iJRASET
International Journal For Research in Applied Science and Engineering Technology



INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 6 **Issue:** I **Month of publication:** January 2018

DOI: http://doi.org/10.22214/ijraset.2018.1226

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International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor :6.887
Volume 6 Issue I, January 2018- Available at www.ijraset.com

Green banking –A 'FAIR' approach to Environment

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Abstract: Global population is on the rise that needs the basic essentials of life such as food, water, and shelter; we have resources in limited and wants unlimited. Perhaps that's one of the greatest reasons why being fair to environment and our earth is so important. Being ethical towards earth is leads to sustainable development. Sustainable development is an approach to development that takes the finite resources of the Earth into consideration. Various approaches have been introduced to put in practice techniques for this. Green banking is one among them. Banking activities are not physically related to the environment, but the external impact of their customer activities is substantial. The paper attempts to study the concepts of green banking, different methods of green banking through FAIR model and there by analyzing challenges of implementing the same
Keywords: Green Banking, Green marketing, carbon credit, Sustainable development, Recycle, E-Accounts

I. INTRODUCTION

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 includes all practices adopted in banking operation and environment friendly activities adopted which helps to reduce carbon foot print. It is a smart and proactive way of thinking with a vision of future sustainability. Green banking includes several products and services like green mortgage, green loans, green credit cards, green savings accounts, green checking accounts, green money markets accounts, mobile banking, online banking, etc. Green Bank provides effective market based solution for addressing a wide range of environmental problems like climate change, deforestation, issues related to air quality and loss of biodiversity.

A. Sustainable Development Through Sustainable Banking

According to the "report of the World Commission on Environment and Development Sustainable Development" (United Nations, 1987), Sustainable Development is the way of using the resources that not only meet the human needs of present and future generation but also preserve the environment. The field of sustainable development comprises of three constituents – environmental sustainability, economic sustainability and socio-economic sustainability.. Various approaches have been introduced to put in practice techniques for sustainable development . Green banking is one among them. Banking activities are not physically related to the environment, but the external impact of their customer activities is substantial. The paper attempts to study the concepts of green banking and there by analyzing challenges of implementing the same

II. OBJECTIVES OF THE STUDY

A. To study the concept green banking
B. To suggest the various methods of green banking through FAIR model
C. To identify the challenges in implementing of green banking

III. RESEARCH METHODOLOGY

The study mainly includes literature review from various articles published in journals. The other secondary data sources include reports of the respective banks and other relative information published on the banks and other internet sites.

A. Green banking

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earth's ecology, environment, and natural resources including biodiversity. Green banking includes all practices adopted in banking operation and environment friendly activities adopted which helps to reduce carbon foot print. Green banking includes several products and services like green mortgage, green loans, green credit cards, green savings accounts, green checking accounts, green money markets accounts, mobile banking, online banking, etc. Green Bank provides effective market based solution for addressing a wide range of environmental problems like climate change, deforestation, issues related to air quality and loss of biodiversity. **4.2**

B. Green Banking In India

India's central bank, the Reserve Bank of India (RBI) produced its first statement on the role of banks in financing sustainable development in 2007. The RBI provided an overview of the issues on sustainable concept paper on *green banking february 26, 2015*The RBI also advised banks to modify their strategies. A major policy tool of RBI with respect to development finance is the directed credit regime whereby 40% of loans are allocated to key sectors (such as agriculture, SME and Housing). Direct Loans to individuals for setting up off-grid solar and other off-grid renewable energy solutions for households has been included under the others category of priority Sector lending. The Federation of Indian Chambers of Commerce and Industry recommended that RBI may include loans for solar projects under the priority sector similar to the case of education and housing sector. The RBI has instituted specific relaxations in the CRR/SLR and priority sector lending on issuance of Long Term Infrastructure and Affordable Housing Bonds by Banks vide its circular dated July 15, 2014.

1) Some of the Initiatives taken by Indian Banks on account of Green Banking

a) YES Bank has floated first green infrastructure bonds of Rs 5 billion in February 2015. The bonds will be of ten year tenor and their proceeds will be invested in renewable energy projects such as solar power, wind power, biomass and small hydelprojects. State bank of India(SBI), India's largest commercial bank, took initiative in setting high sustainability standards and completed the first step in "green banking" with shri O.P. Bhatt, chairman, SBI, Inaugurating the bank's first wind farm project in Coimbatore. After that green bank initiative include ATMs, paperless banking for customers and building of wind mills in rural India.

b) PNB conducted electricity audit of offices as anϖ energy conservation initiatives and maintained separate audit sheet for assessing the impact of green initiatives taken by the bank. They are also adopting easy green practice such as printing on bothϖ side of the paper, purchasing composite fax machine etc. Green Credit cards also started by the PNB bank towardϖ the environment sustainability as green banking initiatives.

c) ICICI Bank: – ICICI Bank has taken many green initiatives with the objective of collaborating with its customers and making "green" a part of everybody's life. Some of key products are:-

d) Through Insta banking ICICI is facilitating banking anywhere anytime through Internet banking and Mobile Banking. This platform helps in reducing carbon footprint as customers no more need to travel to banks.

e) ICICI Bank offers auto loans which offers 50% waiver on processing fee for those which wish to buy a car with alternative sources of energy.

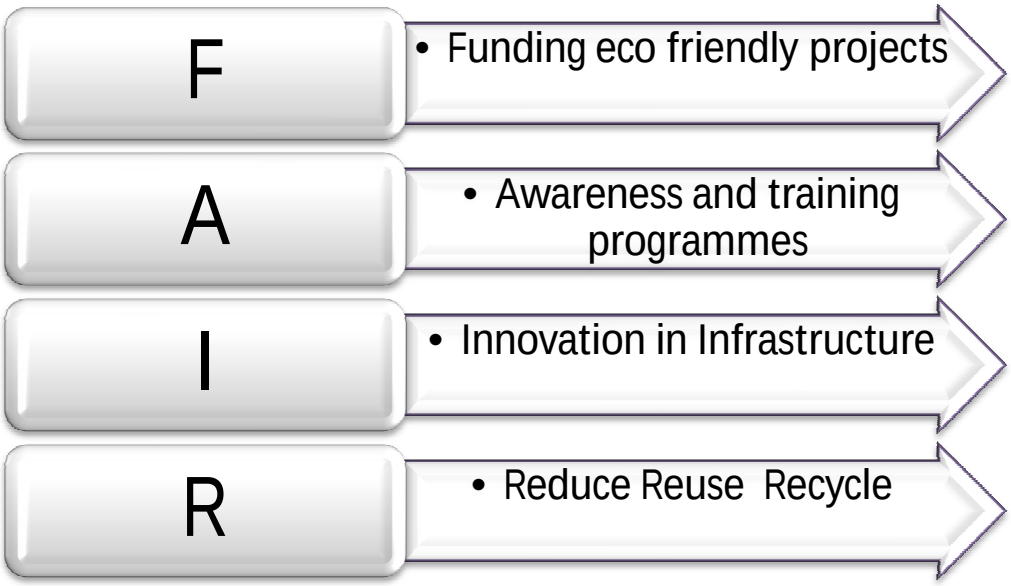
f) ICICI is offering reduced processing fee to those who want to purchase homes in "Leadership in Energy and Environmental Design" (LEED) certified buildings.

g) *State Bank of Mysore:* – It has taken the initiative of using energy efficient CFL bulb and computers. They have banned plastic bags in office building and have adopted eco-friendly corporate building policy

C. Implementation of green banking-' FAIR to Environment model'

Now it is time for the banks to adopt a comprehensive Green Banking Policy in a formal and structured manner in line with global norms so as to protect environmental degradation and ensure sustainable banking practices. With a view to developing green banking practices in the country, banks can implement green banking in the following manner. For this author has developed a model which covers various areas of green banking. It s named as FAIR to Earth model. Through implementation of these techniques every commercial bank can contribute to sustainable development.

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Source: Author

1) *Funding eco friendly projects:* The banks can introduce green bank loans with financial concessions for environment friendly products and projects such as fuel efficient vehicles (Green Vehicles financing), green buildings and house furnishing loans to install solar energy system (green mortgages) and strategic generous charities etc. The banks may also proactively follow businesses arising from international efforts like carbon credit offsetting and green climate fund businesses The banks should also has to educate the home builders on availability of these options and in the process the bank succeed in providing lending to the borrower. The Indian Ministry of Non-renewable Resource offers, in association with some nationalized and scheduled banks, home improvement loans at low interest rate of 4% p.a to the customers for purchase of solar equipment. State Bank of India offers concessional loans to environmentally friendly residential projects rated by the Indian Green Building Council (IGBC). The concessions include a 5 percent concession in margin, 0.25 percent concession in interest rate and processing fee waiver. Green Vehicles financing is another method of implementation of green banking. The banks are offering green auto loans to their customers for purchase of fuel efficient vehicles. This type of loan is offered to Hybrid vehicles, Electric vehicles, Fuel cell and alternative fuel (ethanol, natural gas, propane, hydrogen) powered vehicles and High fuel economy rated vehicles Another method is carbon off set business. It is a compensatory measure of greenhouse gas emissions that is reduced, avoided, or sequestered usually through sponsoring activities or projects to compensate for emissions occurring elsewhere. Carbon Credit is the obverse measure of carbon emissions representing the right to emit greenhouse gas. One Carbon Credit or Carbon Offset represents the reduction of one metric ton of carbon dioxide or its equivalent in other greenhouse gases. Carbon emissions trading is a trading in carbon credits (representing carbon emission permits) and is used by developed countries to meet their carbon emission obligations Brownfield Financing is another method of funding . Brownfield is real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant. Cleaning up and reinvesting in these properties protects the environment, reduces blight, and takes development pressures off green spaces and working lands.
2) *Awareness And Training Programmes:* Second technique for green banking is creating awareness and organizing development programmes for reducing carbon footprint .banks can create awareness program among employees regarding the importance of green banking and motivate them to implement in day to day activities.‘ Awareness building can take the form of: building environmental concerns in the strategy of banks,• seminars/ workshops for the staff and the general public,• informational brochures; and• adding performance measures of eco-friendly activities in branch operations evaluations. Every bank should observe Green day once in a year and do training programs for staff and public.
3) *Innovation In Infrastructure :*In a country like India where most of the banking activities are inside the brick and mortar structures ,the first step for green banking should be through innovative and eco friendly buildings .It includes measures for converting office building and branches into resource efficient (Green Buildings), adopting modern infrastructure and reducing printing and papers as paperless banking. Bank should use less power consumption equipment in place of other equipment and

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can instruct all the branches to replace GSL bulbs by CFL bulbs. Use of solar energy for electrification is an efficient way to green banking. Lay out of building should be eco friendly with ample ventilation which reduces reduce usage of air conditioning.

4) *Reuse Recyclestrategy for banking operations:* Reduce the usage of paper Reuse it Recycle the materials in various activites in banking operations is another tool of green banking. Bank s can promote mobile banking, ATM;s and internet banking to reduce the usage of paper Mobile banking is one of the fastest moving technique which is widely used by customers. Online banking is another method which encourages reduce reuse stratery. The banks can provide following services to their clients through these means: Online/ Mobile Funds Transfers• E-Account Statements• Checking facilities• Online/ mobile utility bills payments• Setting up Standing Instruction• E-Tax Payment• E-ticketing• Online Applications for IPOs• In a broader context the use of Automated Teller machines (ATMs), the Point of Sale (POS) machines and Debit / Credit Cards may also be considered as green alternatives to the traditional paper based banking. Similarly the Real Time Gross Settlement System (RTGS) and Electronic Clearing Houses including NEFT are innovative ideas that can help reduce excessive use of paper.The use of green banking incurres less expenditure, less energy and less use of paper in banking activities

D. Challenges In Adoption Of Green Banking

Adoption of green banking will help the bank to save their money in long run through online banking, paperless billing green building and green products etc. It is also a smart way to market the bank to more people. However adoption of green banking have lot of challenges. Few are discussed below.

1) *Initial cost:* The first challenge would be initial cost incurred by by bank to switch to green banking. To what extend small segment banks can afford this is a concern.
2) Security :Going digital is one of the key way to green banking but risk of data breaches and hacking and lack of security is another major challenge in green banking
3) *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
4) *Marginal Impact*-While going green is focused on reducing harm to the environment, the impact that any specific individual an have on the environment by going green is often negligible. The theory is that if everyone were to go green, it would have a significant and noticeable impact, but not everyone can be convinced to go green and many believe that doing so has no real impact outside of the economics. This makes going green a personal choice for many, which does not necessarily result in concrete economic or environmental benefits.
5) *Self Motivated.* A country with 1.2 billion population ,where majority of people strives to meet both ends environment protection becomes final priority .Unless it is compelled under law , people are not self motivated to do any action for environment protection
6) *Other Reasons.*It includes Lack of RBI mandates to adopting sustainability, Unavailability of skilled employees, Insufficient budget to train employees

E. Findings And Suggestions

Green banking includes all practices adopted in banking operation and environment friendly activities adopted which helps to reduce carbon foot print Green banking includes several products and services like green mortgage, green loans, green credit cards, green savings accounts, green checking accounts, green money markets accounts, mobile banking, online banking, etc it is possible throughFunding eco friendly projects creating awareness and training programmes , shifting innovation in Infrastructure and adoping basic mantra “Reduce Reuse Recycle “

IV. CONCLUSION

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. As there is a continuous change in the environmental factors leading the banks face intense competition in the global market, the banks need to adhere to the stringent public policies and strict law suits. Banks need to apply morality of sustainability and responsibility to their business model, strategy

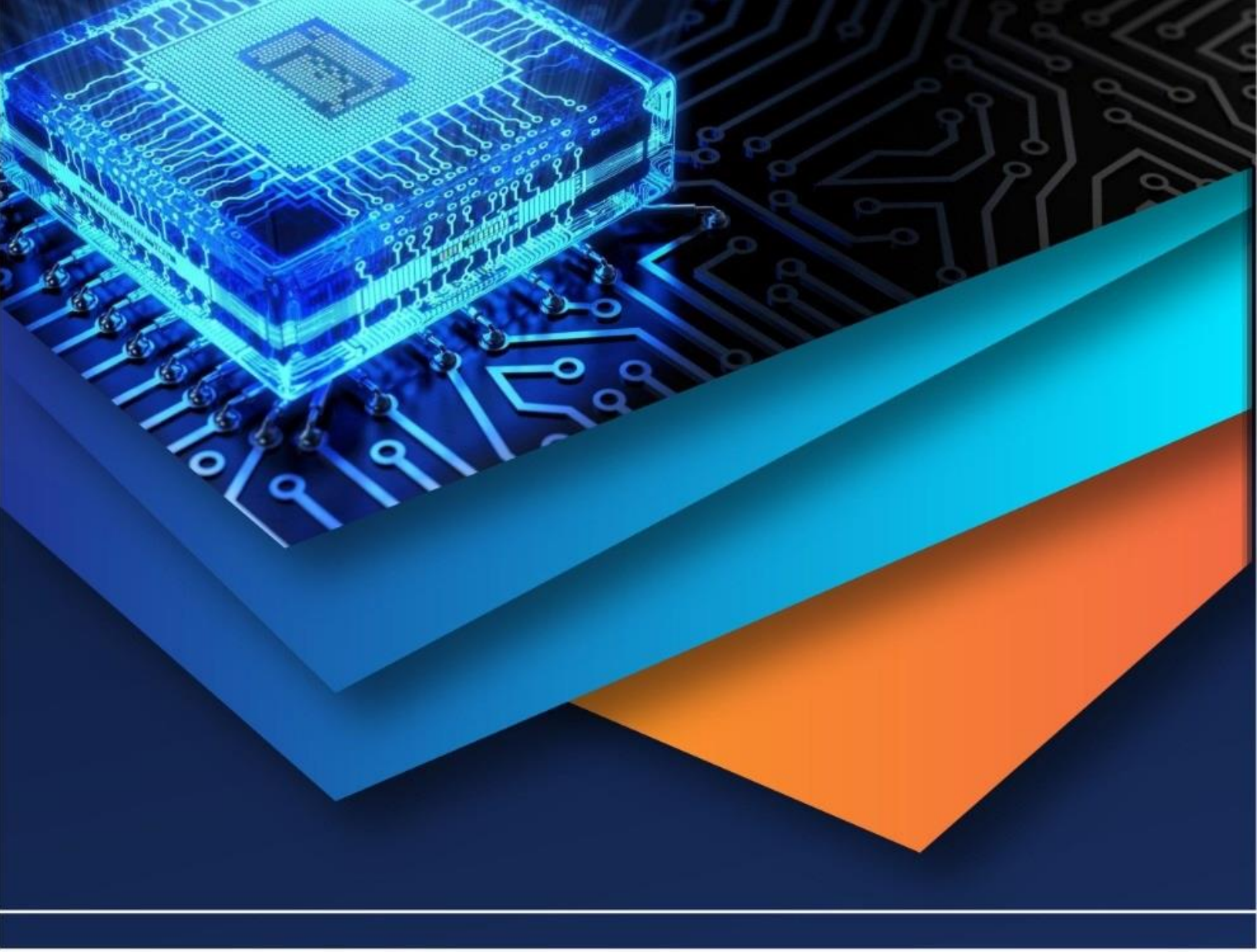
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formulation for products and services, operations and their financing activities and become stronger. By adopting the environmental factors in their lending activities, banks can recover the return from their investments and make the polluting industries become environment-friendly. 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.

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