

GREEN BANKING: AN APPROACH TOWARDS SUSTAINABLE ENVIRONMENTAL MANAGEMENT

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ABSTRACT

Green is becoming a symbol of *Eco consciousness* in the world. Ecological preservation and sustainable development are recognized globally as overriding imperatives for protection of our planet from the ill-effects of global-warming and climate change. Banks and financial institutions can play a major role in global efforts to mitigate environmental risks and make this planet a better place to live. Green banking is an umbrella term which refers to those practices and guidelines that make banks environmentally, economically and socially responsible. The world is very much concerned about the environmental issues in the global economy. Man-made gases like Chloro-fluro carbon, nitrous oxide, carbon dioxide and methane are found responsible for the distortion of climate. It has made a significant impact on biodiversity, forestry, agriculture, water resources, dry land and human health. Climate change is the most complicated issue the world is facing. Across the globe there have been continuous endeavours to measure and mitigate the risk of climate change caused by human activity. The present paper explores and examines green banking and sustainability, of the largest public sector bank in India i.e. The State Bank of India as case study.

KEYWORDS : Green Banking, Sustainable Development, Environment, Environmental Issues and Indian Banking Industry.

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1. INTRODUCTION

The banking sector can play an intermediary role between economic development and environmental protection, for promoting environmentally sustainable and socially responsible investment, banking of this kind can be termed as “**Green Banking**”. Green Banking refers to the banking business conducted in selected area and manner that helps the overall reduction of external carbon emission and internal carbon footprint. People nowadays are more conversant with global warming and its inherent consequences on human life. Society is facing most complicated issues of climate change. So change is the need of the hour for the survival and continuous efforts should be made for the environmental management in a sustainable manner. It is not only the concern of the government and the direct polluters but also of other stakeholders like financial institutions such as banks, which are playing a fundamental role in the development of the society. Banking activities are not physically related to the environment, but the external impact of their customer activities is substantial. So there is need for banks to adopt green strategies into their operations, buildings, investments and financing strategies. Many countries the world over have made commitments necessary to mitigate climate change. India has committed to cut its domestic carbon intensity by 20-25 percent from 2005 levels, by the year 2010.

Green Bank and Banking

Green is becoming a symbol of Eco consciousness in the world. 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**”. Banking activities are not physically related to the environment, but the external impact of their customer activities is substantial. Banks should promote those products, process and technology which substantially reduce the carbon footprint from the environment.

2.OBJECTIVES

The study mainly aims at understanding the green banking philosophy adoption by the bank. The paper attempts to review various guidelines for environmental conservation and sustainability along with the initiatives taken by the State Bank of India.

3. RESEARCH METHODOLOGY

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

4. REVIEW OF LITERATURE

Adoption of greener banking practices will not only be useful for environment, but also benefit in greater operational efficiencies. In the early 1990s, the United Nations Environment Programme (UNEP) launched what is now known as the UNEP Finance Initiative (UNEPFI) with the objective of integrating the environmental and social dimension to the financial performance and risk associated with it in the financial sector.

First Green Bank is a commercial bank based in Mt. Dora, Florida, United States which commenced its operations in 2009. Some of the big international banks like ABN Amro, Deutsche, Standard Chartered, HSBC Bank etc. look at environment issues discussed under Kyoto Protocol. Recognizing the warning of global warming the State bank of India has initiated urgent measures to combat the climate change by reducing the bank's own carbon footprint and sensitizing the bank's clients to adopt low carbon emission practices (Sharma, N., 2011). As far as Green Banking in India is concerned, the banking and financial institutions are running behind the schedules compared to global trends.

Moreover, there is negligible awareness of green banking among the customers, even the bank staff (Verma M. K., 2012). In the context Indian policymaking, National Environmental Policy (NEP) in 2006 brings out clear policies, principles and also rules to implement environmental rules and regulations. The impact of banking services on the environment is huge because, banks consume natural resources which add to the pressure on the environment (Srivatsa H. S., 2011). ATMs have been widely adopted but the level of adoption of other electronic banking means despite their potential are yet to pick in a big way.

5.SUSTAINABLE DEVELOPMENT AND 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
- ✚ Socioeconomic sustainability.

Sustainable banking as per the United Nations Environment Programme Finance Initiative (UNEP-FI, 2007) is defined as “*the process by which the banks consider the impact of their various operational activities and their products and services for meeting the needs of the current as well as the future generations*”.

Environmental Management by the Bank

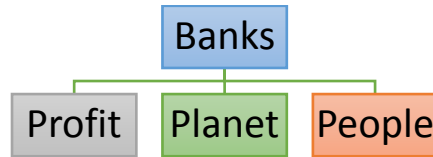
Banks play major role in the country’s economy and in the sustainable development. Bank being the major financier indirectly contributes to the environmental degradation by financing the projects and the industries whose activities put negative impact to the environment. Thus, the bank by their active participation in the lending business in a judicious manner can contribute greatly to the environment and to the society. Banks are now adopting various strategies where the projects are scrutinized using a set of tools that take environmental considerations. Banks are also encouraging projects that show its concern for the environment in the form of sustainable development, use of renewable natural resources, waste minimization, pollution prevention, occupational health and safety, energy efficient, care of human health and many similar attributes that tries for the betterment of the society.

The Environmental Risks for Banks

Banks are exposed to many risks that may lead the banks face loss in terms of reputation and profit. Banks may not get their money back which they have used to finance their clients and so can face credit risk and reputational risks. So, the risk to the banks from banks’ commercial lending activity is high. Thus, besides the liability from the banks’ own operations, greater risks

are from bank's commercial lending and can be categorized into following types (Weber et al., 2005; Weiler et al., 1997).

Fig.1 The Triple Bottom Line Approach



Risk of *Loan Default by Debtors* If the loan debtors violate the environmental legislations, then they have to pay extra cost as a cost of for clean-up. This extra burden of payment many times leads bank clients become financially weak and this makes them defaulter of repaying the loan to the bank. **Risk of Reduced Value of Collateral** If the property which the bank has accepted as collateral, gets polluted, then its value decreased due to the cost which is paid as clean-up cost. This risk increases the risk of the repayment of the expected amount. **Risk of Changing Market with Environmental Concerns** Due to increase in the environmental concern among the customers and release of strict environmental regulations, the survival of the organization without environmental concern is becoming very tough in the present times.

Risk of Bank's Liability

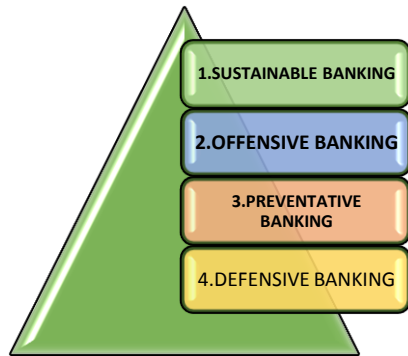
As banks may have direct business with the collateralized properties, banks become liable for the clean-up of contamination caused by the property.

Risk of Reputation Damaged

If the banks do not perform their environmental and social responsibilities, then this lowers the credibility of the bank among the public and thus causing loss of reputation of the bank.

6. STAGES OF SUSTAINABLE BANKING

Marcel Jeucken in his book "*Sustainable Finance and Banking*" (2001) has mentioned four phases action, that banks should adopt for sustainability. These stages include defensive banking, preventive banking, Offensive banking and Sustainable Banking. As depicted in Fig. 2 below, this model consists of the four phases which have been mentioned above. Each outer layer contains the previous layer expect of the first layer i.e., the defensive banking.

Fig.2 Typology of Banking and Sustainable Development (Jeucken, 2001)

According to Bouma et al. (2001), every bank normally follows these stages but the attainment of sustainable approach is the most difficult one for the banks. The banks continue to evolve according to the stakeholder expectation. Here the terms ‘defensive’, ‘preventative’ and ‘offensive’ are defined in context of environmental issues.

➤ **Defensive Banking**

In this phase, banks are not active and resist the environmental legislations as it affects the banks’ interest. Consideration of the environmental issues at this stage is an avoidable cost.

➤ **Preventative Banking**

Due to various driving forces like government pressure, non-government organizations, pressure from society etc., banks integrate the environmental issues and risk management activities in to their daily business activities (Bouma et al, 2001).

➤ **Offensive Banking**

In this stage, the banks not only consider their internal activities but also consider their external activities. The banks in this stage develop and market environmental-friendly projects. For example, Green financing i.e. investing in to environmental friendly projects. The focus is on financing various projects which work on renewable energy, investment funds that invest on environment friendly assets and release of various reports based on the environmental performance.

➤ **Sustainable Banking**

At this stage all the activities of banks are sustainable. Banks do not invest in the ecologically unsound business despite huge profit.

7. GREEN BANKING AT SBI

SBI had spelt out several initiatives within the bank to further the cause of green banking by:

- ❖ The inauguration of a windmill at Panapatti village, Pollachi Taluk, Tamil Nadu.
- ❖ Sensitizing employees through training, workshops and education programmes.
- ❖ By investing in efficient lighting systems, energy savers and waste water management.
- ❖ Mooting a project within the bank to determine its carbon footprint.
- ❖ Offer concessional rate of finance for projects that are green, or for implementing clean technologies in building concepts.
- ❖ Carbon Credit Plus is a product for financing carbon credit receivables. Transaction through the SBI ATM-Cum Debit card.
- ❖ **CSR Philosophy:** The Bank is a corporate citizen, with resources at its command and benefits which it derives from operating in society in general. It therefore owes a solemn duty to the less fortunate and underprivileged members of the same society. Staff members are encouraged to make their contribution by understanding the aspirations of the public around them and by endeavouring to evolve measures to remove indisputable social and developmental lacunae.
- ❖ **Green Channel Counter** the Bank had launched '*Green Channel Counter*'(GCC) facility on *State Bank Day* (01.07.2010), at 57 select branches of the Bank spread across the country. This was an innovative step taken by the Bank towards changing the traditional way of paper based banking in a limited way, to card based 'Green Banking' focusing on reduction in paper usage as well as saving transaction time. This is a pioneering concept which would save both paper and time resources.

8. CONCLUSION

Banks are responsible corporate citizens. Banks believe that every small 'GREEN' step taken today would go a long way in building a greener future and that each one of them can work towards to better global environment. '**Go Green**' is an organization wide initiative to lead banks, their processes and their customers to cost efficient automated channels. This will help in *reducing carbon-footprint* as well as in building awareness and consciousness about environment, nation and society. All over the world, banks and financial institutions are concerned about the overall impact of depletion of environment. To sustain the development of

the Indian economy bank and financial institution have to work more hard as compare to big foreign banks as they are playing important role in maintaining the sustainability of their country economy. Overall, green banking is really a good way for people to be more aware about global warming and will contribute a lot to the environment and make this earth a better place to live for future generations.

There is definitely a huge opportunity in clean, renewable energy technologies, emissions reduction and reduced-carbon transportation which can be slowly and steadily be achieved if we get cooperation from all sectors of the economy and bank being an integral part of our economy must lead from the front. 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*.

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