

## **Green Banking in India: A Roadmap to Success**

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### **ABSTRACT**

Until the end of the twentieth century, green has been just the color of money for banks in India. With the introduction of Automated Teller Machines (ATMs) in 2001, banking sector took initiative towards an environment-friendly banking system. Thereafter, many initiatives were undertaken viz. Use of eco-friendly papers, solar-powered ATMs, green projects, energy efficiency practices, workplace health and safety, organizing awareness campaigns, etc. This paper deals with the green initiatives and developments in the banking sector in India and sites international developments. It sites opportunities for banks in areas like carbon credit business, green financial products, core banking solutions, integrated IT environment, etc. that can lead to development in green area. Role of the Reserve Bank of India in formulation of policies on green banking has been focused upon for green growth.

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**Keywords:** Ecological Balance, Green Growth, Green Initiatives, Sustainable Development, Tech-World, Thumb Economy.

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### **Introduction**

Global warming is increasing becoming a national and international concern since last few years. Global environmental problems of shrinking natural resources, pollution, population growth, energy shortage, greenhouse effect, effluents, etc. have affected our ecological balance. Today, no sector remains aloof from its effect. In 1987, the World Commission on Environment & Development published its report, which mentioned that environmental protection and growth of an economy are interrelated (as cited in Singh, 2011). In an economy like India characterized by increasing globalization and over-population, society is bound to be affected by the ill-effects of industrialization. Sustainable development is what the industries seek for. Sustainability is 1) managing social and environmental risks in strategic decision-making and lending 2) identifying opportunities for innovative product development in new areas related to it. It can be concluded

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that environment, economy and society are the three legs of the sustainability tripod (Refer Chart-1).

It is well-known that among all the sectors, banking is the largest sector which caters to the needs of different strata of society. Until the end of the twentieth century, green has been just the color of money for banks in India. The concept of corporate social responsibility (CSR) was only on papers. Environmental protection and sustainable ecological balance found its way with the introduction of Automated Teller Machines (ATMs) in 2001. Technology as a powerful tool has enhanced the quality of banking services provided and has turned the pace to gain a strategic position in shaping the sector. Technological innovations have not only offered consumers a greater array of services, but also enabled banks to devise new approaches of business transactions, thereby leading to cost control (Parab, 2010). Green Banking helps in improving the asset quality of banks. The concept of green banking is mutually beneficial to the banks, industries and the economy.

#### **Literature Review**

Authors are increasingly talking about green banking and highlighting the problems and challenges the banking sector is facing in the implementation of these initiatives. Rajan, 2010, focused on the role of standard minimum norms to be followed by companies to become eco-friendly. This will impose a compulsion on all organizations to behave in a socially responsible manner. Similarly, Mehta, 2009, propounded that due to factors like highly educated and demanding customers, shorter product life-cycles and growing competition, the role of technology has increased for reducing environmental problems.

Parab, 2010, mentioned the advantages of mobile banking and focused on the challenges that mobile banking has to face in today's tech world viz. Educating the consumers, security issues, phone compatibility with anti-virus systems, e-waste management etc.

Prasad, 2011, has emphasized the role of three dimensions-ecological security, livelihood security and food security as the essential elements of a development policy which is both sustainable and equitable. He has argued that new technologies and scientific techniques work in harmony with the laws of nature. While talking about the concept of environmental accounting, he emphasizes the role of expenditure for environmental protection in constructing a comprehensive balance sheet of natural resources.

Bihari, 2011, has focused on the main objective of banks in the area of ecology as optimal utilization of resources and examining the effects of their lending and investment decisions on the environment. Singh, 2011, while emphasizing on the role of technology, propounds the concepts of re-use, recycling and minimization of waste as ways to cope up with the environmental problems to ensure sustainable growth.

Babu & Venkatramaraju, 2011, have given the factors for promoting eco-friendly products and services viz. Educating the customers through green advertising campaigns, participation of customers through environmental-friendly action, providing genuine products and lastly, green penetration.

Bhanagade, 2011, propounded some of the competitive challenges for banking as profitability, technology in banking, risk management, rural and social banking issues, human resources management, corporate governance, transparency and disclosures, etc. 'Think global and act local' is the way forward according to him.

### **International Developments**

1. The Intergovernmental Panel on Climate Change (IPCC) is a scientific intergovernmental body which provides comprehensive assessments of current scientific, technical and socio-economic information worldwide about the risk of climate change. Typically it involves the governments of more than 120 countries. The panel was first established in 1988 by the World Meteorological Organization (WMO) and United Nations for Environmental Protection (UNEP).
2. International Organization for Standardization issued series of comprehensive guidelines for incorporating environmental protective and pollution preventive measures in an industry's business policy in 1996. These are collectively known as ISO-14000.
3. Bank Tract is a global coalition of Non-Government Organizations who formed a network in 2002 to promote sustainable finance in the commercial sector.
4. The Kyoto Protocol is a protocol to the UNFCCC or FCCC, aimed at fighting global warming. The Protocol was initially adopted on 11 December 1997 in Kyoto, Japan, and entered into force on 16 February 2005. As of September 2011, 191 countries have signed and ratified the protocol. Under the Protocol, countries commit themselves to a reduction of four greenhouse gases (GHG) produced by them. Emission limits do not include emissions by international aviation and shipping. Developed countries would be given credits for meeting

emission reduction targets while developing countries would receive the capital investment and clean technology (Sen, 2010).

5. Sustainable Banking Award initiated by International Finance Corporation (IFC) along with the Financial Times in 2006.
6. The Happy Planet Index (HPI) is an index of human well-being and environmental impact that was introduced by the New Economics Foundation (NEF) in July 2006. The index is designed to challenge well-established indices of countries' development, such as GDP and the Human Development Index (HDI), which are seen as not taking sustainability into account. 178 countries were surveyed in 2006, compared to 143 in 2009. Each country's HPI value is a function of its average subjective life satisfaction, life expectancy at birth, and ecological footprint per capita. India stood on 90 position in 2006 and 35 in 2009.
7. Stern review on the Economics of Climate Change is a report released for the British government on 30 October 2006 by economist Nicholas Stern, chair of the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and of the Centre for Climate Change Economics and Policy (CCCEP) at Leeds University and LSE. The report discusses the effect of global warming on the world economy. The Review proposes one per cent of global GDP per annum to be invested in order to avoid the worst effects of climate change which has been increased to 2 per cent in June 2008.

### **Green Banking Developments In India**

An awareness campaign was promoted for the green cause called 'GREENATHON', by NDTV, in collaboration with Toyota for the green entity, the fourth time in a row. The website [www.green.ndtv.com](http://www.green.ndtv.com) is meant to encourage donation towards 'Lighting a Billion Lives' i.e. lighting with the aid of solar lighting devices, with the initiative of The Energy and Resources Institute (TERI). This is a clear indication of the depth of efforts taken in the country for environmental protection and maintaining a sustainable ecological balance.

Increasingly, banks are consciously lending to projects that are green, opening branches that are energy-efficient and environment-friendly and using recycled paper for printing cheque books. Among the public sector banks, the State Bank of India (SBI), as a part of its green banking policy has set up windmills to generate 15 MW power in Tamil Nadu, Maharashtra and Gujarat for its own consumption, becoming the first Indian bank to do so. It also launched a 'Green Home Loan Scheme' which supports environmental-friendly residential projects offering several

financial benefits. On the other hand, the Union Bank of India undertakes electrical energy audit annually and has also installed solar water heaters at its premises. IDBI Bank is a member of the council of National Action Plan on Climate Change (NAPCC) and a signatory investor of the Carbon Disclosure Project (CDP). The bank provides advisory services to the clients to deal with Clean Development Mechanism (projects that contribute to credible and sustained reduction in Greenhouse Gas emissions) or Carbon Credits of Kyoto Protocol and Voluntary Emission Reductions (VERs) Authorities (Bihari, 2011).

In the private sector, Yes Bank has made a significant achievement. It has been awarded the Best Sustainable Bank for the Asia/Pacific region in 2012. Yes Bank has incorporated community development initiatives such as clean and green drives, energy efficiency practices, workplace health and safety and the development of local disaster management plans through its Yes Community. This community engages with local communities surrounding their branches in India through micro-events under the aegis of 'Planet Earth' on the sub-themes of pollution prevention, recycling and minimizing waste, conserving energy and water, improving sanitation and cleanliness. IndusInd Bank implemented Mumbai's first solar-powered ATM as part of its Green Office Project '*Hum aur Haryali*.' It also unveiled the 'Green Office Manual- a Guide to Sustainable Practices' prepared in association with the Centre for Environmental Research and Education (CERE). The ICICI Bank has introduced innovative concepts like deep beneficiation of coal and coal bed methane for the first time in the country (Bihari, 2011). It provided concessional assistance to projects that endeavor to manufacture vehicles with zero emissions, supported a company which provides eco-friendly air-conditioning, offers reduced processing fees to customers who purchase homes in 'Leadership in Energy and Environmental Design' (LEED), has developed Corporate Environmental Stewardship Programme with Bombay Natural History Society and also conducts awareness campaigns on environmental issues. In addition to the above, the bank offers Internet banking, i-Mobile banking, IVR banking under the name 'Instabanking' providing the customers a resort to physical statements and saving their time. On the other hand, Axis Bank offers the facility of e-statement and donates a notebook to a poor and needy child for every e-statement registration. It also supports to the world's largest global climate event- the 'Earth Hour' by switching off all lights in its branches and ATMs between the specified times (Bansal & Bansal, 2011).

The Foreign Banks operating in India that took initiative in this field are ABN Amro Bank (now Royal Bank of Scotland) and CitiBank. ABN Amro Bank launched the first Socially Responsible Investment i.e. SRI mutual fund. This fund offer funds to companies that meet global standards in environment, social and corporate governance (ESG) issues. Moreover, one of its branches in Ahmedabad is built with LEED certified platinum interiors resulting in saving of energy costs for lighting and reduction in consumption of potable water. On the other hand, the Citibank undertakes Environmental and Social Risk Management (ESRM) Policy with the 'Equator Principles' which serve as the policy's backbone. (Bansal & Bansal, 2011).

### **Role of Reserve Bank of India in promoting Green Banking**

To highlight the CSR of banks, the RBI circulated a notice on December 20, 2007 to all scheduled commercial banks titled '*Corporate Social Responsibility, Sustainable Development and Non-Financial Reporting- Role of Banks.*' The RBI also followed many international initiatives like United Nations Environment Program Finance Initiative (UNEP-FI), Global Reporting Initiative, IFC, the Equator Principles and Declaration of Financial Institutions. The UNEP-FI is part of UNEP for which around 200 business concerns across the world are signatories to promote economic development, environmental protection and sustainable development. The Equator Principles (initially Greenwich Principles) were first announced by ten international banks from Europe, North America and Australia in June 2003 and aimed to ensure that the projects financed by banks and financial institutions are socially responsible and reflect sound environmental management practices. These principles are based on the Performance Standards on Social and Environmental Sustainability of the IFC, a member of World Bank Group (Bansal & Bansal, 2011).

On October 28, 2011 RBI issued a letter to all Non-Banking Financial Corporations i.e. NBFCs titled "*Implementation of Green Initiative of the Government*" asking them to take steps for better utilization of their resources and better delivery of services. This can be done by increasing the use of electronic payment systems, elimination of post-dated cheques and gradual phase-out cheques in their day to day transactions (Refer Annexure 1).

### **Benchmark in Green Banking**

Goldman Sachs has been rated as the Best Investment Bank and Best M & A (Merger and acquisition) Bank in April, 2012 by Global Finance. Bloomberg rated Goldman Sachs as one of

the 'greenest' banks in the world. Goldman Sachs is the fifth largest bank of United States. The bank has taken green initiatives since 2005 through thought leadership in the following areas:

1. IPO for clean technology and renewable energy
2. Financing green transactions
3. Liquidity and risk management services for environmental commodities
4. GU Sustain- a research team to analyze potential for sustainable corporate out-performance
5. Goldman Sachs Asset Management (GSAM) for environmental, social & governance (ESG) research & sustainability analysis
6. ESG factor consideration for business decisions
7. Commitment to environmental and social stewardship
8. LEED certified Real Estate
9. Hosting, sponsoring and participating in several major conferences, attended by policy makers, NGOs and educators, as well as Goldman Sachs clients, investors and employees.

#### **The Way Forward For Indian Banking Sector**

Today, when a person gets a savings account opened in a bank, most of the banks provide three passwords- one for transacting from ATM, another for Online-Banking and the third for Phone-Banking. It is a clear indication of the extent of use of technology by banks paving way for India to become the 'THUMB ECONOMY'. Green banking is not merely environmental protection but customer delight saving customers' time, energy and money. People are making use of wide variety of services through their debit card or credit card viz. online booking, making bill payments, online shopping, downloading banking transactions as well as credit card transactions, verifying bank balances, money transfer, opening and closing accounts, balancing a cheque book, tracking recent account activity, etc. The banks are therefore heading towards an IT enabled Customer Relationship Banking. The initiative of green banking is mutually beneficial for the banks, industries and the economy. Moreover, it will ensure improvised asset quality of banks in future.

As according to the Happy Planet Index, India stood on 90 position in 2006 and 35 in 2009; and India's commitment to cut its carbon intensity by 20 to 25 per cent by 2020 from 2005 levels, provides tremendous opportunities for banks. Here, the concept of 3Cs and 3Ps will be worth mentioning as necessary factors for sustainable growth. The 3Cs stand for- Cost, Control and Customer Service and 3Ps stand for- People, Planet and Profit. Green banking optimizes costs,



reduces the risk, enhance bank reputations and contribute to the common good of environmental sustainability. So, it serves both the commercial objective of the bank as well as its social responsibility.

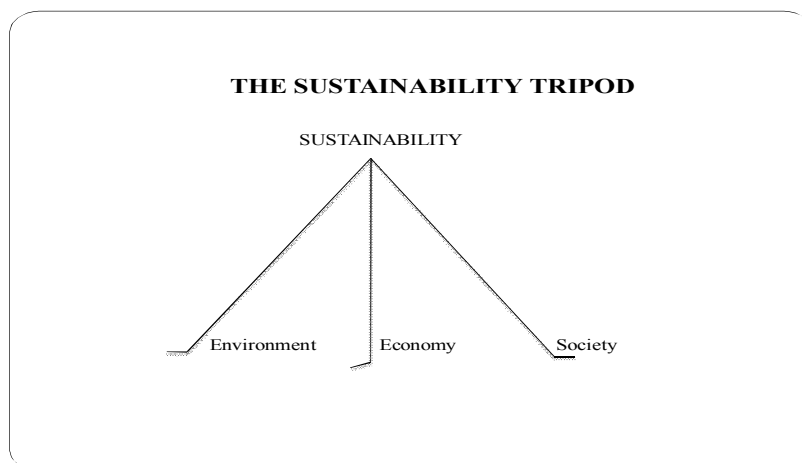
Risk is one factor which is inevitable from banking system. Risk can be avoided by maximizing the use of opportunities in the following areas:

1. Carbon credit business- carbon credit is a certificate showing that a government or company has paid to have a certain amount of carbon dioxide removed from the environment. A carbon credit is a generic term for any tradable certificate or permit representing the right to emit one tonne of carbon dioxide or the mass of another greenhouse gas. Many companies sell carbon credits to commercial and individual customers who are interested in lowering their carbon footprints on a voluntary basis.
2. Green financial products and services like green loans, green retail banking, energy-efficient mortgages, green credit cards, corporate and investment banking, etc.
3. Carbon footprint reduction such as green buildings, paperless banking.
4. Core Banking Solutions (CBS) - It is a strategic approach intended to allow banks to improve operations, reduce costs, and be prepared for growth. An overall service-oriented-architecture (SOA) helps banks reduce the risk that can result from manual data entry and out-of-date information, increases management information and review, and avoids the potential disruption to business caused by replacing entire systems.
5. Business Process Re-engineering (BPR) - It is basically rethinking and radically redesigning an organization's existing resources. Reengineering starts with an assessment of the organization's mission, strategic goals, and customer needs.
6. Integrated IT environment- The banks need to provide an appropriate and up-to-date IT environment which free from security issues. For this, the banks need to implement higher levels of security and authentication such as passwords and biometric readers, or PINs and longer passwords, involving access to customer information or the movement of funds to other parties. In addition banks need to organize awareness campaigns to provide customers with more education and awareness of security risks and procedures
7. Evolution of Centre of Excellence (CoE) to meet the problems of quick technology obsolescence.




8. Creation of dedicated pool of Human Resources- The banks need to manage the issue of employing skilled personnel, training the existing employees and helping the overall growth of individuals.
9. Thin computing and e-waste management- There are ways of managing the e-waste like reuse, recycling and repairing. Banks can take help from companies that provide services of e-waste management viz. E-Parisaraa Private Limited, Earth Sense Recycle Private Limited and Trishyiraya Recycling India Private Limited.
10. Creation of environmental, social, or ethical investment funds- This concept relates to green financing. Such investment funds can be offered that may be environment friendly and reduce carbon credit.

India is the world's sixth largest and second fastest growing country in terms of producing green house gases. A major hindrance in implementation of green initiatives by banks exists due to absence of policies and regulations. In this regard, the RBI and Indian government can play a proactive role by formulating green policy guidelines. The RBI or any other regulatory authority can recognize and reward the environment conscious providers of green loans on an annual basis. Green rating agencies can be set up to rate the green loans, green funds, financial instruments, etc. Tax concessions can be allowed to those making green investments. Lastly, green insurance wherein cover for different kinds of environmental risk can be provided. With larger customer-base, Indian banks can unleash the potentiality of emerging technology powered by CBS and offering new best practices for sustainable growth and development.



**Chart 1:** The Sustainability Tripod

**Annexure-1:**



भारतीय रिज़र्व बैंक  
**RESERVE BANK OF INDIA**  
www.rbi.org.in

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**RBI/2011-12/237**  
**DNBS(PD).CC. No 248 /03.10.01 /2011-12** **October 28 , 2011**

All Non Banking Financial Companies /  
Residuary Non Banking Companies

Dear Sir,

**Implementation of Green Initiative of the Government**

As part of the 'Green Initiative' of the Government, the Government of India has suggested that steps be taken by entities in financial sector, including NBFCs to help better utilisation of their resources and also better delivery of services.

2. NBFCs are therefore, requested to take proactive steps in this regard by increasing the use of electronic payment systems, elimination of post-dated cheques and gradual phase-out of cheques in their day to day business transactions. These will result in more cost-effective transactions and faster and accurate settlements.

Yours faithfully,

(Uma Subramaniam)  
Chief General Manager-in Charge

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