

Green Banking: Need of the Hour

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Abstract

In the twenty first century, climate change is one of the greatest challenges for developed and developing countries alike. Banks and financial institutions can play a major role in making our planet a better place to live in by ensuring that businesses should adopt environment-friendly practices. Banks are the major implementers of technology and they themselves can adopt green practices. Green Banking is a new development in the financial world. Currently, in India, the concept of green banking is catching up and banks are actively looking for ways to portray themselves as a Green Bank. The main objectives of the paper are to study the green products and services offered under green banking and to highlight the green banking initiatives taken by Indian banks. Indian banks are far behind the banks of developed countries in adopting the concept of green banking. It is the need of the hour that Indian banks should adopt green banking practices for the sustainable growth of the nation.

Keywords: Green Banking, Sustainable Growth, environment.

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Introduction

In the twenty first century, climate change is one of the greatest challenges for developed and developing countries alike. The problem of climate change has been aggravated due to the actions of developed countries but developing countries have to suffer more because of their vulnerability to extreme environmental events. The

industrial revolution in the nineteenth century witnessed the large scale use of fossil fuels for industrial activities. Thereafter, continuous upward trend in industrial growth, urbanization and unexpected rise in population led to sharp rise in green house gases. In 1980s, the developed countries pushed the drive of neo-liberalism into the developing countries through the Structural Adjustment Programme (SAP) of International Monetary Fund and World Bank. The SAP forced the less developed countries to adopt the policy of liberalization, privatization and globalization. The free game plan of market forces that neo-liberal globalization advocates, has overexploited the environment in its drive to maximize profits (Thind, et.al, 2008).

India adopted New Economic Policy in 1991 which has marked a basic shift from the earlier model of socio-economic development. This model has accentuated environmental degradation and destruction in the country. The problem of environmental degradation can be solved by fostering green development in the economy. Green Development can stimulate economies, create jobs, help to maintain critical eco-system services and strengthen climate resilience of the poor.

Banks and financial institutions can play a major role in making our planet a better place to live in. As providers of finance, banks can ensure that businesses adopt environment-friendly practices. Bank's incentives like offering cheaper funds for adopting green technologies will have a long term beneficial impact on the environment. Banks are the major implementers of technology and they themselves can adopt green practices.

Green Banking is a new development in the financial world. Currently, in India, the concept of green banking is catching up and banks are actively looking for ways to portray themselves as a Green Bank.

Objectives:

The main objectives of the paper are:

- To study the green products and services offered under green banking.
- To highlight the green banking initiatives taken by Indian banks.

Meaning of Green Banking

. Green Banking is an umbrella term referring to practices and guidelines that make banks sustainable in economic, environment, and social dimensions. It aims to make banking processes and the use of IT and physical infrastructure as efficient and effective as possible, with zero or minimal impact on the environment. Green Banking can be adopted at two levels. First is to green processes, products, services and strategies. Second is to green banking Infrastructure.

Green Banking: Products and Services

1) Retail Banking

- ❖ **Green deposits:** Banks can offer higher rates on CDs, money market accounts, checking accounts and savings account if customers opt to conduct their banking activities online.
- ❖ **Green Mortgages:** Green mortgages are a method of incentivizing the adoption of green housing methodologies. Such mortgages are also called Energy Efficient Mortgages. These mortgages provide retail customers with considerably lower interest rates than market rates for clients who purchase new energy efficient homes, invest in retrofits, energy efficient appliances or green power.

- ❖ **Green Home Equity Loans:** Green home equity loans can help people to install residential renewable energy technologies and to make energy efficient home renovations in their houses.
- ❖ **Green Commercial Building Loans:** Green commercial building loans are provided in order to increase the construction of green commercial buildings. These loans are provided for those buildings which are characterized by lower energy consumption, reduced waste and less pollution than traditional buildings.
- ❖ **Green Car Loan:** Green car loans encourage the people to purchase those cars which are high fuel efficient with less carbon emissions. These car loans provide retail customers with considerably lower interest rates than market rates for purchasing high fuel efficient cars. The number of these products has increased in recent years, with the majority being offered in Australia and Europe. Most green car loans are being offered by credit unions, such as mecu, as innovative vehicle lending has proven to be an ideal niche for smaller financial institutions.
- ❖ **Green Credit Cards:** A green credit card allows card holders to earn rewards or points which can be redeemed for contributions to eco-friendly charitable organizations. These cards offer an excellent incentive to consumers to use their green card for their expensive purchases.
- ❖ **Green rewards checking accounts:** Rewards checking accounts may pay a bonus rate to customers who go green. 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.

2) Corporate and Investment Banking

- ❖ **Green Project Finance:** Under Green project finance, banks create service divisions and teams in order to finance large scale renewable energy projects. By 2005, the majority of leading European banks had debt portfolios to finance renewable energy assets. Banks have also started to employ innovative financing arrangements for large-scale clean fuel and renewable energy projects.
- ❖ **Green Securitization:** Under green securitization, bank originates loans for renewable energy and energy efficiency. Forest bonds, eco-securitization pilot projects and green mortgage-backed securities are some of the innovative environmental securitization techniques that have started emerging these days.
- ❖ **Green Venture Capital & Private Equity:** Green private equity is a vital funding mechanism that helps entrepreneurs to secure sustainable venture capital. Green private equity firms supply venture capital to companies that are focused on sustainability. Capital for private equity is raised from retail and institutional investors, and can be used to fund new technologies, expand working capital within an owned company, to make acquisitions and to strengthen a balance sheet. The majority of private equity consists of institutional investors and accredited investors who can commit large sums of money for long periods of time.
- ❖ **Green Indices:** Green Indices cover companies working to enhance economic development based on reduction of carbon usage. Some banks have recently developed indices that fluctuate as future environmental opportunities and

challenges emerge. For instance, ABN AMRO and Nasdaq has developed green indices for the companies.

- ❖ **Carbon Commodities:** Carbon market products and services have largely been found in Europe, driven by the January 2005 implementation of the EU Emissions Trading Scheme. Few banks in North America, namely Bank of America, Goldman Sachs, JPMorgan Chase, Citigroup Morgan Stanley and Merrill Lynch and in European, namely ABN AMRO, Fortis, Barclays Capital, and HSBC, are very active in this field.

Green Banking Initiatives taken by Indian Banks

Under Green Banking initiatives, HDFC bank is taking up various measures in reducing their carbon footprints in the area of waste management, paper use and energy efficiencies. The bank is encouraging their employees to prevent any wasteful use of natural resources and emission of greenhouse gasses. They are reducing the use of paper through issuing e-transaction advices to their corporate customers, communicating through electronic media with their high net worth customers and encouraging e-statements to their retail customers. The bank is also promoting energy conservation by replacing conventional lighting with CFL, switching off all the lights after 11 pm at all the branches and establishing green data centers with state of the art technologies. The organization is exploring renewable energy by setting up of 20 solar ATMs with a pilot ATM set up in Bihar. They are also managing their waste by tying up with vendors for recycling of paper and plastic. The bank is procuring green products which are compliant with the norms of the Central Pollution Control Board and which are rated by Energy Star.

Under Green Banking initiatives, State Bank of India (SBI) has adopted energy efficient measures. State Bank of Mysore has started using energy efficient photocopier and computers; auto cut off for air conditioners, CFL bulbs and need based printing in order to save paper. SBI has introduced the concept of paperless banking and has installed solar automatic teller machines (ATM) to reduce its carbon footprints. SBI is the first bank in India which has installed wind power projects in order to generate green energy for captive use. The bank has collaborated with Suzlon Energy Ltd for the generation of wind power. In the states of Tamil Nadu, Maharashtra and Gujarat, SBI has installed 10 wind power projects with an aggregate capacity of 15 MW.

ICICI bank has introduced the concept of instabanking which helps the customers to do banking anywhere and anytime through internet banking, mobile banking, etc. The bank encourages their customers for subscription to e-statements, online bill payment and online funds transfer. The bank offers 50 percent waiver on processing fee of auto loans on the car models which uses alternate sources of energy. ICICI has reduced the processing fee for the customers who are purchasing homes in LEED certified buildings or green buildings. ICICI bank celebrates World Environment Day every year by performing various activities like green pledge through signature campaigns, plantation and distribution of saplings etc. They also celebrates Earth hour every year in March by switching off the lights of their premises, branches and ATM's between 8:30 pm to 9:30pm.

Conclusion

Green banking can be an avenue to reduce pollution and save the environment which will foster sustainable economic growth in the economy. Green Banking is a

multi-stakeholders' endeavor where banks have to work closely with government, regulator, consumers, NGOs, and business communities to reach the goal. In India, banks have started adopting the green practices but still a lot of channels are unutilized by Indian banks for greening their practices. Indian banks are far behind the banks of developed countries in adopting the concept of green banking. Therefore, it is the need of the hour that Indian banks should adopt green banking practices for the sustainable growth of the nation.

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