



The Emerging Trend in Banking Sector – Green Banking

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Abstract:

The climate change occurrence has led to a ruthless cycle of negative consequences. Our economy, social structure and environment are being affected by it. This global phenomenon of changing climate needs urgent attention. Banking sector is generally considered as environmental friendly sector in terms of the pollutions and emissions. To fulfil the objective of fast economic growth without compromising the climate, banking institutions are playing an important role. These kinds of banking strategies are invented as Green Banking. Green Banking promotes eco-friendly practices to reduce carbon footprint and also explained their customers with the help of different schemes and initiatives. It's similar to a traditional bank because it examines all social, environmental, and ecological concerns with the goal of protection and conservation of natural resources and the environment. Government of India has increased its focus on green banking and finance by introducing Green Banking has been boosting to improve the environment and promoting economic growth schemes which promote green banking in different sectors such as electric vehicles, priority sector lending scheme etc.

Keywords: Green Banking, Finance, Eco-Friendly, Carbon Footprint

Introduction:

The global warming is becoming the national as well as international problem; it hampers on abolishing the natural resources. For the controlling of global warming problem there should be focus on green and ecofriendly initiatives by all. The Indian banking business is one of the largest banking business in the world which satisfies to the needs of different levels of society. The development of economy in all sector have the very bad influence on environment. Until the end of twentieth century, green was just the color of money for banks in India. With the introduction of Automated Teller Machines (ATMs) in 2001 in the banking sector of India, banking sector took initiative towards an environment-friendly banking system. Green

Banking is a concept in which banks are making an effort to restore the natural environment and to make the industries go green. Green banking means combining operational improvements, technology and changing client habits in banking business. Green banking aims at improving the operations and technology along with making the clients habits eco-friendly in banking business. They are controlled by the same authorities but with an additional agenda toward taking care of the Earth's environment habitats/resources. In a world where both cheap credit and measures to protect the environment are few and far between, there is in fact a banking initiative which is combining both Green banking optimizes cost, reduces the risk, increase banks reputations and contribute to the

common good for environment sustainability. So it serves both the commercial objective as well as its social responsibility. Indian Banks can adopt green banking as business model for sustainable banking. “Green Banking is an effort by the banks to make the industries grow green and in the process restore the natural environment.”

Green banking is a new financing trend where banks shift their investment strategies to focus on sustainable technologies and eco- friendly initiatives. These financial institutions are dedicated to sustainable banking initiatives that promote clean energy and climate change. Green banks aren't just about making investments in climate resilience projects banks can also become green at a more local level by introducing eco- friendly lending policies. These mission driven policies could be in the form of loans for electric vehicles and home solar electric systems or company-wide policies banning investments in harmful industries such as fossil fuels.

The concept of Green Banking emerged in 2009 with coming of the first Green Bank based in Mt. Dora, Florida, United States. The Institute for Development and Research in Banking and Technology established by RBI defines Green Banking as:

‘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 proficient and operational as possible, with zero or minimal impact on the environment.’

Objective of the Study:

1. The main objective of this study is to identify the recent trends of green finance in India and make people aware about it.

2. To study how the Green Banking strategy are developed by Indian banks.
3. To identify the necessary steps required for proper implementation of Green Banking in India.
4. To analyze various challenges and problems to implementation of Green Banking in India.
5. To understand the initiative this had taken by different banks and financial companies in India towards Green banking.

Advantages of Green Banking:

- Green banking, in general, eliminates as much paper as possible and instead relies on online/electronic transactions to complete transactions, resulting in green bank cards and green mortgages.
- Less paperwork implies fewer trees will be taken down.
- Increasing business people's knowledge of environmentalism so that they can engage in environmentally beneficial business practices.
- Environmental norms for lending are adopted and implemented by green banks, which benefit future generations. Creating awareness to business people about environment.
- Corporate attention on reducing carbon footprints.
- Consumer benefits through access to cheap financing.
- Green banks place a higher value on environmentally friendly variables such as ecological gains, resulting in lower lending interest rates.
- Green Banks facilitate the scaling up of distributed clean energy resources
- All new clients who open “green accounts” will receive cashback.
- Better financing for new projects like lower cost energy and lower subsidy cost.
- Attract the international investment to India and the private partnership in green investments.

- Green bank's risk mitigation tools keep lending costs and Reduce perceived financial risk in India.
- It enables the anytime banking to their customers, because managing funds is most important in present scenario in 24hours*7days.
- It gives online payment facility includes payment of bills, taxes, shopping and etc.

Products and services of Green Banking:

To promote the concept of Green Banking, banks took many initiatives one among them is Green Banking products. Green Banking Products are renewable, toxic-free, technologically designed to reach the goal of sustainability in banking to protect the planet for a greener future.

1. Green Car Loans: Customers are offered lowered interest rates for purchases of electric or low emission vehicles.

2. Green Savings and Bonds: These types of services allow individuals to invest in projects with a focus on environmental or social issues.

3. Green Mortgages: This service is available to people who wants to buying homes with energy efficiency rating A or B.

4. Green Home Modernization Loans: This type of service supports homeowners to make energy saving renovations to their properties.

5. 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.

6. 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.

7. 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.

8. Green CDs: With a Green Bank CD, customer can earn a guaranteed rate of interest over a term that customer can choose. Banks offer a wide variety of certificates, ranging from seven days to five years. Interest on these accounts can be compounded quarterly, paid monthly by check or transferred to a Green Bank deposit account.

9. Online Banking: It means customers can perform most of their banking related tasks without visiting the banks personally. For this customer must have an internet banking ID, a password provided by the bank in which customer has an account. Online banking includes use of credit cards, debit cards, online bill payment and electronic fund transfer.

10. 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 innumerable value-added transaction services like utility payments, pre-paid mobile re-charge, credit card payments, tax payments and much more.



Challenges of Green Banking:

There can be several challenges faced by banks engaged in the process of initiating and integrating green practices in

the banking field. Some of the key challenges are highlighted below.

1. Lack of awareness and education:

There is a substantial lack of awareness among people about how green banking process and practices may help achieve environmental standards and bring sustainability in the long run.

2. Startup face: Many banks in green business are quite very new and are in startup face. Generally it takes 3 to 4 years for a bank to start making money thus it does not help banks during recession.

3. Credit risk: Credit mainly arises due to lending to those customers whose businesses as such are affected by cost of pollution, change in environmental laws and regulations and also new requirements of emission level. Also probability of customers default is high due to the result of uncalculated expenses for the capital investment in production facilities, third party claims and also loss of market share.

4. High Operating cost: Talented as well as experienced staffs are required to provide proper service to customers for green banking. Loan officers with experience should be trained with additional experience in dealing with green business and customers.

5. Reputational risk: If banks are involving themselves in those projects which are damaging the environment then they prove to lose out on their reputations. There are also instances of some cases where environmental management system has resulted in cost saving, increase in bond value etc.

6. Diversification problems: Green banks restrict their business transactions to those business entities who qualify screening process done by green banks. With limited number of customers they will have a smaller base to support them.

7. Other Reasons:

- (a) Proper legislation is not yet framed.
- (b) Lack of environmental audit
- (c) Non automation of business process
- (d) Unavailability of skilled employees
- (e) Insufficient budget to train employees.
- (f) Lack of interest shown by customers and investors

Suggestions:

Some suggestions for the banks to encourage green banking are mentioned below

- 1. Make customers more and more aware about green banking through their website.
- 2. Promoting different forms of electronic banking.
- 3. Creating customers through the media and making green banking as part of annual environment reports to inform the customer.
- 4. Carbon footprint reduction by saving energy and paper.
- 5. Providing environment friendly rewards to customers.
- 6. Clear policies are required to altering the present management system to incorporate sustainability issues.
- 7. Training and development of relevant skills within banks' employees so that they can work efficiently.
- 8. Banks can introduce green funds for customers who would like to invest in environment friendly projects.

Conclusion:

Banks are responsible corporate citizens. Banks believe that every small "GREEN" step taken today would go a long way in building a greener and brighter future and that each one of them can work towards to better global environment. "Go Greens" an organization wide initiative that moving banks, their processes and their customers to cost efficient automated channels to build awareness and consciousness of

environment, nation and society. The future of green banking seems to be very promising in India as lots of green products and services are expected in the future. Green excellence awards and recognitions, Green rating agencies, Green investment funds, Green insurance and Green accounting and disclosure are some of the things that would be heard and seen in operation in the near future. Green Banking concept will be beneficial for both the banking industries and the economy. Not only “Green Banking” will ensure the greening of the industries but it will also facilitate in improving the asset quality of the banks in future.

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