GREEN BANKING - THE NEW STRATEGIC IMPERATIVE

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ABSTRACT

Today’s business is all about being green. From Wal-Mart to Apple, everyone is talking about how green their approach, packaging, or methods are. But green business is really in its infancy, and the future of being green will no doubt distill down to some very real and definable goals and practices. Various financial services adopted by green business are banks, credit card companies, insurance companies, consumer finance companies, stock brokerages and investment funds. Banking sector for great banking has its own significance. Green banking means promoting environmental friendly practices and reducing carbon footprint from banking activities. To aid the reduction of external carbon emission, bank should finance green technology and pollution reducing projects. The present paper aims to highlight Indian initiatives by various banks adopting green banking in India. Further, an attempt has been made to enlist certain strategies of adopting green banking.

KEYWORDS: Resource efficient, green industry, green banking, environment friendly, sustainable banking.

INTRODUCTION

The rapid change in climate due to global warming will be too great to allow many eco systems to suitably adapt, since the change have direct impact on bio-diversity, agriculture, forestry, dry land, water resources and human health. Due to unusual weather pattern, rising greenhouse gas, declining all quantity etc society demands that business also takes responsibility in safeguarding the planet. Although, banks are considered environmental friendly and do not impact on environment greatly through their own internal operations, in terms of emission and pollution,
the “external” impact on the environment through their customers activities is substantial. Therefore, the banking sector can play an intermediary role between economic development and environmental protection, for promoting environmentally sustainable and socially responsible investment, banking of this kind can be termed as “Green Banking”. Green finance as a part of Green Banking makes great contribution to the transition to resource-efficient and low carbon industries i.e. green industry and green economy in general. Green banking is a component of the global initiative by a group of stakeholders to save environment.

Various financial services adopted by green business are banks, credit card companies, insurance companies, consumer finance companies, stock brokerages and investment funds. Banking sector has its own significance. A bank connects customers with capital surpluses. Any business that is consistently working with other people’s money should convey professionalism, trust, commitment and establish a level of confidence in their capabilities to manage money.

OBJECTIVES OF THE STUDY

1. To highlight Indian initiatives by various banks adopting green banking in India.
2. To enlist significant strategies for adopting green banking.

RESEARCH METHODOLOGY

The present empirical study has incorporated the collection of both primary and secondary data for the in-depth investigation. All the information, data and opinion are collected which have a direct or indirect relevance to the information. An intensive desk research has been undertaken to collect published data. For collecting primary data, structured questionnaire has been used and 100 managers of public banks were surveyed after pilot survey.

The present study is an attempt to analyse various strategies. To find out the most significant strategies while going ahead with green banking, Garrett’s ranking technique was used. As per the method, respondents have been asked to assign the rank for all the strategies and outcome of such ranking have been converted into score value with the help of the following formula.

\[ \text{Percent Position} = 100 \left( \frac{R_{ij} - 0.5}{N_j} \right) \]

Where:

- \( R_{ij} \) = Rank given for ith item by the jth respondents
- \( N_j \) = Number of items ranked by jth respondents.

The present position of each rank thus obtained was converted into scores by referring to the table given by Henry Garrett. Then for each factor the scores of individual respondents...
were added together and divided by the total number of respondents. These mean scores for all the parameters were arranged in the order of their ranks and inferences were drawn.

WHAT IS GREEN BANKING?

In a broader perspective, Green Banking refers to the banking business conducted in selected area and manner that helps the overall reduction of external carbon emission and internal carbon footprint. To aid the reduction of external carbon emission, bank should finance green technology and pollution reducing projects.

Defining green banking is relatively easy. It means promoting environmental-friendly practices and reducing your carbon footprint from your banking activities. This comes in many forms. Using online banking instead of branch banking, paying bills online instead of mailing them, Open 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. Green Banking helps to create effective and far-reaching market-based solutions to address a range of environmental problems, including climate change, deforestation, air quality issues and biodiversity loss, while at the same time identifying and securing opportunities that benefit customers.

GREEN BANKING PRODUCT COVERAGE INCLUDES

- Green mortgages
- Green loans
- Green credit cards
- Green savings accounts
- Green checking accounts
- Green CDs
- Green money market accounts
- Mobile Banking
- Online banking
- Remote deposit (RDC)

THE FIRST GREEN BANK
Based in Eustis and Clermont Florida USA, First Green Bank is the first bank of its kind to promote positive environmental and social responsibility while operating as a traditional community bank providing excellent service to investors and clients. The progressive approach to the community and the Earth sets it apart from other banks.

State Bank of India (SBI), India’s largest commercial bank, took the lead in setting high sustainability standards and completed the first step in its ‘Green Banking’ initiative with Shri O.P.Bhatt, Chairman, SBI, inaugurating the bank’s first wind farm project in Coimbatore. Recent Green Bank initiatives include a push for solar powered ATMs, paperless banking for customers, clean energy projects and the building of windmills in rural India. State Bank of India is a leader in green banking.

SPEAKING FROM COIMBATORE ON THE OCCASION, SHRI BHATT SAID:
Amongst the players in the Financial Services sector, State Bank has taken the initiative to be in the forefront in initiating steps for combating climate change and reducing our carbon footprint, and we propose to take the initiative forward for which this beginning has been made in acquiring Green Power, with a view to making the bank as nearly energy neutral as possible over the next five years.

INDIAN INITIATIVES BY VARIOUS BANKS IN INDIA ADOPTING GREEN BANKING

With respect to promoting green banking, Indian financial institutions are lagging behind their global counterparts. Except one or two private sector and foreign banks, no PSB or private bank is participating in the “Financial Times Sustainable Banking Awards”. These awards have drawn 165 entries from 117 institutions in 42 countries during 2009, but included only YES Bank, NABARD and Small Industries Development Bank of India (SIDBI) from India. In recent times, some Indian banks have adopted measures either for reducing carbon emission or for public awareness. For example, IDBI Bank is providing various services in the field of Clean Development Mechanisms (CDM) to its client. SBI has launched a new home loan product especially for Indian green banking council rated environment-friendly residential project, by offering financial concession. ICICI Bank is encouraging its customer to use more environment friendly vehicle by offering 50% concession on processing fees for fuel efficient car models. Some banks have launched “Go Green” initiatives and campaigns, including “Plant a Tree” and “Van Mohatsav” campaigns and have undertaken maintenance of parks as part of their Corporate Social Responsibility initiatives. But none of the Indian Banks have so far adopted green banking as a business model for sustainable banking. There are a lot of opportunities and challenges for Indian banks in adopting “Green Banking” as a profitable business proposition.

India’s second largest private sector lender, HDFC Bank is all set to launch green banking for which it has constituted an Environment Management Committee to implement its green banking initiatives. The bank has rolled out gamut of initiatives on the environment fronts that promise to make it India’s only “green” bank. A high level three – member committee has been formed to drive the organization wide campaign that will encompass organization and employee level initiatives, the bank spokesperson told UNI. Headed by the bank’s Executive Director Paresh Sukthankar, the high power committee will have HR Head Mandep Maitra and
finance Head Sashi Jagdishan respectively, of the bank and will be responsible for planning and implementation of environment-friendly initiatives across the country through bank’s branches.

HSBC Bank, ICICI and HDFC Bank, the entities who received green leaders award in the banking industry, are not only keen on investing in green energy projects but also leads the way in cutting their own carbon emissions through unique initiatives. Country’s largest private sector lender ICICI Bank said they have been a part of clean development for years and will continue providing financial support to the project. Banks like State Bank of India and YES Bank are generating additional business income through carbon credit financing and advisory services...

BENEFITS OF GREEN BANKING

Paperless banking can be adopted as almost all banks in India are computerized or operate on a core banking solution (CBS) creating awareness to bank people about environment by bank can help to brighten the image of the bank. Provision of loans with financial concession for environment friendly products and projects can be an excellent idea for green banking. Moreover, following certain environmental standards for lending will make business owners to change their business to environment friendly which is good for future generations. Major benefits of green banking are listed below:-

1. Avoids paper work.
2. Creating awareness to business people about environment.
3. Sanctioning loans at comparatively lesser rates.
4. Environmental standards for lending.

As depicted by Table 1, providing loans at concessional rates to environment friendly products and project such as fuel efficient vehicles, green building projects, housing and house furnishing loans to install solar energy system etc. has been given top most priority as far as benefits of green banking are concerned. Creating awareness to business people about environment bank has been given second rank. Therefore, banks by associating with NGOs, environmentalists and corporate bodies can sponsor certain programmes such as “free pollution check programme” can assist in brightening the image of the bank. Further paperless banking will switch over to electronic correspondence and reporting thereby controlling deforestation. However, setting environmental standards for lending can also be a good idea for green banking.
### TABLE -1 MANAGER’S VIEWS REGARDING BENEFITS OF GREEN BANKING

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Benefits of Green Banking</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Total</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Total Garret Score</th>
<th>Average Garret Score</th>
<th>RANK</th>
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<tbody>
<tr>
<td>1.</td>
<td>Avoids Paper work</td>
<td>42</td>
<td>25</td>
<td>23</td>
<td>10</td>
<td>100</td>
<td>3066</td>
<td>1425</td>
<td>1012</td>
<td>280</td>
<td>5783</td>
<td>57.83</td>
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<td>2.</td>
<td>Creating awareness to business people about environment</td>
<td>47</td>
<td>32</td>
<td>17</td>
<td>4</td>
<td>100</td>
<td>3431</td>
<td>1824</td>
<td>748</td>
<td>12</td>
<td>6115</td>
<td>61.15</td>
<td>II</td>
</tr>
<tr>
<td>3.</td>
<td>Loans at comparatively lesser rates</td>
<td>32</td>
<td>25</td>
<td>48</td>
<td>14</td>
<td>100</td>
<td>2336</td>
<td>1482</td>
<td>2112</td>
<td>392</td>
<td>5322</td>
<td>63.22</td>
<td>I</td>
</tr>
<tr>
<td>4.</td>
<td>Environmental standards for lending</td>
<td>33</td>
<td>20</td>
<td>35</td>
<td>12</td>
<td>100</td>
<td>2409</td>
<td>1140</td>
<td>1540</td>
<td>336</td>
<td>5425</td>
<td>54.25</td>
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<td></td>
<td>Garret Table Value</td>
<td>73</td>
<td>57</td>
<td>44</td>
<td>28</td>
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</tr>
</tbody>
</table>

Source: Primary Data

### GREEN BANKING STRATEGIES

Indian banks can adopt green banking as a business model for sustainable banking by launching some of the following strategies.

1. **GREEN BANKING FINANCIAL PRODUCTS:** Indian bank can develop innovative green banking financial products which can directly or indirectly help in the reduction of carbon emissions. These banks can introduce “Green Fund” to provide climate conscious customers the option of investing in environment friendly projects. Banks can also introduce green bank loans with financial concessions for environment friendly products and projects such as fuel efficient vehicles, green building projects, housing and house furnishing loans to install solar energy system etc. Beside introducing specific green banking products, bank can incorporate and Environmental Impact Assessment (EIA) in
their project appraisal while financing any project to measure the nature and magnitude of environmental impact as well as suggest environmental risk mitigation measures. Bank can also conduct environmental audits of the financed projects.

2. **PAPERLESS BANKING FOR CARBON FOOTPRINT REDUCTION:** Carbon footprint is a measure of the Green House Gases (GHG). We are producing in day to day business while burning of fossil fuels for electricity, heating, transportation etc. banks can reduce carbon footprints by adopting paperless banking. Almost all banks in India are computerized or operate on a core banking solution (CBS). Thus, there is ample scope for the banks to adopt paperless or less paper banking. Mostly Public Sector reporting etc. these banks can switch over to electronic correspondence and reporting thereby controlling deforestation.

3. **ENERGY CONSCIOUSNESS:** Developing energy consciousness adopting effective office time management and automation pollution and using compact fluorescent lighting (CFL) can help banks save on energy consumption considerably. They can also switch over to renewable energy (solar, wind etc) to manage their offices and ATMs.

4. **USING MASS TRANSPORTATION SYSTEM:** PSB can become fuel efficient organizations by providing common transport for groups of official posted at one office.

5. **GREEN BUILDING:** The Indian banking industry uses more than one lac premises for their offices and residential houses throughout the country. These banks should develop and use green buildings for their office and employee accommodations. A green building uses less energy, water and natural resources, creates less waste and is healthier for the people living therein compared to a standard building.

These measures will not only help banks reduce their carbon footprint but also save their operational cost considerably.

6. **SOCIAL RESPONSIBILITY SERVICES:** As part of green banking strategy, Indian banks can initiate various social responsibility services such as tree plantation camps, maintenance of parks, pollution checkup camps etc.
### TABLE 2 (A) VIEWS OF MANAGERS (PUBLIC BANKS) REGARDING GREEN BANKING STRATEGIES

<table>
<thead>
<tr>
<th>S. No.</th>
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<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Total</th>
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<td>Green Banking Financial Products</td>
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<td>20</td>
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<td>31</td>
<td>3</td>
<td>19</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>Carbon Footprint reduction by paperless banking</td>
<td>15</td>
<td>11</td>
<td>8</td>
<td>14</td>
<td>20</td>
<td>32</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>Carbon Footprint Reduction by energy consciousness</td>
<td>31</td>
<td>12</td>
<td>14</td>
<td>6</td>
<td>28</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>Carbon Footprint Reduction by using Mass Transportation System</td>
<td>13</td>
<td>4</td>
<td>24</td>
<td>18</td>
<td>25</td>
<td>6</td>
<td>100</td>
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<tr>
<td>5</td>
<td>Carbon Footprint Reduction by green building</td>
<td>32</td>
<td>6</td>
<td>19</td>
<td>24</td>
<td>9</td>
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<td>100</td>
</tr>
<tr>
<td>6</td>
<td>Social Responsibility Services</td>
<td>25</td>
<td>8</td>
<td>34</td>
<td>11</td>
<td>2</td>
<td>20</td>
<td>100</td>
</tr>
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<td>Garret Table Value</td>
<td>77</td>
<td>63</td>
<td>54</td>
<td>46</td>
<td>36</td>
<td>23</td>
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</tbody>
</table>

(Source: Primary Data)

### TABLE 2(B) RANKING OF GREEN BANKING STRATEGIES BY MANAGER (PUBLIC BANKS) ON THE BASIS OF HENRY GARRET TABLE

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Green Banking Strategies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<th>Total Garret Score</th>
<th>Average</th>
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<tr>
<td>1</td>
<td>Green Banking Financial Products</td>
<td>693</td>
<td>1260</td>
<td>972</td>
<td>1426</td>
<td>108</td>
<td>437</td>
<td>4896</td>
<td>48.96</td>
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</tr>
<tr>
<td>2</td>
<td>Carbon Footprint reduction by paperless banking</td>
<td>1155</td>
<td>693</td>
<td>432</td>
<td>644</td>
<td>720</td>
<td>736</td>
<td>4380</td>
<td>43.80</td>
<td>VI</td>
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<tr>
<td>3</td>
<td>Carbon Footprint Reduction by energy consciousness</td>
<td>2387</td>
<td>756</td>
<td>756</td>
<td>276</td>
<td>1008</td>
<td>207</td>
<td>5390</td>
<td>53.90</td>
<td>IIInd</td>
</tr>
<tr>
<td>4</td>
<td>Carbon Footprint Reduction by using Mass Transportation System</td>
<td>1001</td>
<td>252</td>
<td>1296</td>
<td>828</td>
<td>900</td>
<td>368</td>
<td>4645</td>
<td>46.45</td>
<td>V</td>
</tr>
<tr>
<td>5</td>
<td>Carbon Footprint Reduction by green building</td>
<td>2464</td>
<td>378</td>
<td>1026</td>
<td>1104</td>
<td>324</td>
<td>230</td>
<td>5526</td>
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<td>1st</td>
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<td>6</td>
<td>Social Responsibility Services</td>
<td>1925</td>
<td>504</td>
<td>1836</td>
<td>506</td>
<td>72</td>
<td>460</td>
<td>5303</td>
<td>53.03</td>
<td>IIIrd</td>
</tr>
</tbody>
</table>

(Source: Calculated from Henry Garret Table)
As depicted by Table 2(b), carbon footprint reduction by Green building has been given top most priority in green banking strategies. Therefore, Indian banking industry using more than one lac premises for their offices throughout country, should develop green buildings as they consume less energy, water and natural resources and creates less waste, carbon footprint reduction by energy consciousness has been rated as second important strategy as developing energy consciousness adopting effective office time management, using compact fluorescent lighting (CFL) and switching over to renewable energy (solar, wind etc.) can help banks save on energy consumption considerably. As a part of green banking strategy, Indian banks can initiate various social responsibility services such as tree plantation camps, maintenance of parks, pollution check up camps etc. Green banking financial products has also been given due weightage as banks can introduce green bank loans with financial concessions for environment friendly products, housing and house furnishing loans to install solar energy systems etc. However, paperless banking and using mass transportation system have been rated low as green banking strategies.

CONCLUSION

Indian banks need to be made fully aware of the environmental and social guidelines to which banks worldwide are agreeing to. As far as green banking is concerned Indian banks are far behind their counterparts from developed countries. If Indian banks desire to enter global markets, it is important that they recognize their environmental and social responsibilities. In addition to mitigating risks, green banking opens up new markets and avenues for product differentiation. Therefore, Indian banks should adopt effective strategies for green banking by considering it as a strategic imperative and need of the hour.

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