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GO GREEN: ISSUES AND CHALLENGES - A CASE STUDY ON BANKING INDUSTRY

Dr.A.Valarmathi, Director, VIMS, Coimbatore

CASE STUDIES

According to RBI (IRDBT, 2014), green banking is to make internal bank processes, physical infrastructure and IT infrastructure as effective and efficient as possible, with zero or minimal impact on the environment. United Nations Environmental Program (UNEP, 2014) defines green economy as “one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities.” In a simple term green economy is resource efficient, low carbon and socially inclusive.

Green is becoming a symbol of Eco consciousness in the world. 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”. It is also known as ethical bank or sustainable bank. Their purpose is to perform banking activities but with an additional plan towards taking care of earth’s ecology, environment, and natural resources including biodiversity. Green banking is making technological improvements, operational improvements and changing client habits in the banking sector. It means to promote environmental friendly practices and to reduce the carbon foot print from banking operations. It is a smart and proactive way of thinking with a vision of future sustainability

With Go Green mantra permitting, the banking sector too has adopted sustainable practices in all spheres of life. Green Banking is a Multi-stakeholders' Endeavour where banks have to work closely with government, NGOs, IFIs/IGOs, Central Bank, consumers and business communities to reach the goal.

Green Banking Industry in India

Green banking requires a fundamental change in the planning process of the banks with the adequate consideration about the economy, business, finance, society and also the banks' profit. This will also help in the ecological balance. If we see the green banking concern in Indian banks then we will find that they are far behind the global trends. None of the Indian banks have adopted Equator Principle despite the RBI instructions. Also, none of the Indian banks are signatory to the UNEP-FI. But in recent few years, various Indian banks have started working towards this goal and have adopted various important contributions.

State Bank of India in partnership with the Suzlon energy has set up their wind mills to generate power in three states of India i.e. Gujarat, Tamil Nadu and Maharashtra for their own consumption. The State Bank of India has also started Green Channel counter (GCC) to initiate various paperless transaction activity of the banks in the branches like cash deposit, cash withdrawal and fund transfer up to Rs 40,000. Indus Ind bank has set up Solar power ATM to save 1980 KW of energy per hour every year to reduce carbon emissions. Yes Bank under community development initiatives, called "Planet Earth" is promoting clean and green drives energy efficient practices and local disaster management plans at its retail branches. ICICI Group Companies have saved around 30,000 trees and 16 crore litres of water through their various environmental friendly activities. The bank has also supported other organizations to adopt green philosophy by providing them fund to manage environment-friendly technology projects. Bank investing or lending to those businesses and projects which have environment-friendly approach can set a trend for the companies in order to survive in the environmentally friendly market.

Objectives

- To keep the environment green and to minimise greenhouse effects through in house operational activities and green finance
- Green Finance refers to banks that provide financial assistance to environmentally responsible.
- The purpose is to provide financial assistance to green technology and pollution reduction projects to reduce external carbon emissions
- To facilitate the Banking Sector to incorporate Green Banking Practices.
- To assist Government and Regulatory Authorities to frame Long Term Policy for Green Banking.
- To create awareness among all the stakeholders about Green Banking Practices

Green Banking Products

- Green loans
- Green credit cards
- Green CDs
- Online banking
- Green saving accounts
- Mobile banking
- Green checking accounts
- Mortgages Green money market accounts

Benefits of Green Banking

In India, green banking is in its initial phase. Banks can utilize green banking as an opportunity to gain advantage in the market by creating a difference in their strategy making process. Also, banks need to be more active in communicating the green banking concept and its associated benefits to the consumers. It was also observed that green banking consciousness is high in the higher levels of management in the banks and this consciousness reduces with the lower levels of management and least with the employees who are in day to day direct touch with the customers. Thus, the banks must focus on promoting the consciousness and benefits of the green banking to the employees who are in direct touch with the customers.

Some of the major benefits of green banking to the banks identified from the interviews of the managers are as follows:

- **Reduces the Transaction Cost of the Bank**
- **Competitive Edge**
- **Better Risk Management**
- **Reduces the Credit Risk**
- **Cost Conscious Process**
- **Convenient Process**

Major issues in green banking

- Lack of RBI mandates as main barrier to adopting sustainability.
- Majority of banks identified ‘risk of failure of business to peers’.
- Unavailability of skilled employees.
- Insufficient budget to train employees.
- Complex reporting framework
- Lack of interest shown by customers and investors.

Challenges of Green Banking

While adopting green banking, following challenges are faced by the banks:

1. **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.
2. **Startup Face:** Many banks in green business are 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. **Higher Operating Cost:** Green banks require talented, experienced staff to provide proper services to customers. Experienced loan officers are needed with additional experience in dealing with green businesses and customers.

4. Reputational Risk: If banks are involved in those projects which are damaging the environment they are prone to loss of their reputations. There are also few cases where environmental management system has resulted in cost saving, increase in bond value(Heim, Get al, 2005)

5. Startup face: Many banks in green business are very new and are in startup face, generally it takes 3 to4 years for a bank to start making money thus it does not help banks during recession

6.Credit Risk: Credit risks arise due to lending to those customers whose businesses are affected by the cost of pollution, changes in environmental regulations and new requirements on emissions levels. It is higher due to probability of customer default as a result of uncalculated expenses for capital investment in production facilities, loss of market share and third party claims.

Green Banking –SBI Initiatives

a. State Bank of India has a green channel counter and the bank encourages paperless banking

b. Banks have adopted energy efficient measures.

c. Installation of solar ATM ,Introduction of green channel banking(paperless banking)

d. The bank had also collaborated with Suzlon Energy Ltd for the generation of wind power for selected branches by setting of windmills in Gujarat, Tamil Nadu and Maharashtra (Business Standard, 2014).

e. Supporting the construction of wind farms in India

f. The initiatives of State Bank of Mysore includes use of energy efficient photocopier, energy efficient computers and CFL bulbs; need based printing to save paper, auto cut off for air conditioners etc.

g. The bank has introduced solar powered ATM's, support for social forestry programme, waste reduction and recycling, etc.

h. SBI launches green policy for paperless banking

Green Banking –ICICI Initiatives

a. **Vehicle Finance:** They are offering 50% waiver on processing fee of auto loans on the car models which uses alternate sources of energy.

b. **Home Finance:** The bank had reduced the processing fee for the customers who are purchasing homes in LEED certified buildings.

c. **Instabanking:** It is a service which gives convenience to the customers to do banking anywhere and anytime through internet banking, mobile banking, IVR banking, etc. This reduces the carbon footprint.

d. **Green Partners:** The organization is looking forward for partnerships with national and international green organizations and NGO's.

e. **Green Communications:** The bank always insists their customers for online bill payment, online funds transfer and subscription to e-statements which promote 'paperless' and 'commute free' modes of banking transactions.

f. **Green Engagements:** The bank is celebrating World Environment Day every year on June 5. They perform various activities on that day like green pledge through signature campaigns, plantation and distribution of saplings etc. They are also celebrating Earth hour every year in March in which they switch off the lights of their premises, branches and ATM's between 8:30 pm to 9:30pm.

Green banking is still a major issues and challenges in our country in India. As bank and financial institution of India has started taking initiative but not at high level. To sustain the development of the Indian economy bank and financial institution have to work more hard as compare to big foreign banks as they are playing important role in maintaining the sustainability of their country economy. As the green banking term, some bank and financial institution have taken initiatives like State Bank Of India, Yes Bank and Financial Information Network and Operations (FINO) while making their branches and building environmental friendly.

Green banking refers to the initiatives taken by the banks to encourage environment-friendly investment. Green banking as a concept is a proactive and smart way of thinking towards future sustainability. In the emerging economies, it is very important for the banks to be pro-active and accelerate the rate of the

growth of the economy. Adoption of green approach is more than just becoming environment-friendly as it is associated with lots of benefits like reduction in the risk as well as the cost of the bank, enhancement of banks reputations and contribution to the common good of environmental besides enhancing the reputation of the bank. In a broad sense, green banking serves the commercial objective of the bank as well as the corporate social responsibility. Thus, it is important that Indian Banks should realize their responsibilities towards the environment as well as the society in order to compete and survive in the global market. Finally we can say that going green should be the motto of all commercial banks

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