

***Research paper***

# **Green Banking in India: Opportunities & Challenges**

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**During some last previous years, banking and academicians both are paying more intention towards green banking due to its significant influence on environment management in banking context. Green banking is something different from traditional banking as it focuses on environment friendly banking. In present time, everyone in the society become more concerned about natural environment, business organisations and corporations have started modify their working to increase greenery as maximum as possible. They promote eco-friendly banking practices. Eco-friendly practices, popularly known as green banking practices are the practices made by the banks to reduce the internal carbon footprint and external carbon emission from their day to day banking activities. This paper focus on concept of green banking, steps, products, challenges and advantages of green banking**

**Keywords:** Green banking, Green Products, Banking Sector, Environment.

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## **INTRODUCTION**

The idea of green banking was built up in 1980s at Tridos Bank from Dutch which started environmental sustainability in the banking sector. The first green bank was commenced its operations in 2009 in Mt. Dora, Florida, United states. In India the first green bank is the State Bank of India(SBI), India's largest commercial bank, which took initiative in setting high sustainability standards and completed the first step in "green banking" with Shri O.P. Bhatt, chairman, SBI Inaugurate the bank's first wind farm project in Coimbatore.

## **GREEN BANKING**

'Green' in some studies refers to define a broad range of ethical, social and environmental practices. Though, for the purpose of the study that tends to look into environmental aspect, "green" in the discussion primarily describe banks' impacts on the environment,

environmental responsibility as well as environmental performances in their activities. Green banking means promoting environmental-friendly practices and reducing carbon footprint from banking activities. This could be done in many ways such as by using online banking instead of branch banking, paying bills online instead of mailing them, opening up CDs and money market accounts at online banks instead of large multi-branch banks or finding the local bank in your area that is taking the biggest steps to support local green initiatives.

The concept of "Green Banking" will be mutually beneficial to the banks, industries and the economy. 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.

The commencement of 21st century brought

tremendous changes in banking activities. Due to these changes, bank has shifted toward the adoption of innovative banking products. In the present time, the use of ATM, internet banking, online transfer, mobile banking, debit card and credit card became popular. Innovative product is time saving, create less cost to the bank as well as to the customer. Innovative banking has different channel to provide service to the customer but the main source is internet which create less cost to the customer and it also saves the time and creates less pollution to the environment.

Green banking is comparatively new to the financial world. Green banking is a step to change client habits in the banking sector for the sustainable development in future. Online banking is the easiest way to green banking. It is paperless banking which will reduce the cost of banking activities. In December 2007, RBI issued a circular (RBI 2007-2008, 1216) highlighting the importance for bank to act with responsibility and contribute to sustainable development so that the impact of global warming can be reduces with the help of banking industry. Green banking means to promote environment friendly practices and to reduce the carbon footprint from banking operation.

According to Indian Bank Association 2014, "Green banking is like a normal bank, which considers all the social and environmental / ecological factors with an aim to protect the environment and conserve natural resources." It is also known as sustainable bank. The purpose of the bank is to perform banking activity with taking care of earth's ecology and environment.

## LITERATURE REVIEW

Thombre (2011) argued that the environmental impact of a bank's external activity is huge though difficult to estimate. Thus, encouraging environmentally responsible investments and careful lending should be one of the responsibilities of the banking sector, (Sahoo and Nayak 2008). The bank should go green and play a pro-active role to take environmental and ecological aspects as part of their lending principle, which would force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems (Hayder 2012). Verma (2012) stated that Indian banking is gradually coming to realize that there is a need for a shift from the „profit, profit and profit motive to 'planet, people, and profit'. Green Banking involves pursuing of financial and business policies that are not hazardous to the environment and help to protect the environment. The purposes of Green Banking are to use resources with responsibility for avoiding waste and giving priority to the environment and society. To save our planet it is the time to take initiative for green banking. The banks should give priorities in providing a loan to the sectors that encourage environmental

practices (Rashid 2010). Habib (2012) stated that much more is expected from NGOs and civil society organizations in the form of awareness development, research activities, and business monitoring. For rapid change among consumers and businesses, a collective endeavour of government, media, NGOs will be required.

Jeucken and Bouma (1999) in their study identified four stages or attitudes of banking toward sustainability. The authors concluded that banks looks for highest sustainable rate of return not for highest financial rate of return. Getzner and Krauter (2004) found education; income, environmental awareness and the expected profit are the main explanatory variables. Bhardwaj and Malhotra (2014) found a positive relationship between adoption of green banking and bank profitability. On the other hand, similar study by Rajput, Arora, and Khanna (2014) found no relationship between green banking initiatives and bank's profitability. Sudhalakshmi and Chinnadorai (2014) showed that not many initiatives have been taken by banks in India as far as green banking is concerned. Ahmed (2012) gave policy recommendation which included giving rewards to the banks for positive green banking initiatives by developing green index rating and building awareness amongst the stakeholder.

Papastergiou and Blanas (2011) conducted study on "Sustainable Green Banking. They identified 50% banks were in defensive phase, 40% in preventive, and 10% in offensive stage. KO et al. (2014) in their research paper found that there is a significant positive relationship between green concern and internet use. Similarly, Singh and Singh (2012) in their paper expressed society's growing concern about the natural environment, the business organization are also modifying their working in order to increase greenery. Verma (2012) concluded that only few banks in India adopted green banking and there is lack of awareness among the bank staff and customers.

Weber and Remer (2011) explained Green Banking as a way of value-driven banking that has a positive social and environmental impact at its heart, as well as its possess financial viability. Bahl, Sarita (2012) conducted an empirical study on "Green Banking – The new strategic imperative" found that Carbon footprint decrease by Green building had been given top main concern in green banking strategies and green banking financial products has also been particular importance. Chaurasia (2014) found the benefits; deal with challenges, and strategic aspects of green banking and position of Indian banks regarding green Banking adoption. He found that there has not been much proposal in this regard by the banks in India. Researcher suggested that bank should go green and participate optimistic position to find environmental aspects as part of their loan principle. Dharwal & Agarwal (2013) suggested some green banking strategies like carbon credit business, green financial products, green mortgages, carbon footprint reduction, energy

consciousness, green buildings and social responsibility services towards the civilization.

Jaggi (2014) studies the initiative by SBI and ICICI on Green Banking. SBI has introduced a Green Channel Counter, no queue banking, improved promise towards achieving carbon neutrality, online money transfer, wind farms. Nath, Nayak et al. (2014) attempt to study the green rating standard given by RBI, the World Bank's environmental and social norms and the initiative taken by bank in adopting green practices.

According to RBI (IRDBT, 2014), green banking is to make internal bank processes, physical infrastructure and IT infrastructure as effective and efficient as possible, with zero or minimal impact on the environment.

They had introduced green rating standards for Indian banks, which are termed as 'Green Coin Ratings'. Under this rating system, banks are judged on the basis of carbon emissions from their operations and on the amount of recycling, refurbishment and reuse material being used in their building furnishings and in the systems used by them like servers, computers, printers, networks, etc.

They are also being judged on the amount of green projects finance by them and rewards or recognitions given to borrowers for turning their businesses greener.



**Source:** Institute of Development and Research in Banking Technology, 2013  
**Figure1: Green Coin Rating**

## OBJECTIVES OF THE STUDY

The study is based on the following objectives:-

1. To study the concept of Green Banking.
2. To study the products of Green Banking.
3. To study the different necessary steps to adopt green banking.
4. To identify the challenges and benefits of green banking.

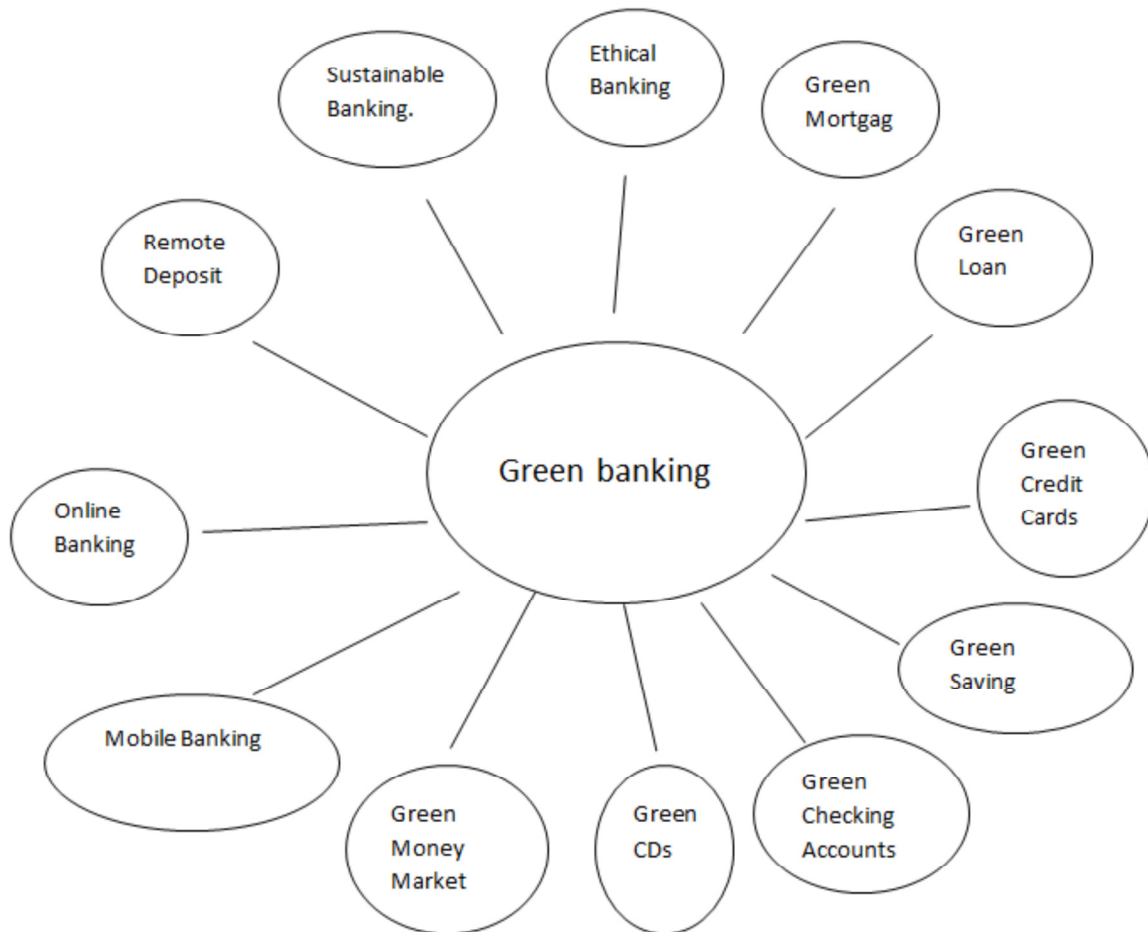
## RESEARCH METHODOLOGY

The study is based on published sources of data collected from various sources. The data were gathered from the secondary sources such as journals, articles published online and offline on various newspapers and websites.

## PRODUCTS OF GREEN BANKING

Green Banking product range includes:-

- Sustainable Banking
- Ethical Banking
- Sustainable Banking
- Green Mortgage
- Green Loan
- Green Credit Cards
- Green Saving
- Green Checking Accounts
- Green CDs
- Green Money Market
- Mobile Banking
- Online Banking
- Remote Deposit



**Figure 2:** Products of Green Banking

## STEPS IN GREEN BANKING

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

- Go Online
- Use Green Checking Accounts
- Use Green Loans for Home Improvements
- Power Savings Equipment
- Use Green Credit Cards
- Save Paper
- Use of Solar and Wind Energy
- Mobile Banking

## REASONS OF PRACTICING OF GREEN BANKING

- Using organizational resources with responsibility.
- Keeping the world livable for a long period of time.
- To minimize paper works as much as possible inside and outside the bank.
- To achieve cost and time efficiency.

## MAJOR BENEFITS OF GREEN BANKING TO CUSTOMERS

Green Banking comes with a bundle of benefits such as:-

- Cash back will be credited to all existing account holders shifting into Green.
- Cash back will be credited to all new customers opening 'Green accounts'.
- Rationalization of paper use by giving free access to do all the banking transactions through Internet Banking, SMS Banking, Phone Banking and ATM Banking.
- Free Electronic Bill Payment Services.
- E-Remit services for remitting funds to the customers' home country which is a unique service.
- E-Statement will be generated and sent to the customers' email.
- Online Account opening form for opening Green Account.
- Customer can opt for Go Green through various channels through Online Banking, Branches and Call Centre.

## CHALLENGES OF GREEN BANKING

- Diversification Problems
- Start-up Face
- Higher Operating Cost
- Reputational Risk
- Credit Risk

## CONCLUSION

It is an urgent need to create awareness among the people and follow green banking in today's business scenario of innovative technologies so as to make our environment human friendly. If Green banking concept, implemented sincerely then it opens up new markets and avenues for product differentiation. There has not been much initiative in this regard by banks and financial institutions in India. They are not as green as foreign banks. As initially, these commitments will cause a huge financial burden for Indian banks. For effective adoption of green banking, the RBI and the Indian government should play major role and formulate green policy guidelines and financial incentive.

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