



# GREEN BANKING: AN INNOVATIVE INITIATIVE FOR SUSTAINABLE FINANCIAL DEVELOPEMENT

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## ABSTRACT

*In the present epoch, sustainability is becoming a fundamental part of every business. The rapid growth of industrialization and globalization has offered tremendous economic progress at the cost of environmental exploitation. Today every sector in the economy is struggling to deal with environmental problems and their related consequences .It has led to a alarming call by the society to take a proactive outlook in protecting and preserving the planet. We find a paradigm shift in the corporate sector from the single bottom line approach that is profit to the wider approach of ‘Triple bottom line’ in view of achieving economic,social and environmental performance simultaneously for achieving sustainable development. Thus, in order to be successful in the modern world every sector needs to be supplement itself with the title of Green Label in their approaches, and the Banking sector is also moving towards their “going green” approach which give rise to “Green Banking”. Green Banking is a form of banking activity from which the country and nation gets environmental benefits. It means developing inclusive banking strategies which will ensure substantial economic development and promoting environmental –friendly practices as well.*

*This paper makes an attempt to understand and examine the concept of “Green Banking” and its role towards sustainable development. It also focus on Green banking initiatives in India .Further ,opportunities and challenges of green banking are discussed and suggestions to promote green practices for sustainable development are also mentioned.*

**KEYWORDS:** *Green Banking , Sustainable Development ,Banking Sector*

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## INTRODUCTION

“Earth provides enough to satisfy every man’s needs but not every man’s greed”-Mahatma Gandhi. Nature had showered its blessings on humankind by providing with diverse and rich flora and fauna. But when the time progressed and with the advancement of science and technology, our nation witnessed several developments at the cost of environmental degradation. The rise in global warming and changes in other climatic conditions has led to living life of human kind on planet very miserable. No one is left behind the vagaries of flood , earthquakes ,tsunami etc. These changes has forced us to think seriously about global warming and its impact and to do whatever we can do to maintain the ecological balance of the environment. Thus ,sustainable development and preservation of environment are vital to protect our planet.

Sustainability today is an “emerging mega – trend”(Lubin &Esty ,2020) and a very important business objective to drive green business innovation (Raska & Shaw ;2012 : Royne et.al :2011). From Apple

to Lava , every one is concerned about how green they are in their approach and operations. So nowadays if a business man needs to be highly successful ;then he needs to supplement himself with the title of Green Label in all his business strategies. This is not only for the business units like manufacturing industries but also financial institutions like Banks also play a vital role in the sustainable development of the nation. Couple of years back ,issues pertaining to environment were barely relevant to financial sectors (Shaumya &Anton Arulrajah,2017).But now ,the situation has changed and the banking sector have been viewed as contributor to environmental degradation either directly or indirectly. Banking activities poses direct threat to pollution through their operations and increased emission of carbon dioxide via air conditioning ,electronics and fuel equipments etc, although this is negligible when we compare the same with that of high carbon emitting culprits like steel ,oil and gas etc. Banks indirectly effect the environmental degradation as it is held responsible for financing those industries



causing huge pollution like construction, mining sector, transportation sector and so on. So there is need for banking institutions to develop an alternative or innovative mode of banking that doesn't harm the environment and at the same time which caters the need of financial world. The implementation of green banking is the only solution that can address both these needs. It facilitates adoption of environment friendly strategies, mitigate climate risks and supports recovery of diverting funds to climate sensitive sectors (Part & Kim, 2020). It also helps in reducing carbon footprints from banking activities and thus mutually beneficial to the banks, industries and the economy.

### SIGNIFICANCE OF THE STUDY

Green Banking initiatives and strategies of the financial institutions are the major steps taken by them towards the sustainable development. The present study focus on role of green banking and various green banking initiatives developed by different banks. Through this study, the better knowledge regarding the concept as well as new innovative in this field can be acquired.

### OBJECTIVES

- To understand the concept of Green Banking
- To elicit the role of Green Banking in sustainable development.
- To identify the green initiatives adopted by various banks in India
- To examine the opportunities and challenges of implementing green banking initiatives
- To provide suggestions to promote green banking practices for sustainable development

### GREEN BANKING: MEANING AND DEFINITION

The concept of Green Banking is of recent origin. It is considered as a new development in the world of finance which concentrates on environment friendly operations and investments. Green Banking is a form of banking activities through which environment can get benefit in the form of its preservation and well maintenance. Green Banking was initially introduced in the year 2009 in State of Florida. In India, SBI (State Bank of India) took the foremost step towards green banking initiative.

Green Banking deals with the initiative taken by banks to do its daily activities as a conscious entity in the society by considering in-house and external sustainability (Hossain et.al, 2020; Zhixia et .al: 2018). The banks who do such type of banking activities are

referred to as socially responsible and a sustainable bank or ethical bank.

Institute For Development And Research in Banking Technology (IDRBT 2013) defines Green Banking as "Green Banking is 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"

### NEED AND IMPORTANCE OF GREEN BANKING IN INDIA

We are constantly evolving in each sector at this era of industrialization and globalization at the cost of over exploitation of environment. Going Green has therefore become an integral part of every sector. Banking sector being the backbone of India's economic growth plays a crucial role in ensuring environmentally sustainable and socially responsible investment. Though banks do not directly contribute much towards the environmental degradation, they are responsible for financing those industries which are the major culprits of pollution. Banks also contribute to ecological footprint directly/indirectly through investment or lending in their customer enterprises which may lead to credit risk, legal risk and reputational risk. As such they need to play a key role in optimizing/reducing the carbon emissions.

Green Banking is a product of green movement initiated by world leaders which visualizes a Green Economy in the long run. Green banks can help 'green' the financial system by driving the shift towards low-carbon investments and demonstrating to more conservative institutions the viability of these institutions. They play several critical roles like:

- Mobilize development finance institutions and other providers of climate finance by acting as a local partner and investor in low-carbon, climate-resilient projects.
- Increase bankability by creating financial products like green loans, online banking, remote deposit capture, green car loans etc to mitigate investor risk
- Drive project developers and investors to adopt impact metrics to track progress towards sustainability targets
- Build customer awareness regarding green banking initiatives
- Demonstrate the technical and economic feasibility of new technologies to investors



## LITERATURE REVIEW

Green Banking is one of the most debated and widely discussed topic in 21 st century. Due to the changing scenario like global warming, unusual weather pattern, increased carbon emissions etc have called the attention of society towards the need to protect the mother Earth. As a result of this, society had started demanding that business and banking sector should also take the responsibility in safeguarding the environment ( Bangladesh Banking Policy Report ,2011). Green Banking is a concept that aims at promoting environmental friendly practices and reducing carbon emissions from the banking operations. Bahal (2012) studied that green banking contributes a lot to the change to low carbon industries and green economy. A green bank is a bank that blends green technology in bank operations both internally and externally to minimize carbon footprints and facilitates management(Bose et al., 2017; Meenakshi Sharma & Akanksha Choubey .,2021)

According to Indian Banks Association, Green Banking refers to normal banking system which involves all environmental as well as social factors with an aim to ensure ecological sustainability and optimum use of natural resources (Scholtens ,2009 ;Kumar & Prakash ,2018; Sahi & Pahuja ,2020; Meenakshi Sharma & Akanksha Choubey ,2021) Green Banking encourages eco-friendly practices in banking sector and paves a way towards sustainability. (Dewi & Dewi ;2017).As part of green banking initiatives ,several banks have adopted eco –friendly practices for financing as well as green transformation towards internal operations (Bahl,2012; Rahman & Akhtar ;2016) ( Prakash & Rajan 2017); They studied customer awareness on green banking initiatives of SBI and find that there is lack of awareness among general public regarding green banking practices. Jaggi (2014) studied the initiative by ICICI and SBI on Green Banking.SBI introduced Green channel counter ,online money transfer ,enhanced commitment towards achieving carbon neutrality. Currently,Indian banks are moving toward entering global markets (Paramesswari ,2018;Laskowska ,2018;Nuryakin & Maryati ;2020) and recognized their social and environmental responsibilities (Sahi & Pahuja ,2020).

## GREEN BANKING INITIATIVES IN INDIA STATE BANK OF INDIA

State Bank of India (SBI) has become the first bank to venture into generation of green power by installing windmills for captive use. As part of its green banking initiative, SBI has installed 10 windmill with an aggregate capacity of 15MW in the states of Tamil

Nadu ,Maharashtra and Gujarat. SBI installed Green Channel Counter (GCC)facility from 1<sup>st</sup> July 2010 at all their branches providing ease and comfort in doing business transactions. The customers need not fill up any pay –in –slips or draw cheques for depositing or withdrawing money from their accounts.SBI Green Remit Card is another initiative targeted to facilitate Non –Home Cash Deposit transactions through Green Channel Counter/Cash Deposit Machine .SBI Fastag enabled toll transactions paperless and reduce the wastage of time. SBI’s Mobile banking Application ,Yono Lite is helpful for retail consumers to transfer funds ,opening of fixed deposits and other value added services like E-statement subscription and download ,voice assisted banking etc. Similarly SBI YONO also provides various basic banking services like opening an account digitally ,easy KYC process and elimination of paper based application.

## SOUTH INDIAN BANK

As part of “Go Green –Go Digital Initiative “,South Indian Bank launched ‘SIB Green Pin’,which allows customers to generate ATM PIN by themselves through any SIB branches. The bank introduced ‘SIBer NET’ which allows the customer to avail the bank services through internet 24\*7.They also launched a new online mutual fund platform SIB E-Invest to facilitate online purchase and sale of mutual funds. As a part of CSR program for promoting green initiatives, South Indian has installed 3 plastic bottle recycling machines at selected metro stations.

## AXIS BANK

Axis Bank has developed its mobile application named ‘AXIS AHA’ –an artificial intelligence and machine learning application to help customers do their transactions easily and to address their banking related queries. To provide quicker services to the customer ,bank has undertaken several initiatives like instant PIN generation (Green PIN), e-welcome kits ,service request through SMS etc .The bank also initiated solar based UPS for ATMs under its independent ATM Deployment (IAD)Model. Bank has also adopted sustainable lending practices and without producing clearance from pollution control authorities ,bank does not finance to pollutant industries and insist to install effluent treatment plant.

## HDFC BANK

To reduce environmental footprint HDFC Bank has continuously undertaken green procurement ,efficient lighting solutions ,optimized travel planning, reducing paper consumption etc. Banks installed solar ATMs and these ATMs use chargeable Lithium



batteries. Bank also installed green locks, energy efficient air-conditioners, switching off the branch signage after 11 pm ,use of LED lamps at branches and offices. They also ensures multi channel delivery of its services through net banking ,mobile banking etc.

### **SYNDICATE BANK**

The credit of implementation of core banking solution to deliver banking services and products through tele - banking ,mobile banking and internet banking etc goes to Syndicate Bank. The bank launched a mobile application named “Syndguide” that provide guidance and information related to bank locations ,schemes and products. Synd Privilege Tab Banking helps in opening account at your doorsteps for residents of Banglore ,Kolkata and Mumbai.

### **GREEN BANKING OPPORTUNITIES**

The available opportunities for the banks to go green in its various operations are discussed as follows:

#### **1. Supply Chain Management (SCM)**

SCM is the management of flow of goods and services and includes the movement and storage of raw materials ,work –in-process inventory and finished goods from point of origin to point-of –consumption.

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

#### **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 activities.

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

#### **3. Customer Relationship Management (CRM)**

CRM is an approach to managing a company’s interaction with current and future customers. It tries to analyse data about customers history with a company and to improve business relationships with customers. Through the CRM approach and the system used to facilitate CRM , business can learn about their target audience and how to best cater their needs.

#### **4. Sourcing and Procurement**

Sourcing refers to the 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 outside parties.

#### **5. Product life cycle management**

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

- Design and offer banking products and 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

### **GREEN BANKING CHALLENGES**

While implementing green banking practices ,the bank would face following challenges

#### **• Lack of awareness**

There is lack of awareness amongst customers and bank employees about the concept of green banking and even if they are aware ,the information they have is inaccurate

#### **• High operating Costs**

In order to deliver various banking services to the customers ,the green bank requires skilled and experimental workforce which increases operating cost.

#### **• Start up stage**

The greening of many banks are still in nascent stage. It would take many years to get a stable position in the industry

#### **• Diversification Problem**

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





- **Reputational Risk**

Banks will lose their goodwill if they are involved in funding those industries or projects that are harmful to the environment

- **Credit Risk**

Credit risk arise due to lending to those customers whose business are effected by cost of pollution ,change in environment regulation and new requirement of emission level

### SUGGESTIONS

For effective adoption of Green Banking ,the RBI &government should play major role in formulation of Green policy guidelines and financial initiatives. Following are some suggestions for banks to encourage green banking:

- Set up separate green banking department in bank for effective implementation of green initiative
- To formulate innovative financial solutions to incorporate environmental perspective.
- To create awareness among businessman about environmental issues and encourage them for undertaking eco –friendly practices.
- Training and development of relevant skills among employees.
- To conduct training program for customers to use various banking services.
- To give concessions for online banking and mobile banking users

### CONCLUSION

In a world ,where people are trying to be green in whatever they do and the concern about protecting and preserving the environment, the concept of green banking is highly useful and relevant one. Being the major source of fund provider, Banking sector is responsible for sustainable development through environment friendly investment and lending practices. Green Banking is the most apt way for achieve the objective. It aims to protect the environment by promoting eco –friendly practices through delivering innovative products and practices. The RBI should make strict rules for the banking sector so that all banks follows green banking approach and at world level environment protection should be maintained by various agencies constituted for this purpose. The government and banks must also create awareness among general public regarding the importance of going green in their operations. Working together ,we can develop a financial sector where all the banks would become completely green.

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