Profit (Rs Crore)
State Bank of India	14104.98	ICICI Bank	8325.47
Punjab National Bank	4747.67	HDFC Bank	6726.28
Bank of Baroda	4480.72	Axis Bank	5179.43
Canara Bank	3282.71	Kotak Mahindra Bank	1360.72

Source: Money Control (2014)

Growth in automated teller machines (ATMS)

The banks increased their penetration further with the total number of ATMs reaching 0.18 million in 2015. However, there was a decline in growth of ATMs of both PSBs as well as PVBs. PSBs

recorded a growth of 16.7 per cent during 2014-15 maintaining a share of around 70 per cent in total number of ATMs. FBs continued to record a negative growth in number of ATMs (Chart 1).

Population group-wise distribution of ATMS



In recent years, the shares of ATMs in rural and semi-urban area have been rising, though urban and metropolitan centres still dominate. In 2015, about 44 per cent of the ATMs were located in rural and semi-urban centres (Chart 2).

OFF-SITE ATMS

The share of off-site ATMs in total ATMs increased to 50.9 per cent as at end-March 2015 from 47.9 per cent in the previous year. The increase in share of off-site ATMs of public sector banks played a major role, which increased to 45.7 per cent in 2015 from 40.3 per cent in 2014. The share of private sector and foreign banks was already more than 60 per cent (Chart 3).

WHITE LABEL ATMS

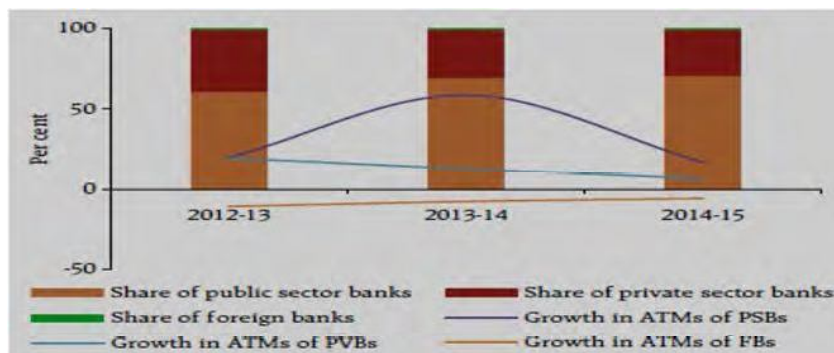
Looking at the efficiency and cost-effectiveness of off-site ATMs, non-bank

entities were allowed to own and operate ATMs called 'White Label ATMs (WLA)' by the Reserve Bank in 2012. As on October 31, 2015, 10,983 WLAs were installed.

DEBIT CARDS AND CREDIT CARDS

Issuance of debit cards is much higher as compared to credit cards and they remain a preferred mode of transactions. In 2012, there were 6.3 credit cards for every 100 debit cards, which declined to 3.8 in 2015 (Chart 4). PSBs (Public Sector Banks) maintained a lead over PVBs (Private Sector Banks) and FBs (Foreign Banks) in issuing debit cards. As on March 31, 2015 approximately 83 per cent of the debit cards were issued by PSBs, while around 80 per cent of the credit cards were issued by the PVBs (57.2 per cent) and FBs (22.4 per cent).

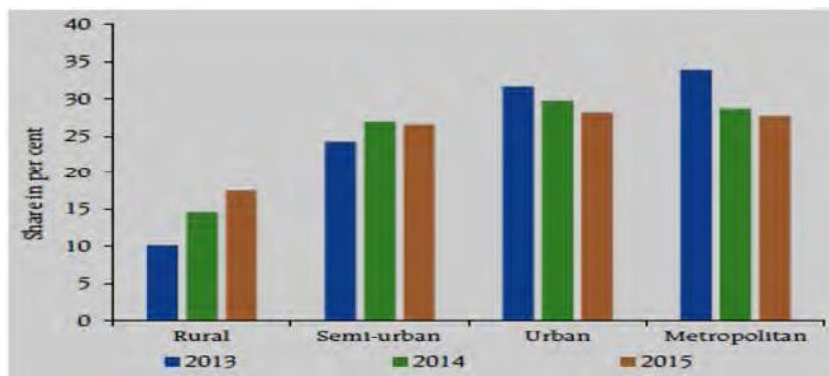
Chart 1: Growth and composition of ATMs



Source: RBI.

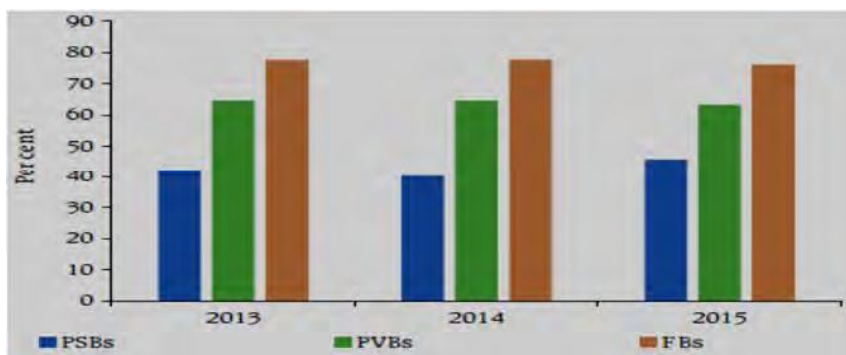


Chart 2: Geographical distribution of ATMs



Source: RBI.

Chart 3: Share of off-site ATMs



Source: RBI.

Chart 4: Issuance of debit and credit cards



Source: RBI.



Advantages of green banking

- ✓ **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.
- ✓ **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.
- ✓ **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. Sustainable
- ✓ **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.

Challenges to going green

Green banks support wonderful causes; they do face a lot of challenges as for-profit entities. Just like those socially conscious and environmental mutual funds, they are expected to encounter more obstacles than typical run-of-the-mill bank.

i) Diversification matters

Green banks will be screening their customers and naturally, they'll be limiting and restricting their business to those entities that qualify. With a smaller pool of customers, they'll automatically have a smaller profit base to support them. If they focus their loans on certain industries, they open themselves up to being much more vulnerable to economic shifts.

ii) These banks are still startups

Apparently, it takes 3 to 4 years for a typical bank to start making money. Many green banks in business today are very new and are still in startup mode. It doesn't help that these banks are trying to get their footing during a recession.

iii) Banks are "specialized"

Again, while the main goal of a green bank is to do good by supporting those who are taking care of the environment, the question here is — just how much money is there in these businesses and in the eco-friendly industry? Saving the environment does not necessarily equate to "making a profit". Hopefully though, this premise is proven wrong in this case and that green banks prove that they can survive, even as they face restrictive requirements for doing business.



iv) Operating expenses and costs are higher

Green banks require specialized talent, skills and expertise as well, due to the kind of customers they are servicing. Employees, such as loan officers, need to have additional background and experience in dealing with green businesses and consumers. Plus, giving breaks to such clients via discounted loan rates can eat at their profit margins.

v) Reputation Risk

In all likelihood, due to growing awareness about environment safety, banking institutions are more prone to lose their reputations if they are involved in big projects, which are viewed as socially and environmentally damaging. There are also few cases where environmental management system has resulted in cost savings, increase in bond value etc. (Heim, G et al, 2005). In few cases the environmental management system resulted in lower risk, greater environmental stewardship and increase in operating profit. Reputation risks involved in the financing of ecologically and ethically questionable projects.

Methods adopting Green Banking

1. Online Savings Account: Online savings account and mobile banking is the easiest way that you can do your part to bank green and help the environment. Green banking includes setting up direct deposit to receive your paychecks, receiving electronic statements from your bank and by paying bills online. All of these steps can drastically reduce the amount of paper produced by your bank. Online

banking and mobile banking are also highly effective ways to keep track of your finances and to avoid late payment fees. Another green banking step you can take is to suggest that the company you work for sign up for a product called "Remote Deposit". Remote customers have to physically deliver each check to their bank to make a deposit. Remote deposits also allow banks to easily clear checks digitally.

2. Paperless Statements: Sending out bank statements by mail is a big waste of paper. Signing up for online banking at most banks includes an option for customers to receive their statements electronically through a secure log - in. Copies of banking records and statements can then be stored electronically instead of in a filing cabinet. Receiving statements electronically also reduces the chance of identity theft.

3. Direct Deposit: Most employers will give employees the option to receive their paycheck electronically. Not only does this speed up the availability of your money and save you a trip to the bank, it saves paper, lots of paper work etc.

4. Online Bill Payments: Paying bills online is something of a lifestyle change, but it can be done. Telephone bills, cable bills, utility bills, credit card payments and mortgage payments can all be paid electronically. In fact, some online banking customers have thrown away their checkbooks and completely converted to online payments. Not only is the recordkeeping much easier, but again massive amounts of paper is saved.



5. Reward Debit and Credit Cards: Some banks have joined up with environment-friendly groups like The Sierra Club or Defenders of Wildlife to create reward debit cards and reward credit cards. Participating banks will make a small charitable donation as a percentage of your online banking activity to help the environment.

6. Net Banking: Online banking is when customers perform most of their banking related functions without visiting the bank, personally. To do so, customers must possess an internet banking ID and a password provided by the bank in which the individual customer has an account.

Online banking offers several benefits like time saving, convenience, 24 x 7 service, eco-friendly process, easy access etc.

- ✓ **Credit and Debit Cards:** Credit card and debit card can be used while making the payment of various expenses without caring the money.
- ✓ **Online Bill Payment:** Through online payment we can make payments of telephone bills. Credit card bills or loan installments.
- ✓ **Electronic Fund Transfer:** Electronic banking, also known as electronic fund transfer (EFT), uses computer and electronic technology as a substitute for checks and other paper transactions. EFTs is initiated through devices like cards or codes that let you, or those you authorize, access your account. Many financial institutions use ATM or debit cards and Personal Identification Numbers (PINs) for this purpose.

7. Mobile Banking: Mobile banking is a term used for performing balance checks,

account transactions, payments, credit applications etc. via a mobile device such as a mobile phone or Personal Digital Assistant (PDA).

Conclusion

Increased carbon emissions and reckless development without paying attention to environment, led to climate changes. Banks also contribute to ecological footprint directly and indirectly through investment/lending in their customer enterprises. Indian banks need to create aware about green banking practices among managers and personnel through weekly green news, publications, banks newsletters and e-learning programs whereas, event meeting, media, websites, road shows can be adopted to create awareness among the clients and general public.

As far as green banking is concerned Indian banks are far behind their counterparts from developed countries. If Indian banks desire to enter into global markets then it is important for them to recognize their environmental and social responsibilities. In addition to mitigating risks, green banking opens up new markets and avenues for product differentiation. Therefore, Indian banks should adopt effective sustainable strategies for green banking.

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