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Indian Banking Sector towards a Sustainable Growth: A Paradigm Shift through Green Banking Initiatives

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Abstract

Don't be surprised to see a credit amount mentioned in your account with the transaction remark put as "green banking" the next time you see your bank account statement. Yes! the green banking is rewarding! It is not only beneficial for the banks and the economy but for the normal customers like you and me as well. This is one among the most novel and innovative green banking initiatives introduced by banks - novel because your bank balance is getting increased and innovative because it is very simple to understand. Every time there is a paperless transaction in the bank, the bank is able to save some money and as a part of green banking initiative a portion of this amount is given to its customer. This will encourage more paperless transactions by the customers and in the process help to reduce the carbon footprint as well. It is a win-win-win situation for you, the bank and the environment. In this paper, we discuss the scenario of green banking in India.

Keywords: Green Banking, India, Paperless Transactions

Introduction

Investments, to give lending priority to those industries which have already turned green or are trying to grow green and thereby help to restore the natural environment. This initiative of green banking is mutually beneficial to the banks, industries and the economy. Moreover Green Banking refers to the initiative by banks to encourage environment friendly banking will ensure that the asset qualities of banks are improved in future. Contrary to the belief, environmental friendly technologies make economic sense for the industries and actually lessen their financial burden as well. The polluting industries face more resistance and often forced to close down or face massive resistance from the public. This adds to their cost enormously. So adopting environmentally sustainable technologies or modes of production is no more considered as a financial burden, rather it brings new business opportunities and higher profit. Green banking optimises costs, reduces the risk, enhance banks reputations and contribute to the common good of environmental sustainability. So it serves both the commercial objective of the bank as well as its social responsibility.

Many Indian banks have started to realize the importance and they are taking up various Green Banking initiatives.

Importance and Relevance of Green Banking

Banks like any other business directly interact with the environment as consumers of natural resources. During their day to day business banks heavily contributes towards the carbon emission in terms of use of paper, electricity, stationary, lighting, air conditioning, electronic equipment etc. even though this is moderate compared to other carbon sensitive industries like steel, oil and gas etc. In the case of banks, the direct interface with the environment has considerably increased due to rapid growth of the banking industry.

Banks affect the environment indirectly by financing intermediaries that have an external impact on the environment. They are the major source of long term funding to various industries such as cement, fertilizers, nuclear power, steel, oil and gas, paper etc. which pollute the environment heavily.

Being a major source of fund provider, banks can play a crucial role in ensuring environmentally sustainable and socially responsible investments in the economy. Banks

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should try and reduce the increase in carbon footprint caused by them either directly and indirectly and should play a vital role in ensuring sustainable and environment friendly development.

In addition, if the lending decisions of the banks are not done prudently as per the environmental criteria, then it may lead to credit risk, legal risk and reputational risk. It is at the interest of the banks to practice green banking and thereby avoiding the aforesaid risks involved in the banking sector.

Credit Risk

The credit risk can happen indirectly in the case when banks lend to companies whose businesses are adversely affected due to changes in environmental regulation. The costs of meeting new environmental requirements might be enough to put some companies out of business. Credit risk can also arise when a bank had given advances to a real estate firm whose property value fell because of environmental issues. Moreover small and medium enterprises (SMEs) engaged in manufacturing business do not have sufficient capital to shift to clean production methods. Hence there are chances of credit risk in these loan portfolios as well in case government comes out with stringent environment regulatory rules.

Legal Risk

Banks are at a legal risk if they themselves don't comply with the environmental regulations. But more than inadequate environmental practices followed by debtors may lead to legal risk. The banks will be at a legal risk when they take possession of a collateral property (under SARFAESI or due to loan default) which is contaminated or is a pollution causing asset. For example, A company which has taken loan may incur legal liability to clean up the contaminated site which may further lead to bankruptcy. In such a case the bank's ability to recover the loan is stalled and if the polluted site is part of the collateral security, the value of the property intended to set off default losses is also reduced. If a bank has a proactive environment management system put in place then it can reduce this risk to a great extent.

Reputational Risk

Banks should watch out from financing environmentally objectionable projects. Banks are certain to lose their reputation if they are involved in some big projects which adversely affect the environment and causes pollution. In addition if loans are advanced to industries which pollute the environment, those industries will face restriction from public and are often forced to shut down their business, thereby creating over and above the reputational risk causing credit risk as well.

Innovative Solutions by Banks

- **Green financial products** - Loans with financial concessions to companies which undertake environmental friendly projects such as manufacturers of fuel efficient automobiles, solar and wind equipment etc. Banks can also introduce a 'Green Fund' to provide climate conscious customers the option of investing in environmental friendly 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.

- **Carbon credit business**- Indian banks can involve themselves in carbon credit business, wherein they can provide all the services in the area of Clean development Mechanisms (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 certified Emission Reductions 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.

Future of Green Banking In India

In future the Green banking will become the order of the day. And we expect a lot of associated green products, green services and green regulations would come into picture.

- Recognize and reward the environment conscious financial institutions- The Reserve Bank of India or regulatory authority will recognize and reward the environment conscious providers of green loans on an annual basis. By doing this environmentally irresponsible firms may run the risk of hurting their bottom-line as well as their image in the market.
- GRISIL - Green Rating and Information Services of India Ltd - Green rating agencies will be set up to provide green analysis of lenders and users of green loans via different ratings.
- Eco friendly Investment funds - Green mutual funds will be in markets and climate conscious customers can invest in environment friendly projects. Moreover investment in these would attract tax concessions as well.

Major Banks Should Lead the Way towards Green Banking

Green Banking is creating a buzz in the financial world. It is a form of banking taking into account the social and environmental impacts and its main motive is to protect and preserve environment. Although a new phenomenon, some countries have adopted it successfully in their day to day financial activities. Banks in China are slowly committing to ethical banking, sanctioning loans keeping in mind the planet's sustainability and Bangladesh Bank has also been offering loans with lesser interest rates for environmental friendly projects.

India on the other hand still has a long way to go. Recently, as a part of the 'Green Initiative', the Centre has suggested the NBFCs take proactive steps to promote day to day use of electronic payment systems, elimination of post-dated cheques and gradual phase-out of cheques in their business transactions. Similarly, the ministry of finance has directed all public sector banks, financial institutions and public sector insurance companies to take up e-governance. Whereas, when a survey was conducted recently in Bangalore as part of a major research project work on green

banking which also included public sector banks on the awareness of green banking and the initiatives undertaken on this regard, it was evident that it was still in its infancy. The findings of the study are as below:

State Bank of India has a green channel counter and the bank encourages paperless banking. There is no use of pay in slips, withdrawal forms, cheque leaves, remittance forms and the transactions are done through SBI ATM cum debit card. They have also won the 'best customer initiative' award for the green channel counter at the IBA Banking Technology Awards. 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, ban on plastic bags in the office building, curbed usage of lights during the day, eco-friendly corporate gifting policy, rainwater harvesting system, solar power generation systems, solar powered ATM's, support for social forestry programmes, waste reduction and recycling, etc.

When questioned about its implementation, the official stated, "Being a public sector bank, there is no system in place and there is also failure in implementation."

According to an officer from Syndicate bank, 'The processing of 'Green Initiatives' includes the application of electronic means.' National Electronic Funds Transfer helped Syndicate bank in cutting off stationary expenses. ATM transactions are more than the counter transactions, i.e., as of December 2011 counter transactions accounted for Rs 512.83 crore for the bank compared to Rs 970 crore through ATM counter. This is because banks encourage customers to use plastic cards. Also, more transactions are effected through net banking.

They have started recycling waste from April 1 2012 through authorised recyclers notified by the government. The bank is currently running 80 rural branches with solar powered UPS.

According to an officer at Vijaya Bank, "The bank is replacing desktops and donating it to schools as part of its corporate social responsibility. We are doing waste recycling, document management system and 58 branches of the bank are working on solar projects."

In Canara Bank, officials see green banking only as a form of paperless banking. "Foreign banks are implementing this form of banking only because they have the cream of employees, whereas in India, nobody is serious about it", said an official. They thought that it will be enforced when the RBI insists on it. Canara Bank has been the initiator of paperless banking and is the highest financier for solar energy related projects. The bank is also known to be conducting carbon financing in Delhi and Mumbai. On the flip side, foreign banks are practising green banking on a much serious note.

Citi Bank has developed environmental management system to guide its environmental initiatives

- Developed a comprehensive environmental and social risk management (ESRM) policy in 2003 and updated periodically which required adherence to International Finance Corporation (IFC) performance standards and its health and safety guidelines, which provide pollution prevention safety and guidance to 63 specific sectors.
- Underwrote 158 environmentally beneficial projects in the US totaling more than \$8.3 billion.

- Has established new set of environmental goals to be achieved by 2015. How far these initiatives are taken in India is not known.

Similarly, Standard Chartered Bank introduced a formal environmental and social (E&S) risk policy to govern lending activities in 1997. It has also been a signatory to the Equator Principles (EP) since 2003. Priorities since 2011 include, building on bank's work to measure social and economic impact of lending.

Green Banking In India-A Solution

For the last one and a half decade India is on a higher growth trajectory and the industrial sector has been playing a very important role in India's growth. However, Indian growth has always been limited due to the challenges faced in controlling the environmental impact of their business activities i.e. reducing pollution and emissions of their clients. Though environmental legislations and laws are being framed by the government to address the issue and it also encourages the industry to follow the environmental technologies and practices, but they are not enough considering the poor track record of enforcement, public awareness. The environmental regulations in India can be broadly classified in two broad categories:

Command & Control Regulations

Liability Laws

However, there is no law in India which can hold banks responsible for the checking and scrutinizing investment projects and granting/denying the financial aid to a company on the basis of environmental damage to be caused by the client. The most important thing here is that because of the growing concern for the environment legal framework for the environmental pollution standards are being formulated in India and once the formulation is done the companies violating these rules will either have to shut down or will have to make the necessary changes in terms of investment and methodology which will require the help of banking sector, thus proving the importance of GREEN

Banking

In the above process the above companies are sure to lose their viability and competitiveness in the international market and this will eventually affect the Indian Economy and the Banking Sector. Thus for the future prospects and the current scenario it is very important for the banks to protect themselves from the changing of their performing assets to non-performing assets. If the banks realize these facts then the adoption of Green Banking becomes fast and easily acceptable to them. Just for the fact-book India is the sixth largest and the second fastest growing country in terms of producing greenhouse gases. To add to your surprise three of India's metropolitan capitals are amongst the world's ten most polluted cities. The industries which contribute to making these cities most polluted majorly are: (a) Metallurgical Industries (b) Paper & Pulp (c) Pesticides/Insecticides (d) Refineries (e) Tanneries/Fertilizers (f) Sugar etc. Thus the banking operations and investment by the financial institutions should take care of these polluting industries which can be done by improving the overall environment, the quality and conservation of life, level of efficiency in using the materials and energy, quality of services and products and hence in this context, the role of banking sector, which is

the major source of financing for these industries, which is used for the implementation of the eco-friendly measures.

Disappointments Faced: Green Banking In India

The financial banks and institutions are running far behind the schedules as compared to the global trends. None of the Indian banks or financial institutions has adopted the equator principle [2] even for the sake of records. None of our banks are signatories to the UNEPFI [5]. The British business newspaper and Financial Times in a joint effort nominated for Sustainable Banking Awards in 2006 for leadership and innovation in integrating social, environmental and corporate governance objectives into their operations did not find a single Indian nationalized bank or major private bank in the list except Yes bank (which is a small player in Indian Banking sector) which was nominated in "Emerging Markets Sustainable Bank of the Year" category. It was very evident that there was no systematic attempt to integrate the environmental concerns into the business operations here by our nationalised banks. Though there has been a little improvement as in the previous years as for the year 2007 ET sustainable banking award two banks namely YES Bank and ABN AMRO Bank had filed nominations. Though it's a little improvement but it also shows the ignorance in the part of our banks about the green banking initiatives at international level.

Conclusion

In a rapidly changing market economy where globalization of markets has intensified the competition, the industries and firms are vulnerable to stringent public policies, severe law suits or consumer boycotts. This would affect the banks and financial institutions to recover their return from investment. Thus, the banks should play a pro-active role to take environmental and ecological aspects as part of their lending principle which would force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems.

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