Green Banking: Need of the Hour

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Abstract

In the twenty first century, climate change is one of the greatest challenges for developed and developing countries alike. Banks and financial institutions can play a major role in making our planet a better place to live in by ensuring that businesses should adopt environment-friendly practices. Banks are the major implementers of technology and they themselves can adopt green practices. Green Banking is a new development in the financial world. Currently, in India, the concept of green banking is catching up and banks are actively looking for ways to portray themselves as a Green Bank. The main objectives of the paper are to study the concept of green banking and steps to adopt the green banking, to study the green products and services offered under green banking and to highlight the green banking initiatives taken by Indian banks. Indian banks are far behind the banks of developed countries in adopting the concept of green banking. It is the need of the hour that Indian banks should adopt green banking practices for the sustainable growth of the nation.

Keywords: Green Banking, Sustainable Growth, environment.

Introduction

In the twenty first century, climate change is one of the greatest challenges for developed and developing countries alike. The problem of climate change has been aggravated due to the actions of developed countries but developing countries have to suffer more because of their vulnerability to extreme environmental events. The industrial revolution in the nineteenth century witnessed the large scale use of fossil fuels for industrial activities. Thereafter, continuous upward trend in industrial growth, urbanization and unexpected rise in population led to sharp rise in green house gases. In 1980s, the developed countries pushed the drive of neo-liberalism into the developing countries through the Structural Adjustment Programme (SAP) of International Monetary Fund and World Bank. The SAP forced the less developed countries to adopt the policy of liberalization, privatization and globalization. The free game plan of market forces that neo-liberal globalization advocates, has overexploited the environment in its drive to maximize profits (Thind, et.al, 2008).

India adopted New Economic Policy in 1991 which has marked a basic shift from the earlier model of socio-economic development. This model has accentuated environmental degradation and destruction in the country. The problem of environmental degradation can be solved by fostering green development in the economy. Green Development can stimulate economies, create jobs, help to maintain critical eco-system services and strengthen climate resilience of the poor.

Banks and financial institutions can play a major role in making our planet a better place to live in. As providers of finance, banks can ensure that businesses adopt environment-friendly practices. Bank's incentives like offering cheaper funds for adopting green technologies will have a long term beneficial impact on the environment. Banks are the major implementers of technology and they themselves can adopt green practices.

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Objectives

The main objectives of the paper are:

To study the concept of green banking and steps to adopt the green banking.

To study the green products and services offered under green banking.

To highlight the green banking initiatives taken by Indian banks.

1. Green Banking: Meaning and Steps for adoption

Until a few years ago, most traditional banks did not practice green banking. Only recently these strategies have become more popular among cooperative banks, diversified financial service providers, asset management firms and insurance companies. Green Banking is an umbrella term referring to practices and guidelines that make banks sustainable in economic, environment, 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. Green Banking can be adopted at two levels. First is to **green processes, products, services and strategies. Second is to green banking Infrastructure. Following steps can be followed to adopt green banking:**

Those techniques and plans should be adopted which can minimize inventory and wasted freight.

Paperless transactions should be facilitated.

Electronic means should be used to contact and correspond with customers.

Vendors should be selected by the sustainability rating of their products, services and operations.

Banking products and services should be designed and offered in such a way that consumes less resources and energy.

Those mutual funds should be offered and promoted which focus investment in green companies.

Credit cards co-branded with environment charities should be offered.

Customers should be encouraged to use electronic and telephone banking to perform most of their banking needs.

SMART (Specific, Measurable, Attainable, Realistic, and Timely) green goals should be set in order to reduce carbon footprint. Criteria should also be fixed for measuring progress towards the goals.

2. Green Banking: Products and Services

a) Retail Banking:

Green deposits: Banks can offer higher rates on CDs, money market accounts, checking accounts and savings account if customers opt to conduct their banking activities online.

Green Mortgages: Green mortgages are a method of incentivizing the adoption of green housing methodologies. Such mortgages are also called Energy Efficient Mortgages (EEM) or Energy Improvement Mortgages (EIM). These mortgages provide retail customers with considerably lower interest rates than market rates for clients who purchase new energy efficient homes, invest in retrofits, energy efficient appliances or green power. Banks can also provide green mortgages by covering the cost of switching a house from conventional to green power.

Green Home Equity Loans: Green home equity loans can help people to install residential renewable energy (power or thermal) technologies and to make energy efficient home renovations in their houses. To provide such kind of loans, a number of banks have also partnered with technology providers and environmental NGOs.

Green Commercial Building Loans: Green building is the practice of creating structures and using processes that are environmentally responsible and resource-efficient throughout a building's life-cycle from sitting to design, construction, operation, maintenance, renovation and deconstruction. This practice expands and complements the classical building design concerns of economy, utility, durability, and comfort. Green building is also known as a sustainable or high performance building. Green commercial building loans are provided in order to increase the construction of green commercial buildings. These loans are provided for those buildings which are characterized by lower energy consumption (~15-25 percent), reduced waste and less pollution than traditional buildings. Various benefits like reduced operating expenses, improved performance and longer lifetimes are associated with green buildings. Lower project costs improve net operating income, a key factor when evaluating property using the income approach.

Green Car Loan: Green car loans encourage the people to purchase those cars which are high fuel efficient with less carbon emissions. These car loans provide retail customers with considerably lower interest rates than market rates for purchasing high fuel efficient cars. The number of these products has increased in recent years, with the majority being offered in Australia and Europe. Most green car loans are being offered by credit unions, such as mecu, as innovative vehicle lending has proven to be an ideal niche for smaller financial institutions. Recently, Mecu is providing go Green® Car Loan in which interest rates are determined according to how 'green' your vehicle is. The lower the greenhouse emissions from the car you want to purchase, the lower the interest rate.

Green Credit Cards: A green credit card allows card holders to earn rewards or points which can be redeemed for contributions to eco-friendly charitable organizations. These cards offer an excellent incentive to consumers to use their green card for their expensive purchases.

Green rewards checking accounts: Rewards checking accounts may pay a bonus rate to customers who go green. Customers can earn higher checking account rates if they meet monthly requirements that might include receiving electronic statements, paying bills online or using a debit or check card. With this type of banking product, higher rates and eco-friendly living goes hand-in-hand.

b) Corporate and Investment Banking

Green Project Finance: Under Green project finance, banks create service divisions and teams in order to finance large scale renewable energy projects. By 2005, the majority of leading European banks had debt portfolios that contained committed lines to entirely or partially, finance renewable energy assets. Banks have also started to employ innovative financing arrangements for large-scale clean fuel and renewable energy projects.

Green Securitization: Under green securitization, bank originates loans for renewable energy and energy efficiency. A fund would then purchase portfolios of these loans from the banks to bundle them together to reach sufficient size to access the bond markets. The fund would then issue bonds to institutional investors. Only quality senior loans would be bought and aggregated into bonds, and only a single type of bond would be sold by the fund to investors. This is to ensure that the securities are transparent and robustly regulated. Forest bonds, eco-securitization pilot projects and green mortgage-backed securities are some of the innovative environmental securitization techniques that have started emerging these days.

Green Venture Capital & Private Equity: Green private equity is a vital funding mechanism that helps entrepreneurs to secure sustainable venture capital. Green private equity firms supply venture capital to companies that are focused on sustainability. Private equity is capital that is not quoted on a public exchange. It consists of investors and funds that make investments directly into private companies or conduct buyouts of public companies that result in a delisting of public equity. Capital for private equity is raised from retail and institutional investors, and can be used to fund new technologies, expand working capital within an owned company, to make acquisitions and to strengthen a balance sheet. The majority of private equity consists of institutional investors and accredited investors who can commit large sums of money for long periods of time. Private equity investments often demand long holding periods to allow for a turnaround of a distressed company or a liquidity event such as an IPO or sale to a public.

Green Indices: Green Indices cover companies working to enhance economic development based on reduction of carbon usage. Some banks have recently developed indices that fluctuate as future environmental opportunities and challenges emerge. For instance, ABN AMRO has developed an equity index consisting of firms whose businesses address issues related to global warming and the environment. This builds on a series of indices, created in 2006, which was based on individual industries, including carbon abatement technologies, water, solar, ethanol, renewable energy and natural gas. Nasdaq has developed Nasdaq Green Economy Global Benchmark Index (QGREEN). It has been designed to act as a performance indicator of stocks covering areas such as energy efficiency, clean fuels, renewable energy generation, natural resources, water, pollution mitigation and advanced materials. It is the first of its kind to monitor and track such a large portfolio of green companies and provides a global benchmark for institutional and retail investors.

Carbon Commodities: Carbon market products and services have largely been found in Europe, driven by the January 2005 implementation of the EU Emissions Trading Scheme which has put over 12,000 European industrial sites, under a carbon constraint. In North

America, only a few banks have taken steps towards participating in the growing carbon market, including: Bank of America, Goldman Sachs, JPMorgan Chase, Citigroup Morgan Stanley and Merrill Lynch. Several European banks, namely ABN AMRO, Fortis, Barclays Capital, and HSBC, are very active in this field, employing a range of financing approaches to improve portfolio diversification, secure opportunities and hedge risks.

3. Green Banking Initiatives by Indian Banks

Banks contribute to ecological footprint directly and indirectly through investment/lending in their customer enterprises. The banking sector is one of the major sources to finance industrial projects such as fertilizers, power, textiles, steel, paper, cement, chemicals, etc., which emit maximum carbon emissions. Therefore, the banking sector can play an intermediary role between economic development and environmental protection, for optimizing /reducing the carbon emissions in the economy.

Under Green Banking initiatives, State Bank of India (SBI) has adopted energy efficient measures. State Bank of Mysore has started using energy efficient photocopier and computers, auto cut off for air conditioners, CFL bulbs and need based printing in order to save paper. SBI has introduced the concept of paperless banking and has installed solar automatic teller machines (ATM) to reduce its carbon footprints. SBI is the first bank in India which has installed wind power projects in order to generate green energy for captive use. The bank has collaborated with Suzlon Energy Ltd for the generation of wind power. In the states of Tamil Nadu, Maharashtra and Gujarat, SBI has installed 10 wind power projects with an aggregate capacity of 15 MW.

ICICI bank has introduced the concept of instabanking which helps the customers to do banking anywhere and anytime through internet banking, mobile banking, etc. The bank encourages their customers for subscription to e-statements, online bill payment and online funds transfer. The bank offers 50 percent waiver on processing fee of auto loans on the car models which uses alternate sources of energy. ICICI has reduced the processing fee for the customers who are purchasing homes in LEED certified buildings or green buildings. ICICI bank celebrates World Environment Day every year by performing various activities like green pledge through signature campaigns, plantation and distribution of saplings etc. They also celebrates Earth hour every year in March by switching off the lights of their premises, branches and ATM's between 8:30 pm to 9:30pm.

Conclusion

Green banking can be an avenue to reduce pollution and save the environment which will foster sustainable economic growth in the economy. Green Banking is a multi-stakeholders' endeavor where banks have to work closely with government, regulator, consumers, NGOs, and business communities to reach the goal. In India, banks have started adopting the green practices but still a lot of channels are unutilized by Indian banks for greening their practices. Indian banks are far behind the banks of developed countries in adopting the concept of green banking. Therefore, it is the need of the hour that Indian banks should adopt green banking practices for the sustainable growth of the nation.

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