



## Green Banking Initiatives in India: a detailed Study

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### Abstract

Green banking refers to the development of comprehensive banking strategies that will make sure long-term economic development. Green banking is a type of banking that takes into account all social and environmental factors in order to protect the environment and natural resources. It is also referred to as ethical or sustainable banking. The study's goal is to learn about green banking and its associated benefits. The study employs descriptive research methods. For the study, both secondary and primary data were gathered. The data was obtained from the RBI website, annual reports of banks, journals, and theses. The research provides a high-level overview of green banking products and their coverage. This paper examines the Reserve Bank of India's green rating standards, World Bank environmental and social norms, Green Banking initiatives undertaken by India's public and private sector banks, and significant Green Banking adoption strategies. The study goes over Green banking initiatives in India as well as Green banking strategies. It also discussed the challenges and benefits of green banks.

**KEYWORDS:** Green Banking, Strategies, Initiatives, Challenges and Benefits, Indian banking system

### Introduction

Global warming is causing significant climate change all over the world, putting many places at risk of natural disasters. Combating the effects of global warming is a critical priority. Everyone can contribute to environmental protection. Small changes in our daily lives can have a significant impact on the environment. Banks, through green banking, are also contributing to this effort. Green banking is a newer financial phenomenon. Banking that considers social and environmental impacts in

order to protect and preserve the environment is included. Banks intend to increase goodwill or improve brand image by demonstrating their commitment to save and protect the environment and to reduce lending to certain environmentally harmful projects. They can perform the necessary environmental due diligence checks.

Green banking was first introduced in the state of Florida in 2009. In India, the largest commercial bank, SBI (State Bank of India), took the lead in establishing higher sustainability standards and initiating the "green banking" initiative.

### Green Banking:

Green is quickly becoming a global symbol of environmental awareness. A "Green Bank," according to the Indian Banks Association (IBA), is "a bank that takes into account all social and environmental / ecological factors with the goal of protecting the environment and conserving natural resources."

Green banking in the banking industry entails technological advances, operational improvements, and a shift in customer behavior. It entails promoting eco-friendly practices and lowering the carbon footprint of banking operations. It is a proactive and foresighted approach to long-term sustainability.

Although banking activities are not physically linked to the environment, their customers' activities have a significant external impact. Banks should promote products, processes, and technology that reduce the environmental carbon footprint significantly. Hart and Ahuja (1996) discovered a link between environmental performance and financial performance. Previously, banks were only concerned with their financial performance; now, they must also consider their social and environmental performance. Green banking is about more than just corporate social



responsibility; it is about making society habitable without causing significant harm.

### **Review Literature**

“Sahoo, Pravakar, and Nayak, Bibhu Prasad (2008)” According to their research article on Green Banking in India, the banking sector is one of the major stakeholders in the industrial sector; it faces credit risk and liability risk. Furthermore, the impact on the environment may have long-term implications for asset quality and bank rate of return. Suresh Chandra Bihari (2010) examined the social responsibility of the banking sector in his research article. He concluded that banks' roles in mitigating environmental damage are critical. Banks must examine the effects of their lending and investment decisions because of the relatively indirect nature of their environmental and social impacts. “Dharwal, Mridul, and Ankur Agrwal (2011)” According to their research article "Green Banking: An Innovative Initiative for Sustainable Development," these Indian banks must be fully aware of the environmental and social guidelines that banks all over the world have agreed to. Indian banks lag far behind their counterparts in developed countries when it comes to green banking. According to “Goyal and Joshi (2011)”, Social and ethical issues, such as social banking, ethical banking, green banking, global banking, rural banking, and agri-banking, among others, help to develop sustainable banking and finance. They came to the conclusion that banks can play a social and ethical role. “Sarita Bahl (2012)” Green Banking- the New "Strategic Imperative on Public Sector Banks" carried out an empirical study and collected manager perspectives on green banking financial products, carbon footprint reduction through paperless banking, carbon footprint reduction through energy consciousness, carbon footprint reduction through mass transportation systems, carbon footprint reduction through green building and social responsibility services, and carbon footprint reduction through social responsibility services.

### **Objectives of the study**

1. Gaining knowledge of green banking and its related challenges and benefits.

2. To study about the green banking products existing in India.

3. To evaluate the Green banking initiatives in India

4. To make recommendations on how to support green banking in India.

### **Research Methodology**

The information was gathered from a variety of secondary sources. It was culled from a variety of published sources, including books, journals.

### **Green banking product coverage includes:**

Green banking contributes to the development of novel and far-reaching market-based solutions for customers. In response to consumer demand for environmentally friendly options, banks are developing new products and services. Green banking products include the following:

**Green loans:** GL are loans made to projects or businesses that are measured environmentally sustainable.

**Green Mortgages:** A mortgage that offers a cash discount or a larger loan than usual in exchange for energy-efficient improvements or the purchase of a home that meets specific energy-efficiency standards.

**Green Credit Cards:** Credit cards are becoming more environmentally friendly, whether through eco-friendly rewards, the use of biodegradable credit card materials, or the promotion of paperless banking.

**Green Saving Accounts:** Banks make contributions based on customer savings in the case of Green Saving Accounts. The more they save the greater the benefit to the environment from bank contributions or donations.

**Mobile banking and online banking:** These new banking forms cut down on paperwork, mail, and bank customer travel to branch offices, all of which help the environment.

**Green car loans:** Customers who purchase electric or low-emission vehicles are offered lower interest rates.

**Green savings and bonds:** These enable people to invest in projects that address environmental or social issues.

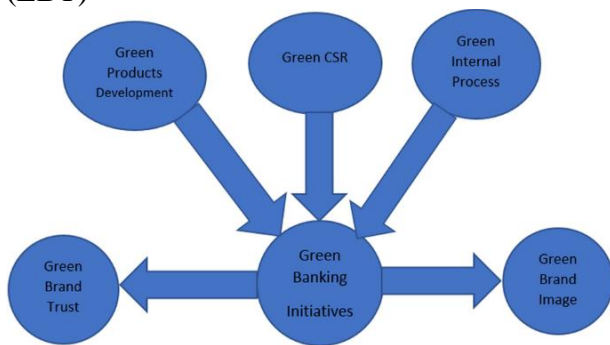
### **Green banking initiatives in India**

National banks have been established in the United Kingdom, Australia, Japan, New Zealand, and Malaysia to leverage private

investment in clean energy technologies. Green banks have facilitated approximately \$30 billion in clean energy investment globally.

The Indian government has issued Green Initiatives guidelines to banks. The government has requested assistance from all public sector and regional rural banks in carrying out its green initiatives by:

1. Expand the use of electronic payments.
2. Expand the use of the Core Banking Solution (CBS).
3. Expand the use of video conferencing.
4. Provide all banks with a centralized payment system via a sub-membership route to facilitate direct Electronic Benefit Transfer (EBT)



### BENEFITS OF GREEN BANKING

Green banks were still in their infancy, and restricting their operations to a smaller customer base would hurt their profits. Biswas (2011) highlighted the difficulties that green banks face. Green banks had higher operating costs because their customers required specialized talent, skills, and expertise, and their reputation suffered if they were involved in socially and environmentally damaging projects. The author also discussed the societal benefits of green banking, which include free electronic bill payment services, e-remittance services, e-statements, online account opening, and cash backs for new customers who open green accounts, among other things.

### CHALLENGES OF GREEN BANKING IN INDIA

It is not advantageous to banks during a recession because it takes three to four years for a bank to start making money. To provide proper services to customers, green banks

require talented, experienced staff, which raises the operating cost.

The major challenges in India's Green Banking operations are as follows:

i. **Diversification:** Diversification is a significant challenge for Green banks because it impedes transactions with business entities that pass the screening process. Green banks will have a lesser customer base to support them because they have fewer customers.

ii. **Start-up Face:** More than a few banks are still in the early stages of developing Green products. It is not advantageous to banks during a recession because it takes three to four years for a bank to start making money.

iii. **Operating Cost:** To provide proper services to customers, green banks require talented, experienced employees, which raise operating costs. Loan officers with experience working with green businesses and customers are needed.

iv. **Brand Risk:** Green banking operations will harm the environment and jeopardize bank brand reputations. In a few cases, an environmental management system has come out with cost savings and increased value of bond.

v. **Credit Risk:** It results from lending to customers whose businesses are threatened by rising pollution costs, changes in environmental regulations, and new emission limits. It is higher as a result of the increased likelihood of customer default due to unplanned capital investment in manufacturing facilities, loss of market share, and third-party claims.

vi. **Specific Banks:** A Green bank's primary goal is to provide financial assistance to those who care about the environment. Environmental protection does not always imply "profitability." Hopefully, this premise will be proven false in this case, and green banks will demonstrate that they can thrive even in the face of stringent business requirements.

**Green banks are better for the environment.**

Green banking raises public awareness of the effects of global warming; it raises public awareness of environmental and social responsibilities; and it supports the



development of new environmentally friendly projects.

### **Green Banking Strategies**

Incorporating social and environmental objectives into bank development objectives, aids in the development of an efficient environmental management system. Banks that have implemented environmentally and socially responsible financing and making investments strategies, according to Krebsbach (2005), were making changes to their bond underwriting, investment banking, and corporate lending processes. Because society is aware of environmental issues, these banks have a competitive advantage over others. In contrast, the author proposed that banks implement green lending principles in a way that does not harm their customer base. The author said "Credibility comes from having high standards, but if you push the standards too high too quickly, it may stop some banks from lending and have a serious impact on companies that needs capital".

In the banking industry, environmental management is similar to risk management in that it reduces credit risk, improves asset quality, and increases enterprise value. Banks should conduct Environmental Impact Assessments (EIAs), in which they design an environmental system to evaluate the risk involved in various projects before investing in them, as well as the Annual Reporting System (ARS), in which they prepare an annual report on environmental risk guidelines for each project in which they invest or finance.

### **Conclusion and Suggestions**

Green banking methods entail more than just being environmentally conscious. It provides numerous benefits to the bank, including risk and cost reduction. Improvements to the bank's standings and environmental support, as well as enhancements to the bank's reputation. Green banking, in general, serves both the bank's commercial goals and its corporate social responsibility. In order to compete and survive in the global market, Indian banks must recognise their environmental and societal responsibilities.

The Reserve Bank of India and the Union Government should take the lead in developing

Green policy guidelines and financial incentives to promote effective Green banking adoption. Here are some ideas to help banks promote green banking:

- Use the press to communicate the implementation of green banking policy.
- Create websites and disseminate information about green banking initiatives.
- Educate people through E-learning programmes.
- Include green banking activities in annual environmental reports.
- Development of relevant skills among bank employees through training and development
- Banks may create innovative financial solutions that consider the environment.
- Banks may set up Green-funds for customers who want to put their money into environmentally friendly projects.

With growing concern about global warming and environmental conservation, Indian banks are becoming more sensitive to their customers' environmental desires. As new initiatives, green products and environmentally friendly policies are being implemented. However, there is still much work to be done. Green banking should be viewed as a necessity rather than a desirable goal by Indian banks in order for them to be effective. This endeavor will undoubtedly help them create long-term value for their business. Increase customer awareness of green banking by promoting various forms of electronic banking on their websites. Raising customer awareness through media and lowering one's carbon footprint through energy and paper conservation reducing their carbon footprint by providing employee transportation and providing environmentally friendly incentives to customers. By funding an increasing number of environmentally friendly projects and becoming involved in an increasing number of environmental causes, as well as focusing on greening IT infrastructure.

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