

Green Banking: Benefits, Challenges and Opportunities in Indian Context

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Abstract: *The Banking industry plays an very important role in economic growth and environmental protection by promoting environmentally sustainable and socially responsible institutions. The term "green banking" is gaining more and more popularity in recent years all over the world. It is becoming popular part of PR strategy of many financial institutions, but apart from that behind the advertisement there are initiatives and efforts within the banks to justify it. The banking of this kind can be termed as "Green Banking". Green banking is different from traditional banking, as green banking focus on promoting environment friendly banking. Green banking is also known as ethical banking. The concern for environmental sustainability has given mass recognition to the concept of corporate social responsibility. The potential benefits of the concept has gained the interest of the regulatory authorities, society, NGOs, employees, customers as well as the international bodies to the issue. It means combining operational improvements, technology and changing client habits in banking business. An attempt is made on to understand the concept of Green banking and its challenges & Benefits in Indian context. Green is becoming a symbol of eco-consciousness in the world .. This paper has made an attempt to highlight the major services, challenges, Benefits of Green Banks in India.*

Keywords: Green Banking, Green banking products, Benefits, challenges, opportunities.

I. INTRODUCTION

Green Banking means promoting environmental-friendly practices and reducing carbon footprint from banking activities. 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.

"Earth provides enough to satisfy every man's needs, but not every man's greed."

— Mahatma Gandhi

According to Indian Banks Association (IBA, 2014) "Green Bank 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".

Banks are constantly looking at ways to make their processes more productive and environment friendly with the use of technology, old methods are slowly giving away to newer & more efficient process.

Green banking is like a normal bank which considers all the social and environmental factors, it is also called as ethical banks have started with the aim of protecting the environment.

The concern for environmental sustainability by the banks has given rise to concept of Green Banking. The concept of "Green Banking" will be mutually beneficial to the banks, industries and the economy. Green financing is the part of green banking. Green banking means promoting environmental friendly practices and reducing your carbon footprints from your banking activities. 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.

II. HISTORY OF GREEN BANKING

Green Banking is any form of banking from that the country and nation gets environmentally benefits. An orthodox bank becomes a green bank by directing its core operations toward the betterment of environment. The banking sector can play an intermediary role between economic development and environment protection by promoting environmentally sustainable and socially responsible investment. The concept of green banking was developed in the western countries. Green Banking was formally started in 2003 with a view to protecting the environment. Then the Equator Principles (EPs) were launched and were initially adopted by some leading global banks, such as Citigroup Inc, The Royal Bank of Scotland, Westpac Banking Corporation. In March 2009, Congressman Chris Van Hollen of USA introduced a Green Bank Act with the aim of establishing a green bank under the ownership of the US government. After introduce the Green Banking initial decision was to minimize the paper use in banking works because to make all kinds of papers need to cutting trees as raw materials (its minimize the green forestation) and for this reason naturally its reduce the Oxygen and increase the carbon-dioxide in airspace/ globe. There are two ways of green banking practices. One is in-house green banking; another is practice by the bankers in their business area. Creating clean and hygienic banking environment, green building, reforestation, online banking, waste management, installation of solar panel on the rooftop of the bank and using high mileage vehicles, reducing sound pollution, using webcam for video conferencing instead of physical meetings, online statements, emailing documents are included in the in-house Green Banking. Financing the green projects like Bio-gas Plant, Solar/Renewable Energy Plant, Bio-fertilizer Plant, Effluent Treatment Plant (ETP), Projects having ETP etc, working on specific green projects, voluntary activities of banks are major practices by the bankers in their business areas. Green banking undertakes proactive measures to protect environment and to address climate change challenges while financing along with efficient use of renewable, non-renewable, human and natural resources.

III. OBJECTIVES

The present Paper aims to fulfill the following objectives:

- To examine the challenge faced by the sample bank by practicing green banking.
- To know the history of green banking.
- To study Green Banking and its associated advantages.
- To study opportunities of green banking in India
- To study the major challenges of green banking
- To study various strategies for green banking approach
- To study the benefits of green banking
- To understand the concept of green banking.

IV. RESEARCH METHODOLOGY

Research methodology is descriptive. For this study information has been collected with the help of Magazines, Newspapers, Research Articles, Research journals, E-Journals and Websites.

4.1 Green Banking Services

Banks are developing new products and services that respond to customers demand for sustainable choices. Following are some of the options that banks should offer to their customers:

- Electronic and mobile banking facilitates customers to perform most of their bank needs anytime, anywhere.
- Automatic payments reduce the need to write and send cheques by mail.
- Paperless statements, product information guides and annual reports to customers and stakeholders.
- Offering and promoting mutual funds that focus investment in 'Green' companies.
- Credit cards and debit cards can be used while making the payment of various expenses without carrying money.

Mobile banking is used for performing balance cheques, account transactions, payments, credit appliances etc., via mobile phone or Personal Digital Assistant (PDA).

4.2 Benefits of Green Banking

Major benefits of green banking are listed below:-

- Green banking avoids paper work and makes use of online transactions such as Internet banking, SMS banking and ATM banking. Paperless banking helps in controlling deforestation.
- Free Electronic Bill Payment Services
- Provides loans at concessional rates to environment friendly products and projects.
- Banks can create awareness about benefits of green banking among employees and customers.
- Banks around the world are going green by launching environmental friendly initiatives and providing innovative green products.
- Resources can be conserved and utilized in more efficient way by using paperless banking.
- E-Statement will be generated and sent to the customers' email.
- Banking industry can contribute in saving the earth by taking environment friendly initiatives.
- Green banks gives more importance to environmental friendly factors like ecological gains thus interest on loan is comparatively less.
- Generate Clean and hygienic environment Environmental conservation and protection of ecological balance
- Online account opening form for opening green account.
- Cash back will be credited to all new customers, opening "green accounts".

4.3 Challenges of Green Banking

While adopting green banking practices, the banks would face the following challenges:

- **Reputational Risk:** If banks are involved in those projects which are damaging the environment they are prone lose their reputation. There are few cases where environmental management system has resulted in cost saving, increase in bond value.
- **Diversification Problem:** Green banks restrict their business transaction 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.
- **Start-up face:** Many banks in green business are very new and are in start-up face. Generally it takes 3 to 4 years for a bank to start making money. Thus it does not help banks during recession.
- **Credit Risk:** Credit risk arises due to lending to those customers whose businesses are effected by the cost of pollution, change in environmental regulation and new requirements of emission level.
- **High operating cost:** Green bank requires talented and experienced staff to provide proper services to customers. Experienced loan officers are needed, they give additional experience in dealing with green business and customers.
- Lack of government support
- Less enthusiasm from the banks
- No formal and independent Authority

4.4 Green Banking opportunities

A Green Bank requires each of its functional units and activities to be Green- environmentally friendly and help to improve environmental sustainability. Several opportunities are available for banks to go green their functional units and activities. Key among them are:

4.4.1 Supply Chain Management(SCM)

SCM is the management of the flow of goods and services. It includes the movement and storage of raw materials, work-in-process inventory, and finished goods from point –of- origin to point- of-consumption. Interconnected or interlinked networks, channels and node businesses are involved in the provision of products and services required by end customers in a supply chain.

- Adopt techniques and plans to minimize inventory and wasted freight.
- Adopt networked design using a carbon foot print.

4.4.2 Enterprise Resource Management(ERP)

ERP is a category of business-management software, typically a suite of integrated applications that an organization can use to collect, store, manage and interpret data from many business activities, including product planning, purchase, manufacturing or service delivery ,marketing and sales, inventory management, shipping and payment.

- It facilitates paper less transactions.
- Adopt techniques for workforce and parts optimization as well as intelligent device management.

4.4.3 Customer Relationship Management(CRM)

Customer relationship management is an approach to managing a company’s interaction with current and future customers. It tries to analyze data about customers history with a company, to improve business relationships with customers, specifically focusing on customer retention, and ultimately to drive sales growth.

One important aspect of the CRM approach is the systems of CRM that compile information from a range of different communication channels including a company’s website, telephone, email, live chat, marketing materials, social media, and more. Through the CRM approach and the systems used to facilitate CRM, businesses learn more about their target audiences and how to best cater to their needs.

4.4.4 Sourcing & Procurement

In business, the term sourcing refers to a number of procurement practices, aimed at finding, evaluating and engaging suppliers for acquiring goods and services. Outsourcing is the process of contracting a business function to someone else., select vendors for sustainability rating for their products, services and operations.

4.4.5 Product Life Cycle Management

In industry, PLC is the process of managing the entire lifecycle of a product from inception, through engineering design and manufacture, to service and disposal of manufactured products.

- Design and offer banking products & services in such a way that consume less resources and energy and thereby reduce carbon foot print.
- Implement effective systems for product end- of- life management that have minimal impact on environment.

4.4.6 Measures to encouraging Green Banking

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. 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. Until a few years ago, most traditional banks did not practice green banking or actively seek investment opportunities in environmentally-friendly sectors or businesses. Only recently have these strategies become more prevalent, not only among smaller alternative and cooperative banks, but also among diversified financial service providers, asset management firms and insurance companies.

- Educate through the bank’s intranet and public websites.

- Construct a website and spread the news.
- Participate in events and communicate through press.
- Setup outlets to promote Green business.
- Carbon foot print reduction by mass transportation and energy consciousness.
- Impart education through E- learning programs.

4.5 Green Banking Product

- Green Loans
- Green CDs
- Green Mortgages
- Online Banking
- Mobile Banking
- Green Credit Cards
- Mobile Banking and online banking
- Go Online Use Green Checking/ Savings Accounts Use Green Loans Green Mortgages
- Use Green Credit Cards Green Money Market accounts Remote deposit (RDC)

4.6 Advantages

- Basically Ethical banking avoids as much paper work as possible and rely on online /electronic transactions for processing so that you get green credit cards and green mortgages. less paper work means less cutting of trees
- Creating awareness to business people about environmental and social responsibility enabling them to do an environmental friendly business practice
- Use of Online banking instead of branch banking saves time.
- 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 our future generations
- When you are awarded with a loan , the interest of that loan is comparatively less with normal banks because ethical 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.
- Tax benefits
- Better economic control
- Increase customer goodwill

4.7 Disadvantages

- Difficult to operate: Banking Sites Can be difficult to navigate at first. Getting acquainted with the banking sites software may require some time to read the tutorials in order to become Comfortable in your virtual lobby.
- Customer Care: There is no personal contact with any of the staff, and if talk to any staff through the telephone, you have guarantee you are talking to the best person available
- Security Concern: Even though Online banking sites are heavily encrypted, with the developing technology, it's hard to rule out the "hackers" who may access your bank accounts
- Technical break downs: As with all technologies, Online banking websites sometimes go down. If this happen when you closed your local bank or credit card accounts, you will definitely go penniless.
- Higher initial set-up cost
- Lack of consumer Awareness &support

- Difficulty in identifying innovative ideas
- Insufficient support from government
- Huge time periods for revenues
- Resistance to change by employees
- Cost of training

4.8 Risk in Green Banking

Green banking is very important in mitigating the following risks involving in banks.

- **Credit Risk:** Due to climate change and global warming there will be direct as well as indirect costs to banks. It has been observed that due to global warming there had been extreme weather condition which affects the economic assets financed by the banks thus leading to high incidence of credit default. Credit risk can also arise indirectly when banks lend to companies whose businesses were affected due to changes in environmental regulation.
- **Legal risk:** Banks like other business entities face legal risk if they do not comply with relevant environmental regulation. They also face risk of direct lender liability for cleanup cost for damages in case they actually take possession of pollution causing assets.
- **Reputation Risk:** Due to increasing environmental awareness banks are prone for reputation risk if their direct or indirect actions are viewed as socially and environmentally damaging. Reputation risks emerge from the financing of environmentally objectionable projects.

4.9 Strategies

Indian Banks can adopt green banking as business model for sustainable banking. Some of following strategies little reflected in their banking business or must be adopted by banks.

1. Carbon credit Business (CBS): All Nations must reduce greenhouse gases emission and reduce carbon to protect our environment. These emissions must be certified by Certified Emission Reductions commonly known as carbon credit.
2. Green Banking Financial Products: Banks can develop innovative green based products or may offer green loans on low rate of interest. As Housing and Car loan segments constitute the main portfolio of all banks so they adopt green loans facility
3. Paperless Banking: All banks are shifting on CBS or ATM platform providing electronic banking products and services. So there is a scope for banks to adopt paperless banking. Private and foreign banks are using electronics for their office but in PSU banks are still using huge paper quantity.
4. Energy Consciousness: Banks have to install energy efficient equipment's in their office. Banks have to transform this green banking in hardware, waste management, energy efficient technology products. Banks can donate energy saving equipment to schools and hospitals.
5. Mass Transportation System: Banks have to provide common transport for groups of officials posted at one office.
6. Social Responsibility Services: Indian banks can initiate various social responsibility services like tree plantation camps, maintenance of parks and pollution checkup camps. The Financial Times and International Finance Corporation (IFC) is a member of World Bank Group launched Sustainable Finance Awards for institutions that are integrating social, environmental and corporate governance into their business operations. Their awards highlight the partnership between financial and non-financial companies in finding commercially viable and innovative solutions to sustainability challenges. The five categories of Sustainable Finance awards as per Financial Times are as follows
 - Sustainable Bank of the Year
 - Technology in Sustainable Finance

- Sustainable Investment of the Year
- Sustainable Investor of the Year
- Achievement in Inclusive Business
- 7. Creating awareness
- 8. Assess different processes to be green'
- 9. SMART Green Goals i.e. Specific, measurable Attainable, motivate, and energize the
- 10. Workforce
- 11. Monitor the progress
- 12. Publicize your endeavors towards being green

4.10 Findings

- Now a days Green Banking popularity is increasing.
- ATM booths should be all Green ATM booths
- Profitability of banks increases just because of Green Banking.
- Banks should invest more on bio gas plant
- Banks should let the people know about the green banking products.

V. CONCLUSION

promote green banking in India essential policy & initiative measures, 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 initiatives. For Sustainable development banking and financial sector play very important role . As far as green banking is concerned, Indian banks are running behind time and it is the need of the hour to think it seriously for the sustainable growth of the nation. Green Banking concept will be beneficial for both the banking industries and the economy, Green banking will ensure the greening of the organization but it will also improve the assets quality of the banks in future. Green Banking encourage environment – friendly investment. Green banking as a concept is a proactive and smart way of thinking towards future sustainability. It is very important for the banks to be pro-active and accelerate the rate of the growth of the economy.

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