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Green Banking in India: Way to Sustainable Growth

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Abstract

On planet earth, the rich biodiversity and the varied flora and fauna along with the changing climate, weather, natural resources, all the components are integral to sustainable development. Due to the turbulence in nature, many countries are promoting pathways for environmental development at par with economic growth and are "Going Green". It is the need of the hour and Banks being the backbone of the economy and of prime importance can help in providing with the ideas and vision for financing portfolio projects that create a strong and successful low carbon economy. The objective of the study is to highlight the responsiveness of banks in India towards the environmental uproar and to understand the action plan towards adoption of green banking practices. In the study parameters based on awareness, implementation, gaps and drivers for green banking practices in India have been studied. The performance of regional rural banks has also been mapped to study the level of their participation in green banking. The research has been conducted using a structured questionnaire in addition to the secondary data obtained from published reports. The results show that only a very small subset of Indian banks have recognized the opportunity of green banking and are vigilant in dealing with environmental issues. Also on a global front, despite a number of initiatives taken and the potential opportunities arising, Indian banks have shown a tepid response. This is evident from the number of signatories in United Nations Environmental Program- Finance Initiative (UNEP-FI, 2014) where only two of them are Indian namely, Yes Bank Ltd and Infrastructure Finance and Leasing Corporation. The main deterrent for Indian banks probably is the risk of losing business to competition whereas the major drivers are shareholder pressure and improvement in brand equity and value addition. For making the topic of green banking more inclusive, clear RBI mandate, training and development, reduction of information asymmetry will play a pivotal role.

Keywords: Brand Equity, Green Banking, Going green, Low Carbon Economy, Portfolio Project, Sustainable Development

1. Introduction

Numerous environmental movements lead to the genesis "sustainable development" that was defined in 1987 by the World Commission on Environment and Development as:

"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs". However it was in Summits such as the Earth Summit in Rio, Brazil, 1992, when the phrase came to mainstream when production of national sustainable development strategies of all countries was recommended. However, the pace of movement in this direction has been tardy. Since banking sector is the backbone of the economy, and therefore one of the major stake holders, it plays a primary role in developing the economy and managing the resources. Banking sector is generally considered clean and eco friendly in terms of emissions and pollution. Also, the environmental impact of banks is not directly related to banking activities, but through the business of its customers. Management of environment is similar to risk management as it increases the value and lowers the possibility of loans becoming non-performing as the asset quality rises with better portfolio of customers. This also lowers the probability of credit risk. Thus the banks should assess the vital role they play in managing the equilibrium between financial and environmental aspects and go green. Banks should accord priority to industries that have adopted environmentally friendly investments and are making serious attempts to preserve the ecological balance. Financing using the method where the banks gives priority to companies who are going green and are in the process of restoring the natural wealth is called as "Green Banking". According to Indian Banks Association (IBA, 2014) "Green Bank is like a normal bank,

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which considers all the social and environmental / ecological factors with an aim to protect the environment and conserve natural resources". The phenomenon is mutually beneficial for the community, bank and the industry as a whole. It is also called as an ethical bank or a sustainable bank. After the financial sector crisis, a new segment of banks that apply probity of sustainable development and responsible business has been budding. The three principles of sustainability (people, profit, planet) have been applied in conducting its business by green bank. Accordingly the customers and industries change their product portfolio and take this movement forward. Green financing is a facility by banks, which means provision of advancing credit facilities to borrowers who have met the environmental regulations. Going green is indispensable for banks as the quality of assets and profitability, both depend upon the environmental and ecological aspects. This aspect takes care of the corporate social responsibility and is the ecological balanced approach that banks should follow.

1.1 Review of Green Products & Services

Following are the products that can be provided by the banks to transform their processes to "Go Green":

- Green mortgages
- Green loans
- Green credit cards
- Green savings accounts
- Green checking accounts
- Green CDs
- Green money market accounts
- Mobile Banking
- Online banking
- Remote deposit (RDC)

1.2 Green Banking Scenario in India

India being one of the most fast emerging economies of the world has a vital role in ensuring that development and growth are sustainable in nature and the any adverse impact of industry on ecology should be avoided. The country emits 6% of the total global CO_2 emission[2] with the metropolitan cit-ies contributing the maximum to greenhouse emissions. The various polluting industries in India are primary metallurgi-cal industries namely zinc, copper, steel etc., paper & pulp, pesti-cides/insecticides, fertilizers, tanneries, sugar, textiles, chemicals/pharmaceuticals etc. These industries rely heav-ily on banks for funding needs. Thus, the banking operations should ensure that financing is provided to the company's managing environment and ecology to keep the nature in equilibrium. The Reserve Bank of India (RBI) issued a circular Dec 2007, emphasizing the important role banks play in estab-lishing institutional mechanisms to contain sustainability and so to act responsibly. One of the primary lenders to MSME sector, SIDBI, has committed itself to achieve sustainability by incorporating Environmental and Social (E&S) aspects in its core business. The company has to produce a NOC (No Objection Certificate) of 'Consent to Establish' from the respective State Pollution Control Board before the enterprise takes up the implementation of the project. This is stipulated as a precondition before sanctioning the credit. The objec-tive of the study is to highlight the respon-siveness of banks in India towards the environmental uproar and to understand the action plan towards adoption of green banking practices. In the study, parameters based on awareness, imple-mentation, gaps and drivers for green banking practices in India have been studied. Also the initiatives of RRB's on sustainability have been studied.

To achieve the objective, the research paper is divided into following sections, Section I i.e. the present section gives the basic insights and introduction on green banking, and its adoption in Indian banking sector followed by Section II which gives detailed review of literature, Section III gives description of data and methodology used to achieve the objectives of the study. Section IV gives Analysis and Interpretations of the results, followed by conclusions and recommendations in section V. References are contained in the last section.

2. Review of Literature

Numerous studies and research has been conducted in the area of sustainable development and green banking in particular across the globe. Hart[3] proposes a natural resource based view of the firm and establishes the relationship of the firm with the natural environment stressing upon the importance of pollu-tion prevention, sustainability and product stewardship. Jeucken[4] in his study of 3 global regions of Europe, North America and Oceania from 1998 to 2000 showed that 53% of the banks under study had adopted a defensive position towards the envi-ronmental whereas most of them were unaware of the role they can play towards sustainability. Meier[5] in his study high-lights the influence of development theory on policymaking and on the mixed record of successes and failures in promot-ing development efforts. It focuses on the essential ideas in the evolution of development thought and policy. Sahoo[6] con-cludes that banks and other financial institutions in India play an active role in the development process, even though there has not been much initiative towards this process. Also the author points out that it is high time that India adheres to the inter-national protocols like UNEP-FI or Equator principles that use environment-sensitive parameters. Dash[7] uses case study approach of Triodos Bank, headquartered in Netherlands argues that although the internal operations of the bank do not impact the environment directly, yet through the external firms that use the banking products, the impact is substantial. Mor[8] emphasizes on importance of risk management and sustain-able investment guidelines, taking care of emission trading and clean technologies. Sahoo and Nayak[9] emphasized that as environment has an impact on the asset quality and profitability of the banks in the long run, the banks should promote green banking and heed to environmental and ecological aspects in the process of lending. Biswas[10] emphasizes that for Indian banks to penetrate the western markets, it is imperative to rec-ognize their responsibilities as global corporate citizens as they have significant influence over the safeguarding of fragile social groups and environment. At this time they must seriously con-sider their attitudes towards responsible lending both nationally and globally. Kalia[11] emphasizes on the importance of sus-tainability reports , a proper reporting framework, stakeholder engagements and carbon footprint mapping of operations of the firm. He further states that sustainability starts from being profitable but is later extended to value creation in society and environment for stakeholders. Goyal and Joshi[12] highlight the issues pertaining to ethical banking that affect the social or ethical platforms. The conclude that banks that are socially and ethically responsible organizations, should provide credit to only those organizations that take care of the environmental concerns, even if it slows the industrial growth. Kandavel[13] posits that the initiative for environmental and ecological aspects as part of credit advancement decisions should be taken by banks. This will force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems. Masukujjaman& Aktar[14] in their study of banks in Bangladesh point out that the country is lagging behind its coun-terparts from developed nations, however a transition towards green banking is visible and conclude that by accelerating its movement towards green banking initiative, the banks will ben-efit themselves and also the larger community. Laxman[15] states that RBI and Indian government should be proactive in policy formulation. Also awareness regarding environment friendly processes should be created among the wider society and it is important that Indian banks recognize their environmental and social responsibilities for effective green banking.

The reviews evidently point that green banking adoption is the need of the hour and banks across the world are putting their best endeavors to promote the practice of "going green" and accepting that sustainable development is the only way forward. The present study is a modest attempt in this direction to identify the gaps, regulatory challenges and factors to achieve sustainable development in Indian banking industry. The study also emphasizes on the implications for policymakers that will eventually help in overcoming the obstacles and impediments towards achieving sustainability.

3. Data and Methodology

For the research, structured questionnaire and personal interviews of financial expert's, academicians, environmental experts, industrialist, business Corporate and bank managers, including regional rural banks (RRB's) were conducted across the public and private banks located in Delhi/NCR to collect the actual green bank practices in India. The responses were analyzed to study the awareness and implementation of green banking. These responses were analyzed keeping in mind the internal processes, credit policies and business operations to draw conclusions and suggestions for further policy formation. Statistical tests have been performed on the data available from questionnaires to test for reliability using Cronbach's Alpha. Adequacy of the sample was tested using Bartlett's Test Kaiser-Meyer-Olkin (KMO) measure. The One-Sample T Test was performed on the data to compare the mean score of the sample. Other secondary data was collected from RBI website.

4. Analysis and Interpretation of Results

Going green is the only way that banks can sustain the business model and can grow in the long term. It involves having a judicious mix of technology and changing clients habits for maintaining the ecological balance.

An analysis of the questionnaire to test the adequacy of the sample was done using KMO and Bartlett's Test. The KMO is an index used to examine the appropriateness of factor analysis. High values (in the range of 0.5 and 1.0) indicate factor analysis is appropriate. The table below shows that at 5% significance level, sample is adequate with the value of KMO factor as 0.793.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy 0.793		
Bartlett's Test of Sphericity	Approx. Chi-Square	80.459
	Dof	15
	Sig	0.00
	Cronbach's alpha	0.781

The test of reliability has been performed to measure the interrelated items that measure the underlying constructs to check whether the same set of items would elicit the same responses if the same questions are recast and re-administered to the same respondents. Cronbach's alpha reliability index is used to measure the construct variable with 0.7 being the acceptable value, the sample gives the value as 0.781 which is acceptable. Using the One-Sample T Test, population mean is shown significant at 5% significance level.

	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
VARIABLE	15.639	30	0.000**	1.37802	1.1548	1.5227

The results reveal that the data has normal distribution as shown below:

N	Missing: 10	26
Skewness		−1.338
Std Error of Skewness		.471
Kurtosis		.484
Std Error of Kurtosis		.864

From the answers of the questionnaire, it was found that Indian banks are very slow in their preparation to handle environmental concerns, however they are completely aware of the green issues even though only 94% of them have implemented the practices for going green although 90% have been able to undertake the steps and initiatives to offer products that maintain harmony in the environment. 100% banks while evaluating the projects have a criteria for green and clean energy implementation. The participation of foreign banks is the highest in international initiatives of UNEFP (50%), UN Global Impact (95%) and Carbon Disclosure Project (25%) followed by private banks and then public sector banks where involvement in UNFEP is only 3%. The answers also depict the significant internal drivers for banks to follow ethical banking for business sustenance are primarily social pressures from shareholders to promote socially responsible operations that also lead to rise in shareholder value, perceived benefits and long run profitability. Also, it promotes the marketing benefits by way of brand building and reputation that are significant drivers. The factors external to the banks that drive the green banking scenario are social responsibility and environmental benefits and future opportunities. In order to reduce the carbon footprints, the organizations are judiciously utilizing their purchase inventory, adopting recycling as a method and educating their employees and customers using internal communication as a key for espousing eco friendly alternatives. 100% of the bankers of public, private and foreign banks agreed that pursuance of green banking initiatives and sustainable development model has impacted their financial performance positively.

Using factor analysis, following challenges in implementing green banking were found, as pointed by the banks :

- The main reason for majority of banks was 'Risk of failure of business to competitors' ;
- Lack of clear mandate by RBI towards the sustainability
- Cumbersome reporting systems
- Insufficient budgets for training of employees

The major internal and external drivers for employing sustainable banking included:

- Rising shareholder value and perception of long run benefits and profitability
- Pressure from investors to invest in the Socially Responsible Manner
- Brand building exercise
- Corporate social responsibility

The questionnaire and interviews lead to identification of gaps that are to be filled by the regulatory authorities. These are:

- Requirement of guidelines by RBI and formal frameworks
- Clear policies pertaining to green banking adoption by the banks
- Reducing information asymmetry and expansion of platforms where sustainability issues and methods can be discussed
- Training programs for employees, customers of the banks to promote the initiative.

The second stage in analysis involves the study of green initiatives taken by regional rural banks (RRB's) in Delhi/NCR. It was found that out of total of 28 RRB's researched, around 25% were working on 100% Core Banking System (CBS) and had adopted the technology for increasing efficiency and to uphold the system for paperless banking. Also 22% of them had issued ATM cards to provide round the clock banking service to customers and also encourage paperless banking. Technological benefits have also been recognized by the banks as 2 of them, namely Wainganga Krishna Gramin Bank (Bank Of Maharashtra) and Jharkhand Gramin Bank (Bank Of India) have provided with the facility of internet banking. This will further reinforce sustainable development. Around 15% of the RRB's are also extending credit facilities and other financial products to customers for setting up of solar grid installation or solar power equipments to promote the use of alternate source of energy. Visveshvaraya Grameena Bank (Vijaya Bank) has a vision of A Technologically Driven Organisation with Sustainable Viability. Financial inclusion and financial literacy for customers and people who have been outside the ambit of banking services till now, is being provided by all the RRB's.

In this direction, Punjab Gramin Bank (Punjab National Bank) had been awarded Skoch FI 2011 award by the Skoch Foundation (INDIA) for Micro credit facility. To overcome the power shortage problem, Pallavan Grama Bank (Indian Bank) on a pilot basis had set up a 1.44KWh solar power system in Ammapettai Branch in Erode District at a total cost of ₹4.32 lakh to power the entire branch electrifications, computer systems, scanners and printers. Prathma Bank (Syndicate bank) has been a awarded INDIA POWER AWARDS for the years 2008–09, 2009–10 & 2010–11.

The section evidently points that policy framework and formulation by RBI is required for the evolution and universal acceptance of green banking that will further contribute positively to the environment leading to sustainable development.

5. Conclusions and Recommendations

The pro activeness of public sector banks in adoption of green banking initiatives is very tardy and it is the need of hour to adopt sustainable and ethical banking for positive results, financially as well as socially. Regional rural banks have been faster in embracing the initiatives and have contributed more to the green banking channel. Indian banks have to recognize their responsibilities as global corporate citizen to penetrate in the western markets. The role of RBI in providing a confirmative direction to the banks is vital. More eco friendly banking products, better and innovative service channels, paperless banking, customer education should be encouraged so that minimal damage is done to the environment and maximum benefit is gained. The research also points out the challenge of losing business to peers and lack of clear RBI policy as the major barriers to adoption of green banking. Diverse reasons like lack of trained personnel, too little budget also are a hurdle to sustainable development. The paper also studies the major drivers internal and external that have lead to implementation of ethical banking.

5.1 Recommendations

Following are the recommendations from the study:

- The banks should adopt international best practices for sustainability of the environment, reduce their carbon footprint and relate the business models with environment, society and governance aspects.
- The role of RBI is primary in facilitating the banks with clear mandates and frameworks for sustainable development.
- Environmental authorities have to be more serious and stricter about adoption of sustainable practices with regular energy audits and review of equipment purchases and disposal practices to be carried out on a timely basis.
- Bank should formulate Environmental Risk Management (ERM) policy guidelines and set up internal targets to reduce carbon footprints.
- Better training facilities for employees with sufficient budgets should be allocated to the banks for development and speeding up of reforms.
- Customer training programs, workshops should be conducted to facilitate the customers and make them aware of the green banking channels, paperless banking, online banking facility etc.
- LEED buildings should be adopted by banks where the use of renewable energy generated using solar power, water recycling, sewage treatment plants is encouraged.
- Banks should evaluate a project taking into consideration the impact of borrowers on ecology. Products like green loans and green mortgages should be advanced to the borrowers. Credit facilities at concessional rates should be advanced for development of solar, bio gas, wind and hydro plants.
- A separate dedicated Green Cell or Unit should be established in every bank to measure the practices of "green banking" using a measurable index.
- Products like green credit cards should be encouraged. Also, financial concessions should be provided to customers for using eco friendly products and services.
- Online banking, use of debit cards and ATM's, mobile banking etc should be encouraged to pursue paperless banking services.

Therefore, promotion of green banking is a win-win situation for banks, industries and the society at large. It promotes mutually beneficial banking practices and help in sustainable development.

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