TMIMT International Journal “Special Issue- 2016”, ISSN 2348-988X | Available at: www.tmimtjournal.org

Green Banking: An Innovative Initiative for Sustainable Development

Lalita Kumari (Student)

University Business School, Guru Nanak Dev University,Amritsar

Mailing address: Lalita D/o Sh Ram Pal Sharma, Hira Bagh, St. No. 8, H. No. 1757/25A, Jagraon 142026(Ludhiana) Punjab, **M—**9914895548; 7696274971

Email Address (s):lalita099@yahoo.com

Vikram Sandhu

Assistant Professor, University Business School, Guru Nanak Dev University, Amritsar

sandhu.vikram@yahoo.com

Heena Atwal

Assistant Professor, Department of Basic and Applied Sciences, Punjabi University, Patiala; heena.atwal@yahoo.com

Climate change is the most complicated issue the world is facing. Across the globe there have been continuous endeavors to measure and mitigate the risk of climate change caused by human activity. Many countries the world over have made commitments necessary to mitigate climate change. India has committed to cut its domestic carbon intensity by 20-25 percent from 2005 levels, by the year 2010. As socially responsible corporate citizens (SRCC), Indian banks have a major role and responsibility in supplementing government efforts towards substantial reduction in carbon emission.

Although banks are considered environment friendly and do not impact the environment greatly through their own ‘internal’ operations, the ‘external’ impact on the environment through their customers activities is substantial. The banking sector is one of the major sources of financing industrial projects such as steel, paper, cement, chemicals, fertilizers, power, textiles, etc., which cause maximum carbon emission. Therefore, the banking sector can play an intermediary role between economic development and environmental protection, for promoting environmentally sustainable and socially responsible investment. ‘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., lilighting, air conditioning, electronic/electrical equipments, IT, etc), high paper wastage, lack of green buildings, etc. Therefore, banks should adopt technology, process and products which result in substantial reduction of their carbon footprint as well as develop a sustainable business.

Imperatives of Green Banking:

Green banking is very important in mitigating the following risks involving the banking sector:

i) **Credit Risk**: Due to climate climate change and global warming, there have been direct as well as indirect costs to banks. It has been observed that due to global warming, there have been extreme weather conditions which affect the economic assets financed by the banks, thus leading to high incidence of credit default. Credit risk can also arise indirectly when banks lead to companies whose businesses are adversely affected due to changes in environmental regulation.

ii) **Legal risk**: Banks, like other business entities, face legal risk if they do not comply with relevant environmental regulation. They may also face risk of direct lender liability for cleanup costs or claims for damages in case they actually take possession of pollution causing assets.

iii) **Reputation Risk**: Due to increasing environmental awareness , banks are more prone to 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.

As India has committed to reducing its carbon intensity by 20-25 percent from 2005 levels by 2020, we are working towards developing a low carbon economy. In a low carbon economy, there will be many challenges and opportunities to banks. Green banking will be at the forefront of this drive to harness banking expertise and build the post-carbon economy. The biggest impact of the carbon cut commitment will be on small and medium Enterprise, steel and cement industries which are carbon intensive. In order to avoid credit risk in these loan portfolios as well as to grab new business opportunities, Indian banks must immediately adopt green banking strategies to reduce the carbon footprint of individual banks will not only make them socially responsible corporate citizens but will also help save substantially operational costs. There are lot of opportunities and challenges for Indian banks in adopting ‘Green Banking’ as a profitable business.

Green Banking Strategies:

Indian Banks can adopt green banking as a business model for sustainable banking by launching some of the following strategies:

i) **Carbon credit business**: Under the Kyoto protocol, Clean development Mechanism(CDM) provides for co-operation between annexure –1 and non annexure-1 (developing) countries. The operational mechanism of CDM’s involves an investment by a legal entity from an annexure-1 country into a project in non-annexure-1 country, which results in emission reduction. These emission reductions have to be certified by an appropriate authority and these certified Emission Reductions (CERs) which are commonly known as carbon credits can be used to meet the commitments of annexure-1 countries under the Kyoto protocol. These carbon credits are traded in the markets. CDM projects are those projects that contribute to credible and sustained reduction in GHG emissions.Indian banks can involve themselves in carbon credit business, wherein they can provide all the services in the area of CDMs and carbon credits including services of identification and funding of CDM projects, advisory services for registration of CDM projects and commercialization of CERs under different structures to meet the requirements of its customers, acting as an intermediary for buying CERs on behalf of end-users or carbon funds, financing against CERs and CERs receivables, and other related banking services. As India has huge potential for carbon credit business, Indian banks can set up dedicated carbon credit cells to capture a major share of this carbon credit business.

ii) **Green Banking Financial Products**: Indian banks should develop innovative green banking financial products which can directly or indirectly help in the reduction of carbon emissions. These banks can introduce a 'Green Fund' to provide climate conscious customers the option of investing in environmental friendly projects. Banks can also introduce green bank loans with financial concessions for environmental friendly products and projects. Besides introducing specific green banking products, banks can incorporate an Environmental Impact Assessment (EIA) in their project appraisal while financing any project to measure the nature and magnitude of environmental impact as well as suggest environmental risk mitigation measures. Banks can also conduct environmental audits of the financed projects. Banks need to redesign their credit products to assist SMEs to adopt quality and conform to environmental standards. Banks should also include green guidelines in their credit policies to raise the green loan portfolio.

iii) Green Mortgages

Banks such as Citigroup Inc., Bank of America, and JP Morgan Chase &Company are just a few of the mortgage lenders offering special discounts on mortgages used to build or update buildings and homes to be more green. One of the reasons for the push for green mortgages is that green building and rebuilding tends to incorporate more energy-efficient materials and building plans.

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 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 home-owners and business owners can "green-up" their buildings. In addition to helping save the environment by using less energy, these mortgages offer many advantages to consumers by reducing monies spent on high utility bills and on high costs of obtaining a mortgage. The Residential Energy Services Network reported on a recent study showing that the market value of a home increases $20 for every $1 decrease in energy costs.

iv) **Carbon Footprint Reduction**: Carbon foot-print is a measure of the impact of our activities on the environment. It relates to the amount of GHG we are producing in day-to-day business while burning fossil fuels for electricity, heating, transportation, etc. Banks can reduce their carbon footprints by adopting the following measures:

a) **Paper-less Banking**: As banks have computerized their branches, there is ample scope for doing paperless or less-paper banking. Mostly PSBs use huge quantities of paper for office correspondence, audit reporting, recording public transactions,etc. These banks can switch over to electronic correspondence and reporting. Banks should encourage their customers also to switch over to electronic transactions and popularise e-statements.

b) **Energy Consciousness**: Developing energy- consciousness, adopting effective office time management and automation solutions and using compact fluorescent lighting (CFL) can help banks save energy consumption considerably. Banks can conduct energy audits in all their offices for effective energy management. They can also switch over to renewable energy (solar, wind, etc.) to manage their offices and ATMs.

c) **Using Mass Transportation System**: PSBs can become fuel efficient organization by providing common transport for group of officials posted at one office.

d) **Green Buildings**: The Indian banking industry uses more than one lakh premises for their offices and residential houses throughout the country. These banks should develop and use green buildings for their office and employee accommodation.

These measures will not only help banks reduce their carbon footprint but also save the operational costs considerably.

v) **Social Responsibility Services**: As part of the green banking strategies, Indian banks can initiate various social responsibility services such as tree plantation camps, maintenance of parks, pollution check-up camps, etc.

Initiative taken by Indian Banks:

(SBI) has become the first bank in the country to venture into generation of green power by installing windmills for captive use. As part of its green banking initiative, has installed 10 windmills with an aggregate capacity of 15 MW in the states of Tamil Nadu, Maharashtra and Gujarat. It has planned to install an additional 20 MW capacity of windmills in Gujarat soon and touch 100 MW power generation through windmills within five years, windmills are set up with a definite objective of reducing the dependence on the polluting thermal power and not on purely economic or business considerations. At present, the bank consumes 100 MW of power per year. So, SBI will try to be energy neutral and reduce its carbon footprints. The total cost of installation of a windmill of 1.5 MW is around Rs 10 crore. The operation cost is close to zero and it is expect to recover the initial investment in four years. "Our mission is to make all Indian banks go green and we are already discussing with 25 banks," said Suzlon CMD Tulsi R Tanti. He said, "Suzlon, which currently holds 55% market share in the country is now more focused on wind power development. Of the 11,000 MW installed wind energy in India, 6,000 MW has been installed by Suzlon.

"There is 45,000 MW wind power potentiality in the country and we will target that market here," Mr Tanti added. Mr Bhatt (Chairman Of SBI) said, the bank will also support the green initiatives of its clients and will offer them finance on priority and at concessionary rates of interest. Towards that end, the bank has launched a loan product called ‘Carbon Credit Plus’ to finance the future CER receivables of CDM projects.
Earlier, Mr Bhatt referred to the upward bias in interest rates in the coming months as the manufacturing sector activities are picking up.

He said the credit growth will be much better than the 18% registered last fiscal and it might even touch 23% as against RBI expectation of around 20% this year. According to him, retail and agriculture sectors will pick up in the second quarter, while the third quarter will see huge build up in infrastructure front and increase in capex and working capital. "The industry is working at 80% capacity now, which is close to its peak of 85% and so the credit growth will be fairly good this year," he added.

Future Outlook:

The model that the bank uses is different from other banks. Will the model itself be a limiting factor on the ambitious growth and development plans of the bank? Will the day-to- day business of being a bank dominate over the desire to be an instrument of social change? How does the future look for SBI Bank now that other banks are also increasingly positioning themselves as players in the sustainable economy sector? Can the bank still continue to fulfill its mandate to strive for social objectives?

Peter Blom is convinced it can. According to him, many other banks entering the sustainability space also invest billions in companies that don’t in any way contribute to a better world. And there are issues of transparency too. He believes that the bank can profit from economies of scale. As of now, SBI continues with its strong belief that it is the individual who can bring about real change in the society and hopes to remain a platform for people who want to ‘*make a difference*’ in the world.

Conclusion: 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.

In addition to mitigating risks, green banking opens up new markets and avenues for product differentiation. India’s growth story and commitments to cut its carbon intensity by 20-25 percent from 2005 levels by the year 2020 provides tremendous opportunities for Indian banks- from funding sustainable projects to offering innovative products and services in the areas of green banking. The survival of the banking industry is inversely proportional to the level of global warming. Therefore, for sustainable banking, Indian banks should adopt green banking as a business model without any further delay.

References:

Jan Willem van Gelder, (2006), "Sustainable Banking in Practice: A closer look at the nominees for the 2006 Financial Times Sustainable Banking Awards", Banktrack., Profundo.

Jeucken, M (2001) "*Sustainable Finance and Banking, The finance Sector and The Future of the Planet*". London, Earthscan.

.Starogiannis, D (2006) "What is Environmental Responsibility of Banks" UNEP FI Conference, June.

Thompson,-Hilary-J, (1995) *"The Role of Financial Institutions in Encouraging Improved*

Environmental Performance" in Rogers,-Michael-D., ed. Business and the environment. New York: St. Martin's Press; London: Macmillan Press; 271-81

UNEP Finance Initiatives, 2002, *Financial Institution Initiative Signatories, http:/unepfi.net/fii/signatories_country.htm*

Stavros, Dimas (2005) Speec