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THE CONCEPT OF GREEN BANKING IN INDIA

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Abstract
The present era of industrialization and globalization has added a lot of comfort and luxury to human life but has also lead to an alarming situation of huge environmental degradation incorporated with all the involved activities. Today, the entire sector in the world economy is facing huge challenge to deal with the environmental problems and their related impacts in their day to day businesses. Not only the business firms have realized the importance of the environment but more than that an immense awareness is seen among the consumers and general public for the same. Due to all these reasons the business organizations have started modifying their activities and strategies so as to ensure protection to our natural resources and environment. In this context the financial sector and especially the banks can play an important role in promoting environmental sustainability.

**"Banking is necessary…
Banks are not…"**

Introduction

In financial sector, the various services that have adopted green business are banks, stock brokerage companies, credit card companies and also the companies of consumer finance. The concern for environmental sustainability has given mass recognition to the concept of corporate social responsibility. The potential benefits of the concept has gained the interest of the regulatory authorities, society, NGOs, employees, customers as well as the international bodies to the issue. In this regard, this concern for environmental sustainability by the banks has given rise to concept of Green Banking. In an emerging economy like India, environmental management needs to be the key focus area of the business fraternity and especially the banking industry being the major intermediary. This would help the firms in the emerging economies utilize their limited resources in an optimum way without harming the natural environment and face the global challenge of sustainability in successful manner.

Importance of Green Banking

Environmental protection and awareness, and sustainable, ecological measures have emerged as significant themes of our age and an increasing number of "green" techno logies are also finding their way into the banking branch. Until recently, environmental concerns were not considered relevant to the business operation of banks and financial institutions. Traditionally, banking sector's concern for environmentally degrading activities of clients is like interfering or meddling in their business affairs. However, now it is being perceived that dealing with environment brings risks to their business. Due to strict environmental disciplines imposed by the competent authorities across the countries, the industries would have to follow certain standards to run their business. In the case of failure, it would lead to closure of the industry's leading to a likelihood of default to the bank. The importance of Green Banking is immense for both the banks and economy by avoiding the following risks involved in banking sector.

The adoption of green banking strategies will help the bank to deal with these risks involved in their business operation. Green banking strategies involves two components:

1. Managing environment risk
2. Identifying opportunities for innovative environmentally oriented financial products.

To manage environmental risk, the banks have to design proper environmental management systems to evaluate the risks involved in the investment projects. The risks can be internalized by introducing differential interest rates and other techniques. Moreover, bank can withdraw itself from financing high-risk projects. The second component of green banking entails creating financial products and services that support commercial development with environmental benefits. This includes investment in renewable energy projects, biodiversity conservation, energy efficiency, investment in cleaner production. Thus, the banking and financial institutions should prepare an environmental risk and liability guidelines on development of protective policies and reporting for each project they Finance or invest. They can also have an environmental assessment requirement for the projects seeking finance. Environmental concerns are integrated into the international trade policy and often act as trade barrier for environmentally sensitive goods (ESGs). So adopting environmentally sustainable Technologies or modes of production is no more considered as a financial burden, rather it brings new business opportunities and higher profit

Green Banking in India

Indian industry faces the challenges of controlling environmental impact of their business i.e. reducing pollution and emission of their clients. Though government has been trying to address the issue by framing environmental legislations and encouraging

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industry to follow environmental technologies and practices, public awareness and inability to derive competitive advantage by producing eco-friendly products.

India's is the world's sixth largest and second fastest growing country in terms of producing greenhouse gases. Delhi, Mumbai and Chennai are the three of the world's ten most polluted cities. The major polluting industries in India are –

a. Primary metal industries namely zinc, copper, steel etc.
b. Paper & pulp
c. pesticides/insecticides
d. Refines
e. Fertilizers
f. Tanneries
g. Sugar
h. Textiles
i. chemicals/pharmaceuticals etc.

The banking operation and investment by financial institutions should take care of environmental Management of these polluting industries by improving the overall environment, the quality and Conversation of life, level of efficiency in using materials and energy, quality of services and Products. In this context, the role of banking sector, which is on major financing sources to the Industries, assumes high importance.

Benefits

1. Green banking avoids paper work and makes use of online transactions such as Internet banking, SMS banking and ATM banking. Less paper work means less cutting of trees.
2. Green ethical banks adopt environmental standards for lending which would benefit future generations.
3. Green banks gives more importance to environmental friendly factors like ecological gains thus interest on loan is comparatively less.
4. Free electronic bill payment services.
5. Online account opening form for opening green account.
6. Cash back will be credited to all new customers, opening "green accounts".

Challenges

I. Diversification Problems: Green banks restrict their business transactions to those business entities who qualify screening process done by green banks. With limited number of customers they will have a smaller base to support them.
II. Startup Face: Many banks in green business are very new and are in startup face, generally it takes 3 to 4 years for a bank to start making money thus it does not help banks during recession.
III. Higher Operating Cost: Green banks require talented, experienced staff to provide proper services to customers. Experienced loan officers are needed with additional experience in dealing with green businesses and customers.
IV. Reputational Risk: If banks are involved in those projects which are damaging the environment they are prone to loss of their reputations. There are also few cases where environmental management system has resulted in cost saving, increase in bond value (Heim, G et al, 2005)
V. 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.

Green Banking: Environmental Policy

Ask your bank or building society if they have an environmental policy in place, and what it covers. Most banks usually include green and ethical commitments in their manifestos - but there is a lot of difference in these commitments from bank to bank. The first bank to set this precedent was the Co-Operative bank, whose lead has set an example to the rest of the banking world. Their environmental policy document is readily available for view, and includes sections on human rights, the arms trade, ecological impact, corporate responsibility, animal welfare and carbon neutrality.

Ethical Investments

A key aspect to green banking is the commitment that your bank will put your money into ethical, good natured sections of investment. In the past, it's been unclear where the money you put into a bank actually goes - and less than reputable destinations, such as those that fund the purchasing of weapons and war related activities could well have received funds from your bank, or

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even from your money without you knowing it. Using a green bank gives you the reassurance of knowing where your money is - and isn't - going to when you go to deposit your cash.

Carbon Neutral Banks

Given the global nature of the banking industry, it would be reassuring to know that your chosen bank operates as a carbon neutral business. Well, more and more businesses, including banks, are turning themselves into carbon neutral operations, meaning that the amount of CO2 emitted during the day to day activities of that bank is neutralised by another activity that utilises or uses CO2. The first high street carbon neutral bank in the UK was HSBC, though smaller banks such as the Norwich and Peterborough building society have been commended for pioneering the carbon neutral campaign

Putting Your Money to Better Use

Rather than committing not to put your money to bad or unethical use, some banks are also committed to specifically putting your money to good use. This includes projects funding renewable energy technology, regeneration in the developing word and investments to worldwide organisations for aid, environmentalism and human rights. Ask your bank if they can offer you an ethical account or investment plan. They will be able to explain which investments they will be supporting with your money, and give you a progress report on how it is going.

Conclusion

Sustainable development can best be achieved by allowing markets to work within an appropriate framework of cost efficient regulations and economic instruments. One of the major economic agents influencing overall industrial activity and economic growth is the financial institutions such as banking sector. In a globalized economy, the industries and firms are vulnerable to stringent environmental policies, severe law suits or consumer boycotts. Since banking sector is one of the major stake holders in the Industrial sector, it can find itself faced with credit risk and liability risks.

Further, environmental impact might affect the quality of assets and also rate of return of banks in the long-run. Thus the banks should go green and play a pro-active role to take environmental and ecological aspects as part of their lending principle, which would force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems. This paper explores the importance of Green Banking, sites international experiences and highlights important lessons for sustainable banking and development in India. However, we find that there has not been much initiative in this regard by the banks and other financial institutions in India though they play an active role in India’s emerging economy. Therefore, we suggest possible policy measures and initiative to promote green banking in India.