

A Study on Eco-Friendly Management Through Green Banking: Initiatives

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ABSTRACT

Go Green, is the Mantra and the need of the hour to prevent increasing environmental issues across globe. Governments, financial and non-financial organizations, corporate and other sectors are making efforts towards building a sustainable and balanced economy. Banking sectors play a very crucial role in the economic development of any nation and thereby providing necessary leadership and contribution in maintaining a greener and healthier environment. Going green is in fact more than just becoming environmentally friendly. Going green is looked upon as a way to reduce costs, and mitigate risks. In India, the concept of Green banking is catching up and banks are actively looking for methods to portray themselves as a green banks. "Customers want to make a difference in the environment," says Mike Jones, a spokesman for Citizens Bank in Providence, Rhode Island.

1. INTRODUCTION

The green initiatives taken by banks are a concept of Green banking means using all of the banks resources with responsibility and care, avoiding waste and giving priority to choices that take sustainability into account. It also means promoting environmental friendly practices and reducing carbon footprints from banking activities. The banking sector is generally considered as environmentally friendly in terms of emission and pollution. The internal environmental impact of the banking sector such as use of energy, paper and water is relatively low and clean. This is 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 consumers, banks, industries and the economy. For consumers this shift towards green banking means that more deposits and loan products will be available through online and mobile banking. Green banks should also have lower fees and give rate reductions on loans going towards energy-efficient projects.

2. OBJECTIVES OF THE STUDY

- To study the concept and importance of green banking.
- To study the steps involved in Green Banking.
- To list the banks and their initiatives for green banking in India.
- To assess the environmental management of the banking institutions.

3. LIMITATIONS OF THE STUDY

No study is immune to limitations. The present study suffers from the following limitations. The present study covered only the areas relating to Green banking, environmental management and

initiatives taken for environmental management by banking sector. The study does not cover the areas of banking management, banking procedures and transactions.

4. METHODOLOGY

The study is based on secondary data. These secondary data have been collected from books, magazines, journals, articles and related websites.

5. REVIEW OF LITERATURE

Rajesh & Dileep (2014) found the role of banks in sustainable economic development through Green Banking activities. Their study was based on secondary data obtained from the reports of various Banks, various seminars and workshop information and other relative information published on the banks and other internet sites. Their study concluded that Banks also contribute to ecological footprint directly and indirectly through investment or lending in their customer enterprises.

Sahitya et al. (2014) revealed to understand and appreciate the importance of green initiatives for the attainment of goals of sustainable banking and determine the various attempts that had been made by the top public and private sector banks in India. Their findings indicated that the banks had taken on the green initiatives. All the banks are making efforts to make banking paperless. This had been fully supported by technology in terms of electronic fund transfers, ATMs, internet and mobile banking.

Jha & Bhome (2013) found in their article the ways to Go Green through Green Banking. The research methodology used in this study is based on primary as well as secondary data. The primary data was collected from the study conducted through telephonic interactions and personal interviews. The study found that Green banking is a good way to get more awareness about global warming; each businessman will contribute a lot to the environment. It will not only ensure the greening of the industries but it will also facilitate in improving the asset quality of the banks in future.

IMPORTANCE OF GREEN BANKING

Until recently Banks and Financial Institutions did not consider environmental concerns relevant to the business. Traditionally, banking sector's concern for environmentally degrading activities of clients is like interfering in their business affairs. Now it is perceived that dealing with environment brings risks to their business. Although, the Banking and Financial Institutions are not directly affected by the environmental degradation, there are indirect costs to banks. Due to strict environmental disciplines imposed by the competent authorities across the countries, the industries would have to follow certain standards to run their business. In case of failure, it would lead to closure of the industries leading to a likelihood of default to the bank. The enactment of Comprehensive Environmental Response, Compensation and Liability Act in 1980 (CERCLA) in the US in late 1980s has resulted in huge loss to the banks in the US as banks held directly responsible for the environmental pollution of their clients and made to pay the remediation cost. This is the reason for which banks in the US are ahead of other countries in integrating environmental concerns into their business operations. In the recent years, several other countries are seen adopting policies that have made banks responsible for the misdeeds of their

clients. Therefore, the financial institutions need to engage proactively with the stakeholders on environmental and social policy issues and evaluate the impacts of their client's investment. The importance of Green Banking is immense for both the banks and economy by avoiding the following risks involved in the banking sector.

CREDIT RISK

It can arise indirectly where banks are lending to customers whose businesses are adversely affected by the cost of cleaning up pollution or due to changes in environmental regulations. Credit risks may be higher due to the probability of customer default as a result of uncalculated expenses for capital investment in production facilities, loss of market share and third party liability claim. Credit risks are also associated with lending on the security of real estate whose value has diminished owing to environmental problems. Further, risk of loan default by debtors due to environmental liabilities because of fines and legal liabilities and due to reduced priority of repayment under bankruptcy.

LEGAL RISK

It can occur in different forms. Most obviously, banks like other companies are at risk if they themselves do not comply with relevant environmental legislation. But more specifically, they are at risk of direct lender liability for clean up costs or claims for damages if they have actually taken possession of contaminated or pollution causing assets. An environmental management system helps a bank to reduce risks and costs, enhance its image and take advantage of revenue opportunities.

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. 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.

STEPS IN GREEN BANKING

The following are some of the steps that can be taken for going green in banking

➤ **Go Online**

Online banking is the developing concept in young and corporate India. Online banking helps in additional conservation of energy and natural resources. Online Banking includes: a. Paying bills online, b. Remote deposit, c. Online fund transfers and d. Online statements. It creates savings from less paper, less energy, and less expenditure of natural resources from banking activities. Customers can save money by avoiding late payments of fees and save time by avoiding standing to queues and paying the bill from home online.

➤ **Use Green Checking Accounts**

Customers can check their accounts on ATM or special touch screens in the banks. This can be called as green checking of account. Using a green checking account helps the environment by utilizing more online banking services including online bill payment, debit cards, and online statements. Banks should promote green checking by giving some incentives to customers by giving higher rate of interests, waiver or discount in fees etc.

➤ **Use Green Loans for Home Improvements**

The Ministry of Non-renewable Resource in association with some nationalized and scheduled banks undertook an initiative to go green by paying low interest loans to the customers who would like to buy solar equipments. The rate of interest is as low as 4% p.a. Before you undertake a major home improvement project, study if the project can be done in an eco-friendly manner and if you might qualify for a green loan from a bank Green loan are perfect for energy-saving project around the house.

➤ **Power Savings Equipments**

Banks can directly contribute to controlling climate change and as an initial step they intend to start a campaign to replace all fused GSL bulbs, in all owned premises offices and residential. Banks can also make a feasibility study to make rain water harvesting mandatory in all the Bank's owned premises. In December 2009 Indusind Bank inaugurated Mumbai's first solar-powered ATM as part of its 'Green Office Project' campaign titled 'Hum aurHariyali'.

➤ **Use Green Credit Cards**

Some of the banks introduced Green Credit Card. The benefit of using a green credit card is that banks will donate funds to an environment-friendly non-profit organization from every rupee you spend on your credit card to a worthwhile cause of environment protection.

➤ **Save Paper**

Bank should purchase recycled paper products with the highest post-consumer waste content possible. This includes monthly statements, brochures, ATM receipts, annual reports, newsletters, copy paper, envelopes etc. Whenever available, vegetable-based inks are used instead of less environmentally friendly oil-based inks.

➤ **Use of Solar and Wind Energy**

Using solar and wind energy is one of the noble cause for going green. State Bank of India (SBI) has become the first bank in the country to venture into generation of green power by installing windmills for captive use. As part of its green banking initiative, SBI has installed 10 windmills with an aggregate capacity of 15 MW in the states of Tamil Nadu, Maharashtra and Gujarat.

➤ **Mobile Banking**

Mobile banking is tricky. On the one hand, it is great to have the ability to check balances, transfer funds or pay bills from the phone. On the other hand, it saves time and energy of the customers. It also helps in reducing use of energy and paper of the bank. Most of the Indian banks introduced this paper-less facility.

INTERNATIONAL INITIATIVES

- The financial sector's growing adherence to environmental management system is attributed to the direct and indirect pressures from international and local Non Governmental Organisations (NGOs), multilateral agencies and in some cases the market through consumers.
- In the early 1990s, the United Nations Environment Programme (UNEP) launched what is now known as the UNEP Finance Initiative (UNEPFI). Some 200 financial institutions around the globe are signatories of this initiative statement to promote sustainable development within the framework of market mechanisms toward common environmental goals. The objective is to integrate the environmental and social dimension to the financial performance and risk associated with it in the financial sector. As the commitment of this UNEPFI statement goes, sustainable development is regarded as basic to the sound business management. It advocates for a precautionary approach towards environmental management and suggests integrating environmental considerations into the regular business operations, asset management, and other business decisions of the banks.
- The IFC's environmental unit was established in 1991 for reviewing each project for environmental assessment.
- The US Export-Import Bank regularly reviews while financing exports on the ground, whether they are environmentally sound.
- Similarly, some of the big international banks like ABN Amro, Deutsche, Standard Chartered, HSBC Bank etc. look at environmental issues.
- Going further, the Dutch Government has made a formal request to banks in achieving sustainable development. The dialogue between banks and government was established in 1999 to initiate policies for environmental improvements through the development of new financial products and services.
- In 2002, a global coalition of NGOs formed a network named 'BankTrack' to promote sustainable finance in the commercial sector. This coalition came up with a resolution constituting six principles promoting environmental protection and social justice by banks and this is popularly known as Collevocchio Declaration. The six principles that this declaration advocated included commitments to sustainability,

no-harm, responsibility, accountability, transparency and sustainable market, and governance. More than 200 organizations have endorsed this declaration and urged the banks to incorporate these commitments into their business operation. The declaration states that "Finance and Commerce has been at the center of a historic detachment between the world's natural resource base, production and consumption. As we reach the boundaries of ecological boundaries of the ecological limit upon which all commerce relies, the financial sector should take its share of responsibility for reversing the effects this detachment has produced".

- A small group of banks along with IFC came together to initiate the process of designing the common guidelines in October 2002 and came up with a guideline in June 2003 that is known as the Equator Principles with 10 leading commercial banks adopting these voluntary set of principles. This equator principle was subsequently updated and the new revised sets of principles launch in July 2006. The coverage of projects being financed are expanded in this revised set of principles by lowering the financial threshold from \$50 million to \$10 million. Presently 46 financial institutions from 16 countries with business operation in more than 100 countries have embraced this equator principle. So this principle has become a common standard of project finance that incorporated environmental and social issues in project finance.

- IFC, along with the Financial Times has initiated 'Sustainable Banking Award' since 2006. More than 104 financial institutions out of 151 entries from 51 countries have made it to the final lists of award in 2007. The number of banks applying was up by more than 100 per cent compared to the previous year's 48 banks from 28 countries.

All the international initiatives towards integrating environmental concerns into business operation of banks are voluntary in nature and are meant to promote a common good of a better ecosystem. A Government legislation that makes banks accountable for the misdeeds of their clients will help promote green banking.

INDIAN BANKS TAKING UP GREEN BANKING INITIATIVES

INDUSIND BANK

- "Human aur Hariyali" campaign which introduced solar powered ATM's. The banks expect to save 1980 Kwh of energy annually. They are also supporting environment friendly finance programmes and providing incentives to go green.
- **IDIBI Bank**
- Exclusive group for working on climate change and more specifically carbon credits advisory to the clients to deal with clean development mechanism (CDM), carbon credits of Kyoto protocol and voluntary emission reduction (VERs) authority.
- Entered into agreements with multilateral agencies and buyers of carbon credit like KfW Bankergruppe, Federal republic of Germany to offer complete range of CDM related services tailor made to suit the needs of the clients.
- **SBI**

- Green home loan scheme which supports environment friendly housing projects and offer subsidy and interest rates reduction.
- **ICICI bank**
- 50% waiver in processing fee of cars that use alternate mode of energy like electricity and CNG. Cars like Reva, LPG or CNG versions of Tata and Maruti variants.
- **Axis**
- Facility of e-statement and for each e-statement registration by a customer, Axis bank will donate a notebook to the needy and poor.

ENVIRONMENTAL MANAGEMENT BY THE BANKING INSTITUTIONS

Nowadays, most of the commercial lending process in different parts of the world scrutinizes projects with a set of tools by incorporating environmental concerns in their day-todaybusiness. The financial institutions should encourage projects which take care of followingpoints while financing them viz.,

- Sustainable development and use of natural, renewablenatural resources
- Protection of human health, bio-diversity, occupational health and safety,
- efficient production, delivery and use of energy
- Pollution prevention and waste minimization, pollution controls (liquid effluents and air emissions) and solid and chemical waste management and
- There should be a third party expert to draw a plan for the environment management plan.

6. CONCLUSION

Banks are responsible corporate citizens. Banks believe that every small ‘GREEN’ step taken today would go a long way in building a greener future and that each one of them can work towards to a better global environment.

There is a big problem amongst the bankers that many people are not well trained and equipped with the modern automated system as a result of which the results are not as we are looking for. Hence training and development of relevant skills within bank employees are important to speed up the reforms. RBI has to play a more proactive role in passing the mandates, rules, regulations to tackle this critical issue of climate change.

This concept of “Green Bank” will be mutually beneficial to the banks, industries and the economy. Not only “Green Bank” will ensure the greening of the industries, but it will also facilitate in improving the asset quality of the banks in future.

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