

GREEN BANKING: AN INNOVATIVE APPROACH TOWARDS SUSTAINABLE DEVELOPMENT

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Abstract

Global warming has become an international issue since the last few years. These days no sector is unaffected from it. Banking is the major sector which caters to the needs of different sections of society. It is the major source of finance for the industrial sector. Therefore, the responsibility of the banks in controlling environmental damage is essential. Banks can offer significant direction for the required economic transformation that will offer new avenues for financial and investment policies as well as towards portfolio management. This shall also make a strong and successful low carbon economy. This type of banking can be considered as green banking. Implementing green banking practices will not only be beneficial for the environment but shall also promote better operational efficiency lower grades and manual errors and achieve cost reductions in banking activities. This paper highlights the role of green banking in sustainable development. It is very important to generate awareness and adopt green banking practices in today's business world of modern technologies so as to create a human friendly environment. Various public and private sector banks are adopting green banking strategies. But, Indian banks lag far behind than other developed countries in the adoption of these strategies. The present paper shall explore the proper and effective implementation of green banking by different banks. RBI and the Indian government are playing a key role in devising green policy guiding principles and financial incentives. Green Banking is the need of the hour for sustainable growth and development.

Keywords: *Green banking, Environment Sustainability, Financial Services, Environmental degradation*

Global warming has become a national and international issue over the last few years. These days no sector remains unaffected by it. Banking is a major sector which caters to the needs of different sections of society. It is a major source of finance for the industrial sector. Therefore, the responsibility of the banks in controlling environmental damage increases. Banks can offer significant direction to the required economic transformation that will offer new avenues for financial and investment policies as well as towards portfolio management. This shall also make a strong and successful low carbon economy This type of banking can be considered as green banking. Green banking is like normal banking but it takes into consideration all social and environmental factors. It is considered as ethical banking. It was started with the aim of protecting the environment. Green Banking refers to the activities of the banking sector to make the environment green and to lessen greenhouse effects through internal operational activities and

green finance. Green banking has two aspects. First, the green revolution of internal operations and secondly, where the bank puts its money, which is concerned with environmentally responsible financing. Institute for Development and Research in Banking Technology defines "Green Banking as an umbrella term referring to practices and guidelines that make banks sustainable in economic, environmental, 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." According to RBI (IDRBT, 2013), "Green banking is to make internal bank processes, physical infrastructure and Information Technology effective towards the environment by reducing its negative impact on the environment to the minimum level."

Literature Review

Rakesh et al.(2016) focus on the World Bank's environmental and social norms, the ingenuities taken by public and private sector banks in India in the espousal of Green Banking practices and to enlist the strategies for adoption of Green Banking. Kavitha and Rani (2016) highlighted "Green Banking" and its role towards sustainable development. They also described the various initiatives taken by the Indian banking industry to protect the natural environment and bring about sustainable development in society. As asserted by Vafeeque and Unnipulan(2015), green banking is not very popular in India. India has not adopted green bank principles at a high level. We are still lacking in comparison to global trends. Kirti Sharma (2013) lays emphasis on the opportunities for banks in areas like carbon credit business, green financial products, core banking solutions, integrated IT environment, etc. that can lead to development in the green area. Role of the Reserve Bank of India in the formulation of policies on green banking has been focused upon for green growth.

Objectives

1. To find the role of green banking in the sustainable development of the nation.
2. To highlight the various strategies of green banking.
3. To identify the challenges and the problems faced in this direction.

Research Methodology

This is a descriptive research paper based on a comprehensive literature review and secondary data. The secondary data has been collected from reports, other documents, and websites.

Need for the Study : Sustainability of the environment has become an essential concern and green banking is an importance step in this direction. So, there is a need to focus on the green banking initiative taken by the banking sectors and also to review the role of green banking in environmental sustainability.

Role of Green Banking

The banking sector is usually considered as environmentally friendly in terms of emissions and pollution. Basically, there is the impact of the customer's activities on the environment. So, the environmental impact of the bank's outside activity is vast though difficult to estimate. Environment management in the banks

is concerned with risk management. It enhances the Bank's value and decreases loss ratio because better quality loan portfolio results in higher earnings. This banking helps industries in growing green and in restoring the natural environment. Green Banking is mutually beneficial to the banks, industries and the economy. It will not only guarantee the greening of the industries but also improve the asset quality of the banks in the future. Green Banking is significant for both the banks and the economy. It helps in decreasing the credit, legal and reputation risk. Banks can get an edge over their competitors through innovation in their products and services. It provides convenience to banks and customers. Through internal green operations, banks can reduce transaction cost. External green initiatives promote environmental sustainability and socially responsible investment. Global warming, paper wastage, and pollution can be minimized through green banking. It is a win-win situation for all to bring benefits in an increasingly competitive marketplace. Implementing green banking practices will not only be beneficial for the environment but also promote better operational efficiencies, lower grades, and manual errors and cost reductions in banking activities.

Green Banking Strategies

There are various forms of strategies followed by banks for green banking. According to Rakesh et al. following are the strategies in this direction.

Green Mortgages

There are two types of green mortgages: the Energy Improvement Mortgage – it's like a second mortgage that is to be used to upgrade a home or building to energy efficient levels by installing energy-saving items such as solar panels and improved insulation - and the Energy Efficient Mortgages for the construction of new energy efficient homes and buildings. There are many states getting in on the green mortgage by offering subsidized green mortgages so that more homeowners and business owners can "green-up" their buildings.

Green Credit Cards

The banks in India are promoting the various schemes of using plastic money rather than currency notes in order to save environmental resources.

Usage of Solar and Wind Energy

Various banks are using solar and wind energy, in order to go green. State Bank of India is the first bank in India to venture into the generation of green power with the installation of windmills for their captive usage. It has been installed with more than 10 windmills at an aggregate power capacity of around 15MW in various states across India.

Mobile Banking

It saves time and energy of the customers by the decrease in usage of energy and paper of the bank. Most of the banks in India have introduced this form of paperless method to get the work done in an eco-friendly manner.

Green Checking Accounts

Customers can check their accounts through ATM and also on special touch screens. Use of this type of technology helps the environment in the utilization of more online banking services along with online bill payment, international debit cards and also banking statements.

Green Loans and Credit Cards

In India, some of the nationalized banks and scheduled banks have taken the initiative to go green by implementing lower interest on the loans to the customers who intend to buy solar equipment in association with the Ministry of Non-Renewable Resource. Some of the banks have donated funds to the non-profit, eco-friendly organizations from the amount that customers spend on their credit card to the cause of environmental protection, which is termed as Green Credit Cards.

Green Buildings: Some banks are developing and using green buildings for their workplace and accommodation of employees. These measures will not only aid banks lessen their carbon footprint but also save the operational costs considerably.

Mass Transportation System: This system makes the organization fuel efficient by providing common transport for a group of officials posted at one office.

Problems and Challenges

Despite significant progress of various green banking strategies, there are some issues:

1. The Green banking system required skilled and trained workforce to offer proper services to customers. It leads to high operating costs.
2. Green banks limit their business transaction to those business associations who qualify the screening process of green banks. With a limited number of customers, they face diversification & other problems.
3. Various banks in green business are in the startup phase, usually, it takes 3 to 4 years for a bank to start making money, therefore, it does not help banks during the recession.
4. There are various types of risks like reputation, credit and legal repercussions associated with this banking system.
5. Green banking needs technology as well as a renewable and recycling technique which is costly.
6. Protection of data is a major issue in internal green banking activities.
7. Geographical barriers create hindrance in implementing green practices in banks.
8. All the banks are not equally following green banking practices.
9. RBI has not issued mandatory guidelines in this direction.
10. There is a lack of interest and awareness among customers and investors regarding these practices.

Suggestions

1. Banks should not consider the adoption of green technologies as a financial burden. It must be thought of as a new opportunity for more gain.
2. Training programs should be organized on environmental sustainability for the employees of banks.
3. Regular energy audits and assessment of the environmental cost and impact of ICT should be conducted.
4. Concept of LEED-certified green buildings should be adopted by the banking sector.
5. Workshops and training programs should be conducted for the customers to make them aware of the green banking channels, paperless banking, and online banking facility, etc.
6. The banks should follow worldwide best practices for sustainability of the environment, reduce their carbon footprint and relate the business models with the environment, society and governance aspects.
7. The RBI must issue mandatory guidelines for banks for the adoption of green banking practices and encourage socially responsible investment.
8. There should be the provision of separate devoted Green Cell or Unit to assess the green banking practices using a measurable index.
9. Banks should ensure the formulation of Environmental Risk Management (ERM) policy, guiding principles and lay down internal targets to lessen carbon footprints.
10. Environmental authorities should be more serious and stricter about the adoption of sustainable practices.

Conclusion

The banking sector is one of the leading sectors in our country. It plays a very essential role in the growth of Indian economy. Like other sectors, the banking sector also has a responsibility towards the environment. The banking and financial sector must be made to work for sustainable development. Green Practices are mutually beneficial to the banks, industries and the economy. The Indian banking industry has started taking green banking initiatives. But we are lagging behind the global standards. None of the Indian banks have adopted the Equator Principle despite the directions of the RBI. Additionally, none of the Indian banks are a signatory to the UNEP-FI. It is the need of the hour to take it seriously for the sustainable development of the country. For effective green banking, RBI and the Indian government should play a proactive role and formulate green policy guidelines and financial incentives. The survival of the banking industry is inversely proportional to the level of global warming. (Ravi Meena 2013). So, for sustainable banking, Indian banks must adopt green banking as a business model without any further delay.

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