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GREEN BANKING PRACTICES IN INDIAN BANKS

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Abstract: **Banks can provide important leadership for the required economic renovation that will provide new opportunities for financing and investment policies as well as portfolio management for creation of a strong and successful low carbon economy. Green banking means combining operational improvements, technology and changing client habits in banking business. It is a win-win situation for all to bring benefits in an increasingly competitive marketplace. Adoption of greener banking practices will not only be useful for environment, but also benefit in greater operational efficiencies, a lower vulnerability to manual errors and fraud, and cost reductions in banking activities. Banks are already offering many of the services necessary for businesses to enjoy these benefits. This paper has made an attempt to highlight the major benefits, confronting challenges, strategic aspects of Green Banking. It has also presented the status of Indian banks as far as Green Banking adoption is concerned. It is found that there has not been much initiative in this regard by the banks in India, though they play an active role in India's emerging economy. Banks 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. This paper tries to find out the ways to Go Green through 'Green Banking'.**

Keywords: **Green Banking, Corporate Social Responsibility, Environmental issues, Global Warming, Sustainable Development, Low Carbon Economy.**

I. INTRODUCTION

Green banking refers to the banking business conducted in such areas and in such a manner that helps the overall reduction of external carbon emission and internal carbon footprint. To aid the reduction of external carbon emission, banks should finance green technology and pollution reducing projects. Although, banking is never considered a polluting industry, the present scale of banking operations have considerably increased the carbon footprint of banks due to their massive use of energy (e.g. lighting, air conditioning, electronic/electrical equipments, IT etc.), high paper wastage, lack of green buildings etc. Banks should adopt technology, process and products which result in substantial reduction of their carbon footprint as well as develop a sustainable business. Green banking means promoting environment friendly practices and reducing carbon footprint from banking activities. This comes in many forms viz. using online banking instead of branch banking, paying bills online instead of mailing them, opening of commercial deposits and money market accounts in online banks etc. 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.

II. REVIEW OF LITERATURE

- Sahoo, Pravakar and Nayak, Bibhu Prasad (2008), in their research article on "Green Banking in India" highlighted that banking sector is one of the major stake holders in the industrial sector; it can find itself faced with credit risk and liability risk. Further, environmental impact might affect the quality of assets and also rate of returns of banks in the long run. Thus the banks 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.

- Bihari, Suresh Chandra (2010), in his research article analyzed the social responsibility of banking sector. He concluded that the role of banks in controlling the environmental damage is extremely important. As per relatively indirect nature of their environmental and social impacts, banks need to examine the effects of their lending and investment decisions. Incorporating environmental and social criteria into business decision making can reduce the adverse impacts of operating activities. Financial institutions can do a lot to assist efforts for corporate social responsibility and achieve sustainability.
- Dharwal, Mridul and Agrwal, Ankur (2011), in research article on "Green Banking: An Innovative initiative for Sustainable Development" concluded that 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.
- Bahl, Sarita (2012), conducted an empirical study "Green Banking- The new Strategic Imperative" on public sector banks and collected manager's views on green banking financial products, carbon footprint reduction by paperless banking, carbon footprint reduction by energy consciousness, carbon footprint reduction by using mass transportation system, carbon footprint reduction by green building and social responsibility services. She found that carbon footprint reduction by green building had been given top priority in green banking strategies. The study further found that Indian banks can initiate various social responsibility services as tree plantation, maintenance of parks, pollution check up camps etc.
- Khawaspatil, S.G. and More, R.P. (2013), in their research article concluded that in-spite of a lot of opportunity in green banking and RBI notifications, Indian banks are far behind in implementation of green banking. Only few banks have initiated in this regard. There is a lot of scope for all banks and they can not only save our earth but also transform the whole world towards energy consciousness. Banks must educate their customers about green banking and adopt all strategies to save earth and build banks image.

III. ENVIRONMENTAL MANAGEMENT BY BANKING INSTITUTIONS

(i) Now a days, 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-to-day business. The financial institutions should encourage projects which take care of following points while financing them viz., (a) sustainable development and use of natural renewable natural resources (b) protection of human health, bio -diversity, occupational health and safety, efficient production, delivery and use of energy (c) pollution prevention and waste minimization, pollution controls (liquid effluents and air emissions) and solid and chemical waste management and (d) there should be a third party expert to draw a plan for the environment management plan. They should keep above aspects in mind while financing any projects.

(ii) Analyzing the project in terms of scale, nature and the magnitude of environmental impact. The project should be evaluated on the basis of potential negative and positive environmental effects and then compared with the "without project situation". There should be an Environmental Impact Assessment (EIA) of each project recommending the measures needed to prevent, minimize and mitigate the environmental negative impact before financing the projects.

(iii) While investing or funding the projects, the financial institutions should assess the sensitive issues like vulnerable groups; involuntary displacement etc and projects should be evaluated in terms of environmentally important areas including wetlands, forests, grasslands and other natural habitats.

(iv) Banking institutions need to evaluate the value of real property and the potential environmental liability associated with the real property. Therefore, the banks should have right to inspect the property or to have an environmental audit performed through the life of the loan.

(v) Banks also need to monitor post transaction for the ideal environmental risk management program (Rutherford, 1994) during the project implementation and operation. There should be physical inspections of production, resources, training and support, environmental liability, audit programs etc.

(vi) The next round of evaluation includes loan structuring, credit approval, and credit review and loan management. Further banks have annual audits, quarterly environmental compliance certificate from the independent third party and also from the government.

(vii) Further the banks can introduce green bank loans and products like- (a) investing in environmental projects (recycling, farming, technology, waste, etc) for example reduced –rate of interest on loans to homeowners who install a solar energy system. (b) Providing option for customers to invest in environmentally friendly banking products. (c) Investing in resources that combine ecological concerns and social concerns.

IV. FINDINGS

The findings of the study are as under:

- Green banking avoids as much paper work as possible and rely on online/ electronic transactions for processing so that we get green credit cards and green mortgages. Less paperwork means less cutting of trees. It also involves creating awareness to banking business people about environmental and social responsibility enabling them to do an environmental friendly business practice.
- Green banks adopt and implement environmental standards for lending, which is really a proactive idea that would enable eco-friendly business practices which would benefit future generations.
- When a loan is granted, the interest of that loan is comparatively less with normal banks because green banks give more importance to environmental friendly factors - ecological gains.
- Natural resources conservation is also one of the underlying principles in a green bank while assessing capital/operating loans to extracting/industrial business sector.
- Green banking as a concept is a proactive and smart way of thinking with a vision for future sustainability.
- The value proposition for corporations to go green includes many of the same issues as that for individual consumers but on a much large scope and with additional concerns. Corporations may share a desire to reduce carbon footprint and enhance security by eliminating paper waste, but they are also extremely concerned with eliminating or decreasing errors due to manual processing and with creating a profitable bottom line. For these reasons and more, corporations are actively pursuing green programs, many companies are taking active steps to reduce waste, implement sustainability measures and increase profitability by going green.

V. 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 better global environment. “Go Green” is an organization wide initiative that is moving towards banks, their processes and their customers. The purpose is to provide cost efficient automated channels and to build awareness and consciousness of environment, nation and society. Green banking is really a good way for people to get more awareness about global warming; each businessman will contribute a lot to the environment and make this earth a better place to live. Although these companies may differ with regard to their stated motivations for increasing green products and services (e.g. to enhance long-term growth prospects, or sustainability principles on which a firm is based), the growth, variation and innovation behind such developments indicate that we are in the midst of a promising drive towards integrating green financial products into mainstream banking.

Possible policy measures and initiative to promote green banking in India has become the need of the hour. In a rapidly changing market economy where globalization of markets has intensified the competition, banks should 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. The banking and financial sector should be made to work for sustainable development. As far as green banking in concerned, India’s banks are running behind time and it is the need of the hour to think it seriously for the sustainable growth of the nation.

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