

## **Green Banking in India: An Overview**

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**ABSTRACT:** The concern for environment sustainability by the bank has given rise to concept of Green Banking. The concept of “Green Banking” will be mutually beneficial to the banks, industries and the economy. Green financing is the part of green banking. Green banking means promoting environmental friendly practices and reducing your carbon footprints from your banking activities. Green banking aims at improving the operations and technology along with making the clients habits environment friendly in the banking business. It is like normal banking along with the consideration for social as well as environmental factors for protecting the environment. It is the way of conducting the banking business along with considering the social and environmental impacts of its activities. Nowadays, as people of the country are precipitously using the earth’s natural resources, it has given rise to the concept of Green Banking.

**KEY WORDS:** Green Banking, Climate Change, Pollution

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### **I. INTRODUCTION**

The banking sector in India is the lifeline of the nation. It is the largest financial sector in India. Indian banks have the potential to become fifth largest in the world by 2020 and third largest by 2025. Banks have helped in country’s economic development and have transferred the hopes of people into the reality. In recent years Indian banks have witnessed the growing trend and have transformed its operational strategies to a large extent. The banking sector in India has gone through many challenges which include a shift in consumer behaviors, technological changes, regulatory changes, etc. It has faced various ups and downs and has become adaptive to the changing environment. Nowadays, as people of the country are precipitously using the earth’s natural resources, it has given rise to the concept of Green Banking.

Green Banking is different from traditional banking as it is the concept of promoting sustainable development in the country. Green Banking is the new phenomenon in the financial world which concentrates on environmental and socially responsible investing. In the era of Globalization, global warming is becoming one of the major issues across the world. The effects of Global warming have found to be responsible for the destruction of the climate changes which have impacted the land, water and human resources of the world. As people of the society are becoming more concerned about the depletion of natural resources, organizations have started performing their corporate social responsibilities. They have started modifying their working techniques to maximize the greenery and to reduce the impact of their activities on the environment.

Green Banking is also called as the ethical banking which aims to protect the environment and reduce the carbon footprint from banking activities. It encourages banks to carry out environment-friendly investments by combining its operational improvements and technology know-how in banking business activities. Green Banking has started priority lending to those industries which are already green or putting its efforts to go green. The aim of going green is to increase the energy efficiency and to use the biodegradable products. The performance of banks largely depends upon the performance of its clients. The banks have to diligently check that the customer’s projects are meeting all the legal and environmental compliances as any failure can result in nonperforming assets for the banks.

The concept of going green is new in India and has been adopted by the Indian banks in many forms. Banks have started providing services of online banking, mobile banking, green loans, E-statements, etc. They have been promoting their services 24\*7 to the consumers. Banks have started providing various services like online opening of bank accounts, online payment of bills, online investment, use of ATMs, etc.

### **Meaning and Concept of Green Banking**

A Green bank is a financial institution, typically public or quasi-public, that uses innovative financing techniques and market development tools in partnership with the private sector to accelerate development of lean energy technology. Green Bank means promoting environmental friendly practice and reducing your carbon footprint from your banking activities.

In today's society, climate change is a most complicated issue. Nowadays, people are more conversant with global warming and its inherent consequences on human life. So, change is imminent in present scenario for the survival, and continuous efforts are made to the environmental management in a sustainable manner. It is the matter of concern for the government and the direct polluters and also for other stakeholders like financial institutions. This includes banks, which are playing a fundamental role in the development of the society. To reduce the carbon footprint from the environment substantially, it is required by banks to promote those products, process and technology which adhere to it. Therefore, banks are adopting green strategies into their buildings, operations, and investments and financing strategies.

The banking industry in India witnessed many changes and introduced a lot of technical changes that changed the definition of banking. Many functions were included in the process other than the core ones. However, in the twentieth century when everyone was hailing about sustainable development banking industry went into yet another revamp. Many studies undertaken back then proved that banks were a major source of environment degradation and increased the level of carbon footprint. As per the requirement, sustainable development was seen as the only option in order to reduce the factors giving birth to global warming. Already much advancement has been undertaken by the banking industry and to support sustainable development;

According to Indian Banks Association (IBA, 2014) "Green Bank is like a normal bank, which considers all the social and environmental or ecological factors with an aim to protect the environment and conserve natural resources".

Green banking refers to the initiatives taken by banks to encourage environment-friendly investment. Green banking as a concept is a proactive and smart way of thinking towards future sustainability. It is very important for the banks to be pro-active and accelerate the rate of the growth of the economy. As there is a continuous change in the environmental factors leading the banks face intense competition in the global market. Banks need to apply morality of sustainability and responsibility to their business model, strategy and formulation for products and services, operations and financing activities and become stronger. By adopting the environmental factors in their lending activities banks can recover the return from their investments and make the polluting industries become environment-friendly.

The concept of Green Banking is mutually beneficial to the Consumers, banks, industries and the economy. For consumers, this shift towards Green Banking means that more deposit and loan products will be available through online and mobile banking. It also means better deposit rates on Green Deposits and Green savings accounts and lowers interest rates for Green Mortgages. For banks, adoption of Green Banking services leads to paperless banking, energy saving, etc. This is an effort by the banks to make the industries grow green through prudent use of Green Mortgages. The importance of Green Banking is immense for the overall economy as it mitigates Credit Risk, Legal Risk and Reputation Risk involved in the banking sector.

❖ **Credit Risk:** Customers affected by credit risks due to lending are those whose businesses are affected by the pollution cost, changes in environmental regulations and new requirements on emissions levels. It is higher due to the probability of customer default arising due to uncalculated expenses for capital investment in production facilities, loss of market share and third party claims.

❖ **Legal Risk:** Banks are likely to face legal risk, if they violate environmental regulation rules. They may also face risk of direct lender liability for cleanup costs or claims for damages in case they actually take possession of pollution causing assets.

❖ **Reputational Risk:** Banks are prone to loss of their reputations, if they indulge in environmentally damaging projects.

### **Inception of Green Banking**

Initially, the banking industry was considered to be a most relaxing job. Employees would wind up their work by four in the evening and would also do the pending work the next day. Backdate entries were common as the ledger were posted manually. This gave an opportunity to the bankers to become lazy and also frauds became common. Another very major drawback of the traditional banking was that the cash timings were till two in the afternoon. After that, there was neither the facility of withdrawal or deposit. Moreover, if anyone required money in an emergency, then the person has to borrow it from relatives or friends. Moreover, in many cases, there were casualties as the required amount of money could not be arranged in order to treat the patient. It was also seen that there was extensive use of paper which in turn resulted in deforestation.

In traditional banking people with knowledge of debit and credit functions were considered eligible for working as a banker. Not much technical qualifications were required, and also no specific education required to be undertaken like in other professions, for example, doctors. These were the issues that required to seriously adhere to for improving the condition and structure of the entire banking industry. The shortcomings were closely studied by PM Mrs. Indira Gandhi, and apart from these, many other reforms were undertaken in her regime. The nationalization of all the major banks running in the country was a major decision taken back then.

Following the nationalisation policy, One another concept launched in 1990 that was the New Economic Policy or Liberalization, Privatisation and Globalisation (LPG) policy. Under this policy, many of the private sector banks received licence. It was from here that a new chapter in the banking industry was introduced. Automation of the core banking process was one of the major changes that took place at that point in time. Since the liberalisation policy was adopted by the banking sector, a new term tech-savvy came into existence. After the launch of LPG, the banking sector saw a reform on the whole. The major impact was in the working culture. Prior to 1990, the employees were habitual of banking till 10- 5, and after that, the bankers had to work till the bank required them. As everything was computerised backdate entries, pending work and frauds nearly banished. For some time the employees had to struggle with learning the new process and bringing back the core banking processes on track. Slowly, people also started to expect more regarding the quality of banking services and in terms of product range. This in turn led to the evolution of a new era in the banking industry.

Post new economic policy (Gorton, and Huang, 2002) the role of banking increased manifolds, and their participation in the economy became more and more significant. Apart from the core banking activities like accepting deposit and giving out loans, banks started many other activities as well. The other activities included insurance, debit card, credit card, message alert and insurance. Although the first ATM (Sharma, 2013) in India was launched in 1989 by HSBC, it was not popular among the clients as well as banks. Slowly after 1990, all banks started the process of launching ATMs and debit cards in order to reduce the workload in the branch as more and more people started using banking services. Even though the ATMs allowed cash withdrawal for 24\*7 customers fear using them as it was a new technology, and they were unaware of its use. Hence, even after having debit cards, customers rushed to the branches for withdrawing money. To solve this problem banks launched awareness campaigns in which the customers were taught how to use ATM and also its importance.

Eventually, the clients started using ATMs when a new concept of internet banking was launched by ICICI bank. This facility allowed the clients to access all the functions of the bank by themselves using the internet. They had to register for the service and obtain an ID and password. Through this, they could access their account by visiting the site of the bank. Online transfer, bill payments, examination fee payment and online purchasing became much easy. Even though one could not withdraw or deposit money through internet banking but transfer entries made realising the payment to anybody much easy. This in turn led to an increase in the product range of the bank making banking transactions very simple. Adding to the innovations in banking industry Union Bank became the first ever bank to launch a talking ATM in 2012. These ATMs were specially designed for physically challenged and visually impaired people. After the first launch, SBI made it a point to launch real talking ATMs across India. Making it even easier for the clients to operate, ICICI Bank launched the concept of mobile ATM. This meant a van would carry an ATM from place to place and people could withdraw and deposit money as in any other ATM. Similar to ATMs the banks launched another machine for depositing cash into the account through the debit card itself. Through this step, RBI tried to reduce the movement of cash and customers for cash transactions so that employees could manage branches easily. It reduced the long queues in banks and also zeroed the time limitation on withdrawal and deposit of cash.

### **Green Process**

A Green Bank requires each of its functional units and activities to be green i.e. environmentally friendly and help to improve environmental sustainability (Al- Tekreeti, and Beheiry, 2016). Several opportunities are available for banks to green their functional units and activities. Key among them are

- Supply Chain Management
- Adopt techniques and plans to minimize inventory
- Adopt networked design using a carbon footprint
- Enterprise Resource Management
- Facilitate paperless transactions
- Adopt techniques for workforce and parts optimization as well as intelligent device management.
- Customer Relationship Management
- Use electronic means, wherever possible, to maintain contact with and correspond with customers and potential customers and minimise paperbased correspondences.
- Sourcing and Procurement
- Select vendors by the sustainability rating of their products, services and operations.
- Product Life Cycle Management
- Design and offer banking products and services in such a way that consume fewer resources and energy and thereby reduce carbon footprint.
- Implement effective systems for product end-of-life management that have minimal impact on the environment.

### **Green Banking Products and Services**

There is a greater scope of Green Banking in India as constant planning and efforts have been laid in the field. As per the Happy Planet Index, India is making steady progress towards reducing the carbon emissions. The index shows that while in 2006 India stood at the 90th position in the race of reducing carbon emissions. The same index in 2009 showed an improvement in the position of India, and it moved from the 90th to the 35th place. Continuing the progress India is aiming at reducing the carbon emission by 20-25% till 2020. Thus, it shows that the economy of the country especially the banking sector has been working in order to prevent further environmental loss by reducing carbon emissions. The banking sector has thoroughly built its strategy keeping in mind the six major actors i.e. the 3Cs and the 3Ps. On one hand where the 3Cs stands for Cost, Control and Customer Service, 3Ps stand for Profit, Planet, and People.

The 3Cs are the important part of banking operations, and with the help of Green Banking, it all can be achieved by the companies. Green Banking promotes online transactions, and it is the best way to enhance better customer services. The customers can avail all the facilities just by sitting at their place. They can access important information through laptops or even through smart phones. It is also a part of better customer services, and cost can also minimise. Thus, Green Banking has huge advantages for the banks as well as for the society. Green Banking is having two folds; one is promoting environmental practices through the introduction of Green Banking Financial Products and Services and second is reducing carbon footprints from banking activities on the environment.

### **Green Banking Financial Products and Services**

- I. **Green Deposits:** Banks offer higher rates on commercial deposits, money market accounts, checking accounts and savings account if customers opt to conduct their banking activities online.
- II. **Green Mortgages and Loans:** The green mortgage is a type of debt given to the customers for making their homes more energy efficient and eco-friendly. Banks offer a green mortgage with better rates or terms for energy efficient houses. The Ministry of Non-renewable Resource in association with some nationalised and scheduled banks undertook an initiative to go green by paying low-interest loans to the customers who would like to construct houses or buildings with energy efficient designs and would like to install gadgets that are environmentally safe like solar equipment, energy-efficient windows, geo-thermal heating or water heaters (Rouf, 2012). The savings in monthly energy bills can offset the higher monthly mortgage payments and save money in the long run.
- III. **Green Credit Cards:** Green credit cards are helpful in reducing the personal carbon footprint of each and every client. The scheme is mainly launched in order to increase the use of plastic money (debit and credit cards) in place of currency notes. A green credit card facilitates cardholders to earn rewards/points through redeeming it for contributions to eco-friendly charitable organisations. These cards offer an excellent incentive for consumers to use them for their expensive purchases. As per a research if a person spends \$1 from his/her green card then the carbon emissions would be reduced by two to four pounds. It means that if a person is spending \$100 per week through green card then as per the calculations, it would be possible to stop 20,000 pounds of carbon emissions per year.
- IV. **Green Reward Checking Accounts:** It is a bank product called reward checking accounts which pay a bonus to customers who are going green. This account helps the environment by utilising more online banking services (Roux, 2015) like online bill payment, debit cards, and online statements. Customers can earn higher checking account rates if they meet monthly requirements that might include receiving electronic statements, paying bills online or using a debit or check card. Higher rates and eco-friendly living go hand-in-hand with this banking product.
- V. **Mobile Banking:** Mobile banking has the ability to check balances, transfer funds or pay bills from a mobile phone, which saves time and energy of the customers. It also helps in reducing the use of energy and paper of the bank. Most of the Indian banks have introduced this paperless facility.
- VI. **Online Banking:** 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: Paying bills online, Remote deposit, Online fund transfers, and Online statements. It creates savings from less paper, less energy, and less expenditure of natural resources from banking activities. Customers save time by avoiding standing to queues and paying the bills from home online.
- VII. **Banking through ATMs:** ATMs are becoming more powerful than before and banks are consciously driving its usages with the concept of branchless banking. A visit to an ATM helps customer accomplish myriad value-added transaction services like utility payments, pre-paid mobile re-charge, credit card payments, tax payments and much more.

### **Carbon Footprint Reduction**

Carbon footprint is a measure of the impact of activities on the environment. It relates to the amount of Green House Gases (GHG) producing in day-to-day business while burning fossil fuels for electricity, heating, transportation, etc. Banks can reduce their carbon footprints by adopting the following measures:

- i. **Paperless Banking:** Banks are switching their customers towards Online Banking and Mobile Banking to promote paperless banking.
- ii. **Energy Consciousness:** Banks save their energy consumption by developing energy consciousness, adopting effective office time management and automation solutions and using compact fluorescent lighting (CFL) which helps them considerably. In order to manage their offices and ATMs, banks are switching over to renewable energy (solar, wind etc.) resources.
- iii. **Using Mass Transportation System:** Banks are becoming fuel efficient organisation by providing common transport for a group of officials posted at one office.
- iv. **Use of Solar and Wind Energy:** To go green, usage of solar and wind energy is a preferable option. State Bank of India (SBI) has become the first bank in the country to venture into a 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.

### **Green Banks in India**

The various banks in India which provide green banking services to their customers are as follows

- i. **State Bank of India:** SBI has launched green banking policy and set up windmills in Tamil Nadu, Maharashtra and Gujarat in generating 15MW power. This is the first bank in India which is in green banking and promoting green power projects.
- ii. **Punjab National Bank:** They had taken various steps for reducing emission and energy consumption.
- iii. **Bank of Baroda:** They had taken various green banking initiatives such as financing a commercial project. BOB is giving preference to environment friendly green projects such as windmills, biomass and solar power projects which help in earning the carbon credits.
- iv. **Canara Bank:** As a part of green banking initiative it had adopted environmental friendly measures such as mobile banking, internet banking, telebanking, solar powered biometric operations.
- v. **ICICI Bank Ltd:** ICICI bank had started 'Go Green' initiative which involves activities like Green products/offerings, Green engagement and green communication with customers.
- vi. **HDFC Bank Ltd:** HDFC bank is taking up various measures for reducing their carbon footprints in waste management, paper use and energy efficiencies.
- vii. **Kotak Mahindra Bank:** Through the 'Think Green' initiative this bank had taken several initiatives such as to reduce the paper consumption and encouraging their customers to sign for e-statements and they had become partners with 'Grow- Trees.com' to plant one sapling for every e-statement on behalf of its customers.
- viii. **IndusInd Bank:** It has initiated its Green Office Project under which it had installed solar powered ATMs in different cities targeting energy saving as well as reducing CO2 emissions.
- ix. **YES Bank:** It has projects portfolio in the areas of alternative energy and clean Technologies.
- x. **HSBC Group:** HSBC has separate targets for data center, paper consumption and business air travel. The purposes of the targets are to drive efficiency, reduce its operational impact on the environment and generate cost savings.
- xi. **IDBI:** IDBI Bank is providing various services in the field of Clean Development Mechanisms (CDM) to its client.

These are the major information about Green Banking in India.

### **Role of Green Banking in sustainable growth**

Green Banking could create awareness by imparting education to attain sustainable development through communication. The first step would be defining target groups and means of communication. The whole system can be divided into internal and external sub-system. For internal subsystems, banks could create awareness on this issue by weekly broadcasting green news on the internet, clearing programmes, high-level meetings, bank's newsletter, publication, etc. and targeting on managers and other personnel. For external subsystems, effective means could be followed like websites, capacity building, road shows, events meetings, benchmarking, media, etc. whereas clients, subsidiaries and the general public are target groups.

## **II. CONCLUSION**

Green Banking is the new phenomenon in the financial world which aims to protect the environment by promoting environmental-friendly practices through the introduction of Green Banking financial products and services and reduce the carbon footprint from banking activities. Wherein, Green Banking products and services

include Online Banking, Mobile Banking, Banking through ATMs, Green Credit Cards, Green Mortgages and Loans, Green Deposits and Green Rewards Checking Accounts. Carbon footprint is a measure of the impact of activities on the environment. It relates to the amount of Green House Gases (GHG) producing in day-to-day business while burning fossil fuels for electricity, heating, transportation, etc. Banks can reduce their carbon footprints by adopting the measures like Paperless Banking, Energy Consciousness, using Mass Transportation System, Use of Solar and Wind Energy. Green Banking offers various benefits over traditional banking which includes digitization of banking processes, 24\*7 access facility, time effective and convenience. Green Banking is not only a Corporate Social Responsibility (CSR) activity of an organisation, but also it is about making the society habitable without any considerable damage. For banking professionals, Green Banking involves the tenets of sustainability, ethical lending, conservation and energy efficiency.

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