

A Study on Green Banking- Benefits and Challenges

Jayalakshmi VA¹, Research Scholar, Dept. of Commerce, Karnatak University, Dharwad
Ishwar Rama Pavaskar², Research Scholar, Dept. of Commerce, Karnatak University, Dharwad

Abstract

Natural resource is the gift of nature and human beings depend on these natural resources for fulfilling their needs, the important thing is that they need to use in proper and sustainable way. The Climate change, pollution of environment and their effects are already visible on people. The concept of green banking evolved in banking system and brought focus to carry out banking operations in environment friendly way and also contribute in possible way towards sustainable growth and conservation of nature. Reducing carbon footprint and economic sustainability is the main motive of the concept Green Banking. Banking operations in environment friendly and providing finance to green projects, financing low carbon footprint industries with low interest loan to save the environment. Environment conservation is the direct benefit which comes after adopting green banking initiatives and indirect benefits include promoting Paperless, Cashless, Faceless Economy and avoid manipulation of documents, frauds also help to reduce operational cost with improve efficiency. Green banking is an environment friendly concept and the benefits adopting are many and also. This research paper attempt to know the benefits of Green Banking and usage benefits among people as well as bankers. Identify the various steps taken by banks to involve them to make use of user friendly.

Key words: Green banking, Green banking products and services, Sustainable development, Environment protection.

Introduction

The banking system in India had passed the many phases and has witnessed the rapid developments to come to the stage it is now. Banking system is the lifeblood for the economic development. These day's Information and Communication Technology (ICT) is playing the vital role in the society to connect people to banking system and acting like a bridge to connect the unconnected regions of the society. The concept of Green Banking is the main aim of reducing carbon footprint from banking operations. Green Banking is need to the society for environment sustainability. Originally the concept of Green Banking introduced in the year 2008, USA a person name Reed Hundt and Ken Berlin. In India first adopted in the year 2013, State Bank of India.

Green Banking

Green Banking is relatively a new concept in banking sector. It can be defined as a type of banking which gives environment some benefits or protect or promote conservation of nature. India is a developing country which is focusing on industrialization of economy to promote growth of economy and provide employment to its people. Banks play a Vital role in growth and development of economy by providing finance for the industrial establishment and liquidity for its operations. In recent decades ill effects of this industrialization are being felt by countries in the form climate change, severe draught and severe flooding. The climate change is mainly due to unsustainable use of natural resources without bothering about its impact on ecology and its cycles in environment. Green Initiative in banking sector promotes the banking operations takes through the electronic way and usage of online payments with environment friendly. Green initiative in banking sector make the banking activities environment friendly, environment sustainability. Lending loans to green projects with low interest rates to protect the environment from environment degradation, help in reducing global warming, reduce carbon footprints from banking operations.

Banks are currently focusing in these areas to promote environmental conservation

1. Financing green infrastructure projects.
2. Promoting circular economy by financing recycle, reuse projects.
3. Conservation of nature through evaluating and then financing projects on environmental impact assessment.
4. Financing to buy electronic automobiles at concessional rates.
5. Adopting processes and methods to conserve nature through saving power, water and promoting e banking to save paper and moving bank branches to green buildings.
6. Promote tree plantation and creating awareness about environmental conservation in people especially school children.

According to RBI (IDBT, 2013) “Green Banking is to make internal bank process, physical infrastructure and IT effective towards environment but reducing its native impact on the environment to the minimum level”

Institute for Development and Research in banking Technology stated, “Green Banking is an umbrella term referring to practices and guidelines that make banks sustainable in economic, environmental and social dimensions. It aims to make banking process and the use of IT and physical infrastructure as efficient and effective as possible, with zero or minimal on the environment.”

Green banking is protecting and conservation of environment by making banking operations environment friendly and reduces the carbon footprint from banking operations. Banks reduce their carbon footprint by promoting following measures

1. Using online banking instead of branch banking
2. Make payments through online.
3. Opening bank accounts through online
4. Transfer funds through online
5. Services taking from local banks nearest to place convenient instead of far from your place

Objectives of the Study

1. To know the concept of Green Banking
2. To know the green banking products and services
3. To know the benefits of using green banking
4. To find the challenges for adopting green banking

Resent Scenario of Green Banking in India

Banking industry plays a crucial role in sustainable economic development of the country. Green banking in banking industry means being much more responsible towards environment and promote its conservation. Green banking encourages the people to invest in environment friendly investments like Green bonds, green credit cards, green loans, green mortgages and create awareness among people and corporate to be responsible towards environment and promote environment conservation. Present scenario of environmental pollution in India can be seen in following, like water pollution in Ganga and air pollution of Delhi, government has been several new initiatives to protect environment. Banking industry in these times has taken the initiative called Green banking, this is relatively a new concept in India, concept does not have any statutory or policy backing but it is a voluntary initiative of banks to contribute towards environment conservation. Banks can also create awareness among people and influence them to accept and make their banking operations via environment friendly way i.e. e-banking.

Now a day's all banks are modernized and provide services in online mode i.e. e-banking.it reduces the use of paper in banking premises for every transaction and can also save energy by use of machines like ATM, Cash depositing machines, transfer money through mobile banking etc. People are increasingly accepting E-banking as a mode to perform banking transactions instead of visiting branch to make payments, transferring funds.

Green Banking Initiatives in Indian banks: GOI and RBI take steps towards green initiatives in banking issued guide lines to “Go Green”. In order to implement instruct the all banks to increase the electronic payments usage, Core Banking Solutions, Use video conferences etc.

- SBI is the first bank in India as part of its green initiative to venture into generation of green power by installs the windmills for captive use.
- Indusland Bank Ltd first started solar-powered ATMs and also encouraging various environment friendly projects.
- ICICI Bank offering green incentives, green communication to their customers and paperless initiatives like e-statements and e-greetings helped to save the 30000 trees from being in 2009-10 besides cutting down spending on stationery by Rs. 7.36 crore.
- Axis Bank taking green initiative for recycling of waste generated from its head offices and recycled the waste into notebooks, envelops notepads.
- Punjab National Bank launched green e-vigilance, it help to accept the paperless complaint through network it cuts cost and time. And installed the solar ATMs in Coimbatore.
- HDFC Bank as a green initiative practices send a mail to its shareholders documents related to annual reports and other to meetings instead of sending letters.
- IDBI refinances to energy saving projects for small, medium, micro enterprises.
- Canara Bank extend the loan facility to those projects which are use the wind energy and solar energy to ear carbon credits and introduce the e-lounges for providing banking facilities through 24/7.
- Kotak Mahindra Bank installation of rain water harvesting tank in the premises and issue of e-copies of annual reports to its shareholders.
- Bank of Baroda lending loans to the projects permitted by the Pollution Control Board and not extended the loans to those projects which are hazardous to environment.
- RBI included lending to small renewable energy projects in priority sector lending targets in 2015.

According to the RBI most of the banks take initiative to “Go Green”. The concept started with environment friendly banking activities through using Information and Communication Technology providing services to customers through e-lobby, online banking and mobile banking, it saves not only time and cost but also encourages paperless or less use paper for banking practices and saves the petrol/diesel and its cost to come for branches for banking operations. These initiatives aim to reducing carbon footprint by banking activities.

Products and Services of Green Banking

1. Green Bonds: green bonds are the bonds like normal bonds the main difference is green bonds are given to the investors for raising the money for the projects which are related to environment friendly like green energy or renewable resources. Green bonds are used to funding the clean and non polluting projects which help to the environment protection. According to RBI report on trend and focus of banking in India 2018-19, green bond issuance in India in between 2012 to 2018 stood at \$7.7 billion.

2. Green Loans: Green is loans given to those projects which are environmental friendly and environment sustainable. SBI provides green loans to electrical vehicles. Green loan aims to reduce CO2 emission and impact on environment.

3. Green Insurance: Green insurance is insurance provided to cover the risk of green products, services and projects to minimize the impact of climate change with low interest rate. Encourage the eco friendly and more energy efficient business activities.

4. Green Credit cards: Green credit card customers are rewarded with the points when they purchasing eco friendly products and services and these points converted into cash.

5. Mobile Banking: Customers paying bills, transferring funds, balance checking, mobile recharge, ticket booking through mobile phones rewarded with discounts, bonus, and offers by bank customers. It saves time, money, energy and less cost.

6. Online Banking: Customers perform banking operations through online using bank website with the user ID and Password provided by the Bank. Online banking includes debit cards, credit cards, online bill payments, money transfer between any accounts, NEFT, RTGS transactions, complaint registration without visiting to bank branch.

Benefits of Green Banking

Sustainable development, financial inclusion and economic development achieve through the green banking.

1. Financial Inclusion: Now banks are modernized and providing services through online, mobile, telephone, ATM etc these are innovative services in banking for the customers. Green banking has many forms in one is E-banking services, the motive of e-banking is providing banking services 24*7 and connect to the people to bank, those who are in the out of the banking activities. The government and RBI have trying to reach the concept and objectives of financial

inclusion, the reason is improving the conditions of disadvantaged and poor people have to access the easy credit facility like advantaged people.

2. Economic Development: For the economic development green banking taking many steps and closely works with the other financial and non-financial institutions to reach the goal. Finance to the green and environmental friendly projects and green initiatives in internal environment. Taking steps towards avoid fraud and unnecessary cash in the hands of the public, Govt. and banks introducing BHIM app. And proving permissions to the independent wallets like Google pay, Phone pay etc, with these mobile applications help to reduce the unnecessary cash in the hands.

3. Sustainable Development: Banks are financing to various industries like steel, nuclear power, cement, oil and gas, fertilizers etc, to develop the economy and banks are indirectly reason for polluting the environment and these industries are impact on the environment. Banks are providing major sources of funds to the economic development, the role towards environment sustainable and socially reasonable for environment protection. Banks addressing the environment issues and step towards to reduce the environment pollution, banks are decided to “Go Green”. Banks are playing an important role in reducing carbon footprint and make banking operations effective, efficient with the use of technology as possible as zero or minimum impact on environment.

4. Environment Protection: Using green products help to conservation of natural resources, save the trees for paperless transactions for banking operations and protect the environment for lending low rate of interest to the environment friendly business activities. Encourage the customers towards usage of green products and services and take the benefits from usage and paying bills through online and mobile banking. Providing different offers to the green banking users purchasing eco-friendly products, paying bills through online and mobile banking giving rewards, discounts, cash back offers indirectly these help to avoid the physical exchange of money for purchasing products and rendering services.

Challenges

Introducing any new concept have some benefits and also face challenges to implement like in the case of Green banking, it is a good concept and the success is not only in the hands of the bankers also in the hands of public, because any new things to be come into reality ultimately customers must accept and start to use is a big thing. Green banking it is environment friendly and protects the natural resources but the creating awareness is very important. India is a big country with different cultures, religions, languages. No policy: there is No national policy adopted by RBI or government with clear objective to promote or develop green banking in India.

1. Reputational Risk: Before lending loans, banks should carefully assess the objective of the projects and environmental compliance norms of projects. Banks may lose their reputation if the project is environmentally hazardous, polluting or adversely affect the environment and people.

2. Credit Risk: Credit risk arises in the case when banks involved in the lending activities to the industries, companies or projects which are adversely affecting the environment. National green tribunal (NGT) has imposed penalties on companies which are found to be polluting environment. The problem for banks is there is no sufficient mechanism with banks to assess the projects or industries environmental impact or compliances rules, loans may become nonperforming assets if proper due diligence is not done before financing.

3. Higher Operating Cost: As NPA with banks increases banks lending rates also increases. Financing green projects involves assessing the economic sustainability and environmental compliance norms which require experts in that field which may increase operating cost and also increase lending rate for projects.

4. Economy distress: There is already large scale unemployment and banks are stressed with NPA and are working on methods to recover loan or resolving the issue. In these times focusing and planning on sustainability and profitability is the task at hand for banks. As there is no framework set by government for promoting green banking, Focusing on green banking, promoting and developing the green banking initiatives by themselves is a big challenge and worrisome for banks.

Other challenges

a. Customer's literacy level: Lack of awareness among customers about how environment is being polluted and its implications. Bringing awareness in public on green banking and how their tiny behavioral changes by practicing saving power, water, using less paper can contribute in big change to conserve environment is a big challenge.

b. Infrastructure facility: Infrastructure and communication system available not enough to promote green banking and it is a big challenge to assess the projects from environment compliance norms and there is no mechanism to identify if the environmental compliance certificates are fake with CPCB or other government authorities concerned.

c. Belief and practices: People are more associated with holding hard cash and using traditional methods for transactions. Changing this practice of people to use modern mechanisms like internet or mobile banking, which contribute in both time and cost saving and this also helps in environment conservation is a challenge.

Suggestions:

To promote sustainable economic development and circular economy model for industry, government and RBI has adopted policy to finance green projects. Environmental impact assessment of projects before financing projects by banks needs to be done by banks professional assessment team and index can be created for banks environmental projects footprint. Banks and industry will develop a correlation i.e. environmental risk, if a bank finance project which is not operating in environmental regulation norms or polluting environment then project may be closed by regulatory authorities causing both reputational and economic risk for banks and industry.

Government can adopt global best practices in green banking and make legislation where every sector in India is given the maximum emission allowed for the sector. This legislation may be further classifying country into region or territory for better enforcement by Ministry of environment and CPCB and SPCB.

RBI can adopt a green credit policy to make banking more environments friendly. Policy can make environmental impact assessment of the project mandatory by bank officials before financing projects and include agreement to make onsite assessment to see the compliance with emission norms and if not complied the bank can stop the further financing of projects. RBI policy can also includes norms for banking sector like using alternative green sources for its day to day operations like solar or wind energy and promoting green banking habits in its clients.

Conclusion:

Indian banking sector witnessed the rapid growth and fastest growing economy with their huge potential. Information and Communication technology indirectly help to the success of Green banking, through usage of IT banks are provided their services with less use of paper work it help to reduce the carbon footprint from banking activities. Banks finances to the environment friendly projects and important is post loan business activities. Banks are the major lenders in the economy so with strict rules, regulation and making good environment policies create opportunities and with awareness programs spread the importance about environment to the public in this way they can contribute to the nation with low carbon economy.

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