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Green Banking Vis-a-Vis Ethical Banking - A Business Model for Sustainable Banking in India

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ABSTRACT

Sustainable development can be achieved by allowing markets to work within an appropriate framework of cost efficient regulations and economic instruments. In a globalised economy, the industries and firms are vulnerable to stringent environmental policies, severe law suits or consumer boycotts. Since banking is one of the major stake holders in the Industrial sector, it can find itself in credit risk and liability risks. Further, environmental impact might affect the quality of assets and also bank's rate of return in the long-run. Thus the banks should go green and play a pro-active role to take environmental and ecological aspects as part of their lending principle, which would force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems. This paper explores the importance of Green Banking, cites international experiences and highlights important lessons for sustainable banking and development in India. The findings indicate the 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 sustainable.

Key Words: Banking; Business Process; Greenery, Green Banking; Productivity & Sustainability.

1. INTRODUCTION

In the present scenario of globalization through 21st century, one thing that is missed very badly is lush greenery. Society is becoming concerned

and worried about the natural environment. Business organizations and corporations have started modifying their work systems in an attempt to increase greenery. Green banking means combining operational improvements, technology and changing client habits in banking business. It means promoting environmental friendly practices and reducing carbon footprint from banking activities. 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. Keeping in mind all the points related to environment protection, the role of green banking is expected to be observed at all levels of business process in this globalized world. Main emphasis has been given to analysis of the concept and need of green banking in business process so as to make our environment human friendly and enrich economic productivity. In many cultures, "Green" is an affirmation of life. It indicates growth, fruitfulness and spiritual rejuvenation.

What is Green Banking?

Green banking considers all the social and environmental/ecological factors with an aim to protect environment and conserve the natural resources. It is also called as an ethical banking or sustainable banking. They are controlled by the same authorities but with an additional agenda toward taking care of the Earth's environment/

habitats/resources. For banking professionals green banking involves the tenets of sustainability, ethical lending, conservation and energy efficiency.

1.2. HISTORICAL BACKGROUND OF STUDY

Historically, banks have been viewed solely as financial institutions, which should concern themselves with financial transactions. Morality had not entered the equation. This public view has allowed banks significant leeway with concern to ethical standards. This is because they have not been associated with the actions taken by the businesses they lend. Banks have also stated that a reason for not mounting new challenges that sustainability presents is that such inspection would require interference in the activities of clients. However with changing social demands, more is known about the effects that banks can have through their lending policies. Banks have started getting pressure from the general public, NGOs, governments, and entities that would like to go beyond conventional business management. For example in the mid 1990s a Cooperative Bank asked 6,000 customers about thoughts on ethical banking. Over 84% consumers responded that it was a good idea. In fact the cooperative bank was formed in response to the growing consumer base looking for ethically oriented banks.

2. OBJECTIVES OF THE STUDY

The main objective of the paper is to investigate the awareness level of green banking among bank employees, associates and general public. The Sub-objectives revolve around probing alternatives that are positive signals for implementation of green banking and also search for possibility of new green banking products and services in the future.

3. ILLUSTRATIONS

3.1. HSBC

According to the first report regarding climate change policies of the world's largest banks; the study of 40 global banks, conducted by Risk Metrics Group for Ceres, evaluated each institution about addressing climate change in five areas

board of director oversight, management performance, public disclosure, greenhouse gas emissions (GHGE), accounting and strategic planning. European banks dominate top of the table, with HSBC in the lead, scoring 70 out of 100 points. HSBC was found to be active in all five of the areas evaluated. ABN Amro came second in the study with 66 points, followed by UK banking groups Barclays and HBOS both scored 61 points. Germany's Deutsche Bank follows with 60 points. But more than half of the 40 banks scored under 50 points out of 100, and the median score was 42 points. Only a handful of banks are pricing carbon into their financial decisions or setting targets to reduce greenhouse gas emissions. "For all of the positive momentum, many of the 40 banks have done little or nothing to elevate climate change as a governance priority – a trend that cuts across European, North American and Asian banks alike," said the report. "More banks realize that climate change is a big issue, but their responses so far just tip of the iceberg of what is needed to tackle this colossal global challenge," said Mindy S. Lubber, president of Ceres. Last year HSBC unveiled a \$90m (£45m) global environmental efficiency program. Over next five years, HSBC will spend this money to reduce the bank's impact on the environment through a series of initiatives, including introducing renewable energy technology, water and waste reduction programs. HSBC was 'carbon neutral' by 2006. To achieve carbon neutrality HSBC purchased verified emissions reductions (VERs) from several renewable energy projects in China and Thailand. In July 2007, HSBC appointed Sir Nicholas Stern as special adviser to the chairman on economic development and climate change. Stern is best known as the former World Bank chief economist and author of the Stern Review on the Economics of Climate Change. Also, HSBC's direct banking subsidiary first direct recently disclosed plans to install automated computer shut down software from Night Watchman to automatically switch off the 2,600 computers in an effort to reduce its carbon emissions by 147 tonnes and save £24,000 per year on energy costs.

3.2. ABN AMRO BANK (NOW ROYAL BANK OF SCOTLAND)

ABN AMRO Bank (Royal Bank of Scotland) launched the Indian Sustainable Development Fund, opening up a new emerging market for socially responsible investors. It funds companies that meet global standards for environmental, social and corporate governance issues. Moreover, one of its branches in Ahmadabad is built with LEED certified platinum interiors resulting in savings of energy costs for lighting and reduction in consumption of potable water.

4. INDIAN PERSPECTIVE OF GREEN BANKING INITIATIVES

4.1. GREEN BANKING BY ICICI BANK

Paperless initiatives like e-statements and e-greetings helped ICICI Bank save 30,000 trees from being felled in 2009-10, besides cutting down spending on stationery by Rs 7.36 crore. According to ICICI Bank New Delhi Managing Director and CEO Chanda Kochhar "ICICI Bank recognizes and contributes to the need of conserving national resources and exploring clean technology. It collaborates with employees and customers alike to reduce the carbon footprint from banking," ICICI Group companies have saved around 30,000 trees and 16 crore liters of water through green initiatives. Through these internal and external initiatives, 1,754 tonnes of paper were saved, which translated into a saving of Rs 7.36 crore for the company as of February 2010. ICICI Bank attempts to support other organizations in their endeavors to 'Go Green' by funding and managing green technology projects. 'Go Green' is an organization-wide initiative that aims at migrating to environment-friendly platforms for daily operations within the organization, as well as beyond automated channels. The initiative aims to build awareness and fund alternate energy and environment projects, thereby preserving the environment. ICICI Bank tried to reduce its footprint by providing customers alternate and non paper based channels such as e-branches, e-statements, online banking and mobile banking. Bank opines "An internal movement towards

environment-friendly operations becomes necessary. Ideas are generated by employees through contests. Ideas included dateless diaries, visiting cards on recycled paper, sapling plantations and green walkathons," . ICICI has partnered with the Indian government, World Bank and UNAID to support SME projects in the area of green research and clean technology. It is also working with the Indian Army on water management, energy conservation and alternative energy projects.

4.2. INDUSIND BANK

IndusInd Bank as part of its 'Green Office Project Campaign' titled 'Hum aur Hariyali' has introduced Mumbai's first solar powered ATM and has an expectation to save around 1,980 Kw of energy annually besides reducing carbon emissions by 1,942 kgs. It also anticipates saving power bills of around INR 20,000 per year in urban areas where it has replaced diesel generators with solar panels. Moreover, in an effort to reduce the carbon footprint, the bank has also introduced thin computing (which reduces the need for many personal computers), e-archiving, e-learning, e-waste management, paperless fax, energy conservation, CNG cars and supporting finance programs with incentive to go green.

4.3. YES BANK

YES Bank has incorporated community development initiatives such as green drives, energy efficiency practices, workplace health and safety and development of local disaster management plans through its 'Yes Community' initiatives. The community engages with general public surrounding bank branches through micro events on themes such as pollution prevention, recycling, minimizing waste, water conservation, energy conservation, improving sanitation and cleanliness. Moreover, the bank is the first Indian Bank in the private sector to become signatory to the UNEP-FI (United Nations Environment Programme - Finance Initiative) Statement on the Environment and Sustainable Development and Carbon Disclosure Project (CDP).

4.4. IDBI BANK

IDBI Bank has created an exclusive group working on climate change and more specifically on carbon credits advisory services to the clients for dealing with Clean Development Mechanism (CDM)/ Carbon Credits of Kyoto Protocol and Voluntary Emissions Reductions (VERs) authorities. CDM projects are the one that contribute to credible and sustained reduction in GHG emissions that are very vital. Earth's carbon absorbing capacity is finite and the growth of GHG emissions even at their present level pose a threat to humankind. The bank has set up dedicated carbon credit desk, providing all the services in the area of CDM. It has entered into formal arrangements with multilateral agencies and buyers of carbon credits like KfW, Bankergroupe, and Federal Republic of Germany to offer a complete range of CDM related to suit the needs of the clients.

4.5. STATE BANK OF INDIA (SBI)

SBI as a part of its green banking policy has set up wind mills to generate 15 MW of power in Tamil Nadu, Maharashtra and Gujarat for its own consumption. The mill in Tamil Nadu would generate 4.5 MW of power, while the Maharashtra mill will have a capacity of 9 MW and Gujarat mill produces 1.5 MW. SBI was the first bank to consider generating green power as a direct substitute to thermal power. SBI has adopted a green banking policy with the objective of contributing towards the fight against climate change. One of the initiatives approved by the board for this purpose is to incentivize customers who opt for green projects, i.e., those projects which reduce carbon emissions and promote renewable energy. Green Housing or Green Home is a project identified for this purpose. The new Green Home Loan Scheme will support environment friendly residential projects and will offer various concessions-reduced margins, lower interest rates and zero processing fee. These loans will be sanctioned for projects rated by the Indian Green Building Council (IGBC). The new loans offer several financial benefits by offering a 5% concession in margin, 0.25 percent concession in interest rate and waiver of processing fees.

4.6. UNION BANK OF INDIA

Union Bank of India decided to undertake an electrical energy audit annually. In addition, the bank has installed solar water heaters at various facilities maintained by them. The support service department of the bank has been indentified to implement such an energy/emission reduction program. It also finances an energy efficiency project in SME's where energy cost are significant.

5. ROLE OF RBI

RBI initiated number of programs to make Indian Banks to go Green. For instance, on 20th December 2007 RBI circulated a notice to all the scheduled commercial banks asking them to highlight Corporate Social Responsibility of Banks in the report titled 'Corporate Social Responsibility, Sustainable Development and Non-Financial reporting-Role of Banks'. As per the guidelines issued by the RBI many member commercial banks started new programs contributing to the society. As important players in the Indian Economy, banks have realized that their role extends beyond traditional banking activities that are commercial in nature. They also need to examine the effect of their lending and investment decisions. Efficient use of energy by enterprises is emerging as an area of critical importance. Banks support this by sensitizing and educating its stakeholders in adopting efficient means of energy consumption through booklets, workshops and energy audit services. Banks have also been actively involved in organizing awareness campaigns to create awareness regarding the benefits of adopting energy saving equipments and technologies.

Keeping in mind and considering the growing influence of environmental liability on the economy, business organization should adopt environmental risk management practices and programs as a part their internal operations. They should also make systematic use of environmental information in their debt and equity transactions.

6. CONCLUSION

Environmental issues are on the top of the agenda of Governments around the world. As rightly said, 'No planet, No People, No Profit'. Indian banks need to be made fully aware of the environmental and social guidelines to which banks worldwide agree. As far as green banking is concerned, Indian banks are far behind their counterparts from developed countries. If Indian banks desire to enter global markets, it is very much important that they recognize their environmental and social responsibilities. Green banking requires a definitive change in thinking about economics, business and finance. Its success would be greater if the world governments start revising 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. There is a crucial 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. In addition to mitigating risks, green banking opens up new markets and avenues for product differentiation. India has a commitment to cut its carbon intensity by 20-25 percent by the year 2020. This provides tremendous opportunities for Indian banks from funding sustainable projects to offer innovative products and services in the areas of green banking. The survival of the banking industry is inversely proportional to the level of global warming. Therefore, for sustainable banking, Indian banks should adopt green banking as a business model without any further delay.

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