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# Role of Green Banking in Sustainable Development

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## ABSTRACT

Taking environment and climate changes into consideration in what we do has become very important. Banking and finances is probably one of the areas one might not think one can do anything about, but there's surprising amount that one can do to ensure that money and finances are being managed in a green, ethical way. Green banking as a term covers several different areas, but in general refers to how environmentally friendly banks are, and their commitment to green and ethical policies.

This paper is an attempt to understand issues of Green Banking and its impact to the bank, customers and society in general.

**Key words:** Green banking, Clean Development Mechanisms (CDMs), Carbon neutral banks, Environment Impact Assessment (EIA).

## 1. INTRODUCTION

A banking company provides services of accepting deposits and lending loans. Customers visit banks for cash withdrawal, cash deposits, cheque deposit, obtaining DD/PO/ Bankers Cheque, pass book updation, etc. Every banking transaction requires filling of forms which leads to a time consuming process as well as results in environmental destruction in the form of deforestation. There is lot of wastage of paper in the form of deposit and withdrawal slips. Such documents and stationery is creating a lot of load on the inventory, store keeping and purchase departments. With green banking countries it and

helps in reducing unwanted paper work..

The banking industry can play an outstanding role between economic growth and environmental protection for promoting environmentally sustaining and socially accounting institution. The banking of this kind can be termed as "Green banking". Green banking refers to the banking business conducted in selected area and technique that helps the overall reduction of external carbon emission and internal carbon footprint. To aid the reduction of external carbon emission, banks should finance green technology and pollution reducing projects.

## 2. OBJECTIVES OF THE STUDY

1. To enlist significant strategies for adopting green banking.
2. To focus on methods for adopting green banking.
3. To focus on cashless and paperless banking and digital payment system.
4. To highlight the benefits of green banking.

### 2.1. GREEN BANKING STRATEGIES

Indian banks can adopt green banking as a business model for sustainable banking by launching some of the following strategies.

### GREEN BANKING FINANCIAL PRODUCTS

Indian bank can develop innovative green banking financial products which can directly or indirectly help in the reduction of carbon emissions. These banks can introduce "Green Fund" to provide climate conscious customers the option of

investing in environment friendly projects. 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. Besides introducing specific green banking products, bank can incorporate Environmental Impact Assessment (EIA) in their project appraisal while financing any project to measure the nature and magnitude of environmental impact as well as suggest environmental risk mitigation measures. Bank can also conduct environmental audits of the financed projects.

**Green Banking Product Coverage Includes:**

- Green mortgages
- Green loans
- Green credit cards
- Green savings accounts
- Green checking accounts
- Green money market accounts
- Mobile Banking
- Online banking
- Remote deposit (RDC)

Carbon footprint is a measure of the Green House Gases (GHG). Banks are burning fossil fuels in their day to day business, while burning of fossil fuels for electricity, heating; transportation etc. banks can reduce carbon footprints by adopting 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 banking. These banks can switch over to electronic correspondence and reporting thereby controlling deforestation.

**ENERGY CONSCIOUSNESS**

Developing energy consciousness among employees, adopting effective office time management and using LED lights can help banks save on energy consumption considerably. They can also switch over to renewable energy (solar, wind etc.) to manage their offices and ATMs.

**USING MASS TRANSPORTATION SYSTEM**

Public Sector Banks (PSB) can become fuel efficient organizations by providing common transport for groups of officials posted at one office.

**GREEN BUILDING**

The Indian banking industry uses more than one lakh square feet premises for their offices and residential houses throughout the country. These banks should develop and use green buildings for their office and employee accommodations. A green building uses less energy, water and natural resources, creates less waste and is healthier for the people living therein compared to a standard building. These measures will not only help banks reduce their carbon footprint but also save their operational cost considerably.

**SOCIAL RESPONSIBILITY SERVICES**

As part of green banking strategy, Indian banks can initiate various social responsibility services such as tree plantation camps, maintenance of parks; pollution checkup camps etc. Carbon footprint reduction by Green building has been given top most priority in green banking strategies.

**2.2. METHODS OF ADOPTING GREEN BANKING**

**ONLINE SAVINGS ACCOUNT**

Online savings account and mobile banking is the easiest way that one can do their part to bank green and help the environment. Green banking includes setting up direct deposit to receive paychecks, receiving electronic statements from bank and by paying bills online. All of these steps can drastically reduce the amount of paper used by the bank. Online banking is highly effective way to keep track of finances and to avoid late payment fees. Another green banking step one can take is to suggest that the company he/she works for sign up for a product called "remote deposit".

**PAPERLESS STATEMENTS**

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 using a filing rack. Receiving statements electronically also reduces the chance of identity theft.

#### **USE DIRECT DEPOSIT**

Most employers will give employees the option to receive their paycheck electronically. It does not only speed up availability of employee money and save a trip to the bank, which saves paper and lot of paper works etc.

#### **ONLINE BILL PAYMENTS**

Paying bills online is something of a lifestyle change. 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 cheque books and completely converted to online payments. This practice not only makes record keeping easier but also saves massive amount of paper.

#### **REWARD DEBIT AND CREDIT CARDS**

Some banks have joined up with environment-friendly groups, to create reward debit cards and credit cards. Participating banks will make a small charitable donation as a percentage of customers' online banking activity to help the environment.

#### **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\*7 service, eco-friendly process, easy access etc.

**CREDIT AND DEBIT:** Credit and debit card can be used while making the payment for various expenses without depending on cash transaction.

**ELECTRONIC FUND TRANSFER:** Electronic banking, also known as Electronic Fund Transfer (EFT) uses computer and electronic technology as a substitute for cheques and other paper transactions. EFTs is initiated through devices like

cards or codes that allow one to access his or her account. Many financial institutions use ATM or debit card personal identification Numbers (PINs) for this purpose.

#### **MOBILE BANKING**

Mobile banking is a term used for performing balance checks, account transactions, payments, credit applications etc, via mobile device such as a mobile phone or Personal Digital Assistant.

### **2.3. TOWARDS CASHLESS AND PAPERLESS BANKING**

In September 2012 RBI Deputy Governor, H R Khana rightly said in meeting that, circulation of large amount cash in the economy leads to many problems, including corruption, there is need for predominant cash in the society to go down. If cash component in the society goes down, it will help solve a lot of problems like corruption and cash management for banks at the operational level. In a study carried out by the Indian Development Foundation, it was found that the initiative towards a less cash using economy will lead to an improvement in financial inclusion, more digital record keeping of transactions, and a reduction in the costs of transactions and encourage greater growth.

Banks can save lot of papers by adopting following simple steps and hence can contribute to the environment to save trees and can reduce deforestation.

1. Purchase recycled paper.
2. Print on reusable sheets.
3. Print multiple pages on single sheets of paper.
4. Set defaults to print double-sided and print on both sides.
5. Print only the pages required.
6. Preview documents before printing.
7. Increase margin width of the documents.
8. Change the default font size from 12 point to 10 which shrink document by about 10%.
9. Using e-mail statements, one can save enormous amount of paper.

10. Shredding and recycling all papers internally.
11. Sharing electronic files and e-mail instead of paper memos.
12. Limiting printed materials/e-mails/memos to only what is necessary.

Cashless, paperless regime would be achievable only if the banking system is completely adept with the technological changes and also the customers are willing to accept the changes brought about by the regime. Payment systems of 21st century not only include the traditional paper based payments, electronic fund transfers, credit, debit and prepaid cards but also new technologies such as digital wallets, e-cash, mobile payments, e-cheques, etc. Cashless and paperless regime includes plastic money, online transfers, ATMs, mobile banking etc; the banks to begin a journey onto the path of paperless, chequeless and cashless banking as the future of banking.

#### **DIGITAL PAYMENT SYSTEM**

Electronic payment products are expected to provide speedier, cheaper and hassle free payment experience to customers on comparison to traditional paper based payment instruments. The card based payment systems have been evolving over the period in India. The card based system in the country covers credit/debit and prepaid cards. About 308 million cards have been issued in the country. We have been witnessing an increase in the usage of cards such as debit cards, credit cards, prepaid cards, across various delivery channels like ATMs, POS (Point Of Sale), internet transactions etc. On an average, 647.5 million transactions of value INR 1.5trillion are being processed during a month using these cards. By seeing number of transactions and the amount of money transacted, we can imagine number of papers saved through Digital Payment System. Saving of paper leads to saving of trees, which in turn helps environment, giving meaning to the objective of Green Banking.

Mobile phone based payment is one of the important evolutions in payment systems. As of June, 2012, 50 banks were providing mobile

banking services with a total customer base of 14.75million. Both the volume and value of mobile banking transactions are undergoing a remarkable growth. 34.37 lacks payment transactions of value INR 306.71 Crore were processed through Mobile Banking during June 2012.

#### **CARBON NEUTRAL BANKS**

Given the global nature of banking industry, it would be reassuring to know that your chosen bank operates as a carbon neutral business. Well, more and more business, including banks is turning themselves into carbon neutral operations. It means the amount of CO<sub>2</sub> emitted during day to day activities of that bank is neutralized by another activity that utilizes or uses CO<sub>2</sub>. Until a few years ago, most traditional banks did not practice green banking or actively seek investment opportunities in environmentally-friendly sectors or businesses. Only recently have these strategies become more prevalent, not only among smaller alternative and cooperative banks, but also among diversified financial service providers, asset management firms and insurance companies. Although these companies may differ with regard to their stated motivations for increasing green products and services (e.g. to enhance long-term growth prospects, or sustainability principles on which a firm is based), the growth, variation and innovation behind such developments indicate that we are in the midst of a promising drive towards integrating green financial products into mainstream banking.

#### **2.4. BENEFITS OF GREEN BANKING**

Paperless banking can be adopted as almost all banks in India are computerized or operated on CBS creating awareness to bank people about environment by bank can help to brighten the image of the bank. Provision of loans with financial concession for environment friendly products and projects can be an excellent idea for green banking. Moreover, following certain environmental standards for lending will make business owners to change their business to environment friendly which is good for future

generations. Major benefits of green banking are listed below:

**A. AVOIDS PAPER WORK**

Almost all banks in India are computerized or operate on 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 electronics correspondence and reporting thereby controlling deforestation.

**B. CREATING AWARENESS TO BUSINESS PEOPLE ABOUT ENVIRONMENT**

Creating awareness to business people about environment is another benefit of Green Banking. 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 bank.

**C. SANCTIONING LOANS AT COMPARATIVELY LESSER RATES**

Providing loans at concessional rates to environment friendly products and project such as fuel efficient vehicles, green building projects, housing and house furnishing loans to install solar energy system etc. has been given top most priority as far as benefits of green banking are concerned.

**D. 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 future generation. However, setting environmental standards for lending can also be a good idea for green banking. Sustainable development

**3. ROLE OF GREEN BANKING IN SUSTAINABLE DEVELOPMENT**

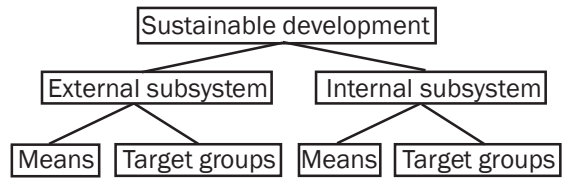


Fig No 1

Green banking can also help in attaining sustainable development by creating awareness and by imparting education. Awareness can be through communication. The first step would be defining target groups and means of communication. We can divide the whole system into subsystems that is internal and external subsystems. For internal subsystems, means which can be followed to create awareness on the issue can be weekly green news on internet, clearing programmes, high level meetings, bank’s news letter, publication etc. and the target groups are managers and other personnel. As far as external subsystems are concerned, effective means which can be followed are websites, capacity building, road shows, events, meetings, bench marking, media etc. whereas clients, subsidiaries and general public are target groups.

The sustainable development can best be achieved by allowing markets to work within an appropriate framework of cost efficient regulations and economic instruments. One of the major economic agents influencing overall industrial activity and economic growth is the financial institutions such as banking sector. The banking sector influences the economic growth and development in terms of both quality and quantity, there by changing the nature of economic growth. Banking sector is one of the major sources of financing investment for commercial projects that is one of the most important economic activities for economic growth. Therefore, banking sector can play a crucial role in promoting environmentally sustainable and Socially Responsible Investment (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. Green finance as a part of green banking makes great contribution for the transition to resource efficient and low carbon industries i.e. green industry and green economy in general. It is estimated that every ton of paper saves 17 trees.

### 3.1 IMPORTANCE AND RELEVANCE OF GREEN BANKING

Banks like any other business directly interact with the environment as consumers of natural resources. During their day to day business banks heavily contributes towards the carbon emission in terms of paper use, electricity, stationery, lighting, air conditioning, electronic equipment etc. even though this is moderate compared to other carbon sensitive industries like steel, oil and gas etc. In the case of banks, the direct interface with the environment has considerably increased due to rapid growth of the banking industry. Banks affect the environment indirectly by financing intermediaries that have an external impact on the environment. They are the major source of long term funding to various industries such as cement, fertilizers, nuclear power, steel, oil and gas, paper etc. which pollute the environment heavily. India has still a long way to go. Recently, as a part of the 'Green Initiative', the Centre has suggested the NBFCs to take proactive steps promoting day to day use of electronic payment systems, elimination of post-dated cheques and gradual phase-out of cheques in their business transactions. Similarly, the ministry of finance has directed all public sector banks, financial institutions and public sector insurance companies to take up e-governance.

State Bank of India has a green channel counter and the bank encourages paperless banking. There is no use of pay slips, withdrawal forms, cheque leaves, remittance forms and the transactions are done through SBI ATM cum debit card. They have also won the 'best customer initiative' award for the green channel counter at the IBA Banking Technology Awards.

The initiatives of State Bank of Mysore includes use of energy efficient photocopier, energy efficient computers and CFL bulbs; need based printing to save paper, auto cut off for air conditioners, ban on plastic bags in the office building, curbed usage of lights during the day, eco-friendly corporate gifting policy, rainwater harvesting system, solar power generation systems, solar powered ATM's, support for social forestry programmes, waste reduction and recycling, etc.

In Canara Bank, officials see green banking only as a form of paperless banking. "Foreign banks are implementing this form of banking only because they have the cream of employees, whereas in India, nobody is serious about it", said an official. They thought that it will be enforced when RBI insists on it. Canara Bank has initiated of paperless banking and also is the highest financer for solar energy related projects. The bank is also known to be conducting carbon financing in Delhi and Mumbai. The Indian banks are still taking basic steps into a much evolved form of banking. In order to contribute better towards sustainable banking, financial institutions and the government will have to make drastic changes in their policies. Educating the masses about this form of banking will be a good way to start. Being a major source of fund provider, banks can play a crucial role in ensuring environmentally sustainable and socially responsible investments in the economy. Banks should try and reduce the increase in carbon footprint caused by them either directly or indirectly and should play a vital role in ensuring sustainable and environment friendly development.

### 3.2. THE OPPORTUNITIES

The Green banking on one hand provides challenges to the banks and on the other hand it provides many opportunities as well. It is strongly believed that within the foreseeable future carbon will have a price tag attached to it. It gives banks a role to play in transition to a low carbon economy. Banks may formulate innovative financial solutions and re design the existing ones so as to

incorporate environmental perspectives. Some areas of development could be: -Green financial products - Loans with financial concessions to companies which undertake environmental friendly projects such as manufacturers of fuel efficient automobiles, solar and wind equipment etc. Banks can also introduce a 'Green Fund' to provide climate conscious customers an option of investing in environmental friendly projects. Besides introducing specific green banking products, banks can incorporate an Environmental Impact Assessment (EIA) in their project appraisal while financing any project to measure the nature and magnitude of environmental impact as well as suggest environmental risk mitigation measures.

**Carbon Credit Business:** Indian banks can involve themselves in carbon credit business, wherein they can provide all the services in the area of Clean Development Mechanisms (CDMs) and carbon credits including services of identification and funding of CDM projects, advisory services for registration of CDM projects and commercialization of CERs under different structures to meet the requirements of its customers, acting as an intermediary for buying Certified Emission Reductions CERs on behalf of end-users or carbon funds, financing against CERs and CERs receivables, and other related banking services. As India has huge potential for carbon credit business, Indian banks can set up dedicated carbon credit cells to capture a major share of this carbon credit business.

### 3.3. FUTURE OF GREEN BANKING

In future the Green banking will become the order of the day. And we expect a lot of associated green products, green services and green regulations would come into picture. Recognize and reward the environment conscious financial institutions. The Reserve Bank of India or regulatory authority will recognize and reward the environment conscious providers of green loans on an annual basis. By doing this environmentally irresponsible firms may run the risk of hurting their bottom-line as well as their image in the market. GRISIL - Green Rating and Information Services of India Ltd -

Green rating agencies will be set up to provide green analysis of lenders and users of green loans via different ratings. Eco friendly Investment funds - Green mutual funds will be in markets and climate conscious customers can invest in environment friendly projects. Moreover investment in these would attract tax concessions as well. Green insurance - The IRDA shall come up with green insurance in which cover is provided for different kinds of environmental risks.

### 4. CONCLUSION

Financial institutions and banks in particular have an important role to play in this context by contributing to the creation of a strong and successful low carbon economy. They should expand the use of environmental information in the credit extension and investment decisions. The endeavor will help them proactively improve their environmental performance and creating long term value for their business. In future, business with a higher carbon footprint would be seen as a riskier business and banks may keep themselves away from financing such business and would look for financing new technology solutions that capture or reduce carbon emissions.

In a rapidly changing market economy where globalization of markets has intensified the competition, industries and firms are vulnerable to stringent public policies, severe law suits or consumer boycotts. This would affect the banks and financial institutions to recover their return from investment. Thus, the banks should 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.

Green Banking if implemented sincerely will act as an effective deterrent for the polluting industries that give a pass to other institutional regulatory mechanisms. The Green Banking is thus the order of the day and it will definitely benefit the banks, the industries and the environment as a whole.

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