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### Role of banks in sustainable economic development through green banking

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#### A B S T R A C T

Sustainable development and protection of environment are now recognized globally as overriding imperatives to protect our planet from the ravages inflicted on it by mankind. Green Banking is a way to sustainable economic growth. Banks play a critical role in economic development and they are well equipped to undertake Green Banking activities. A new emerging mantra within the banking sector is going green. The term 'Green' refers a broad range of social, ethical and environmental dimensions. Green Banking is one of the banking activities that concentrate on socio – economic and environmental (Ecological) factors with an aim to protect the environment and conserve natural resources. Since banks are one of the important professional institutions that interact with the masses, they are able to adopt green activities within their organizations and influence their customers to come about the environment. Green Banking is a multi – stakeholder's endeavor where banks have to work closely with government, NGOs, IFIs/IGOs, Central Bank, consumers and business communities to reach the goal. Green initiatives by banks include internal environment management, environmental financing/product ecology, environmental disclosure and reporting, formulating and adopting principles and promoting other stakeholders.

### Introduction

Over the past century, the world has fallen into a pattern of unsustainable economic growth. Accelerated consumption of fossil fuels and deforestation are only the most visible examples of this. Green Banking is a way to sustainable economic growth by creating a buzz in the financial world. It is a form of banking taking into account the

social and environmental impacts and its main motive is to protect and preserve environment. The present situation increasingly demands a transition to a green economy that does not worsen climate change or destroy the planet in order to profit. 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. “ A strong banking sector provides for the creation of jobs, generation of wealth, and eradication of poverty, entrepreneurial activity, and overall prosperity of the country. Along with socio economic activities, banks are increasingly involved in environmental protection and activities to reduce carbon emissions by introducing green banking practices.

In general, Green Banking refers to the efforts of the banking sector to keep the environment green and to minimize green house effects through in-house operational activities and green finance. Two major approaches of Green Banking are green transformation of internal operations and environmentally responsible financing (Md Shafiqul and Prahalled -2013).Green Banking internal operations includes online account opening, online banking, mobile banking, SMS banking, net banking, e-fund transfers, as well as the use of ATM, cash and cheque deposit machines, credit and debit cards, e-statements, SMS alerts, email correspondence, image statements and more. The purpose of green finance is to provide financial assistance to green technology and pollution reduction projects to reduce external carbon emissions. Major steps involved in Green Banking are online banking which involves paying bills online, online fund transfer, e- statements etc, Green accounts, Green financing, power saving equipments, Green debit cards/ credit cards, save paper and mobile banking.

### **Objectives of the study**

The present study is conducted with the objective of assessing the role of banks in sustainable economic development through Green Banking activities.

### **Data Base and methodology**

In pursuance of the above mentioned objective the following methodology was adopted. The present study is based on secondary data. The secondary data required for the study is obtained from the reports of various Banks, various seminars and workshop information and other relative information published on the banks and other internet sites.

### **Green Practices of Banks: A Global View:**

Speakers at workshop organized by Bank Asia observed that Green Banking can be an avenue to reduce pollution and save the environment aiding sustainable economic growth. Geothermal heating and cooling systems, energy efficient lighting, using recycled materials for construction and adopting conservation policies are the green business principles adopted by Chicago's new green bank. Halton National Bank in Sri Lanka will add energy savings of 30% and water savings of 70% which will help offset the cost of building the environmentally friendly branch. Pallavan Grama Bank has opened a solar-powered bank branch in Ammapettai in the Erode district, which was partially supported by the Union and Tamil Nadu Governments. Silicon Valley Bank is a clear leader in funding green projects. They focus on the areas of population growth, pollution and limited natural resources. New Resource Bank offers a personal banking option that makes life easier for its customers as they support the green banking mission. Triodos Bank is a global bank with a focus on financing organizations such as organic food businesses, renewable energy enterprises and nature conservation project are the major green practices adopted by them. Bangladesh Bank issued policy guidelines for developing Green Banking practices and

Environmental Risk Management and circulars to handle climate change. Besides this The Central Bank introduced facility for financing solar energy, biogas and effluent treatment plant at only 5 percent interest rate. New York Bank focuses on Green Bank, which will expand the clean energy market by boosting private sector investment.

### **Green Initiatives by Indian Banks**

**RBI:** As a part of Green Practices, RBI has issued guidelines for banks to take proactive steps for increasing the use of electronic payment systems, elimination of post-dated cheques and gradual phase out of cheques in their day-to-day business transactions. On behalf of this, other banks such as NABARD, SIDBI, EXIM Bank etc would take up the e-governance initiatives in a proactive manner. Through these initiatives, it is expected that on one hand, the quality and efficiency of the service delivery will improve and on the other, banks will gradually move towards less paper based transactions.

**Punjab National Bank:** Climate change is one of the most critical global challenges facing today. As one of the leading financial institutions PNB recognizes that the health of the economy rests on the health of the planet. Green Initiatives taken by the Bank included promotion of rainwater harvesting, reduced use of paper by using email for inter-office communications, reduced power consumption through various energy conservation measures and conducting tree plantation drives. Bank organized more than 290 Tree Plantation Drives. The Bank has begun conducting Electricity Audit of offices as an energy conservation initiative. Bank is also emphasizing on green buildings and earnestly encouraging simple Green practices such as opting for energy efficient lights, printing on both sides of paper,

purchasing composite fax machines which can perform multiple functions, immediate repair of water leakage, use of master censor /master switches for light etc. Further Bank has signed “Green Pledge” of the Ministry of New and Renewable Energy. As a unique green initiative, Ernakulum circle of the Bank has set up a butterfly park in the compound of the Guruvayur Temple which houses 18 types of medicinal plants. Mainstreaming environmental protection into credit process, Bank has formulated guidelines to ensure that all necessary statutory and other approvals/permissions including from the Pollution Control Board have been obtained before disbursement of term loans. In all project loans, compliance with environmental and social safeguards including resettlement and rehabilitation of project affected people is to be ensured as pre-disbursement condition. Further, Bank has in place guidelines for providing finance to units producing clean energy such as, solar energy, wind energy and hydel energy on merits of each case which help in containing Green House Gases (GHGs) emissions leading to clean environment. To curb financing of units and activities which use Ozone Depleting Substances (ODS), Bank has evolved guidelines. Besides, the Bank is considering steps for promotion of Sustainable Development with particular reference to IFC Principles on Project Finance (The Equator Principles). Wind energy is emerging all over the world as an important source of clean energy. Towards promotion of this source of energy, Bank has envisaged to provide up to 1% of its total advances to this segment. During the year 2010-11, Bank sanctioned 9 wind energy projects with aggregate limit of ₹ 185.81 crore.

**ICICI:** As a part of sustainable economic development, ICICI conducted paperless initiatives like e-statements and e-greetings

which help to save 30,000 trees from being felled and 16 crore litres of water through green initiatives. Besides this ICICI Bank attempts to support other organizations in their endeavors to “Go green” by funding and managing green technology projects. This bank tried to reduce its footprint by providing customers alternate and non paper based channels such as e-branches, e-statements, online banking and mobile banking. ICICI has partnered with the Indian government, World Bank and UNAID to support SME projects in the area of green research and clean technology. It is also working with the Indian Army on water management, energy conservation and alternate energy projects.

**SBI:** State Bank of India, as the largest commercial bank in India has become the first bank in the country to venture into generation of green power by installing windmills for captive use. As part of its green banking initiative, the bank has installed 10 windmills with an aggregate capacity of 15 MW in the states of Tamil Nadu, Maharashtra and Gujarat and they have planned to install more windmills in near future. The bank also supports the green initiatives of its clients and offers them finance on priority and at concessionary rate of interest.

The bank has introduced a scheme known as ‘Green Homes’. Under this scheme, the bank is offering concessions such as reduced margin, softer interest rate and zero processing fees on home loans for environment friendly residential projects rated by the Indian Green Building Council (IGBC). The bank has also launched a loan product called ‘Carbon Credit Plus’ to finance the future Clean Development Mechanism (CDM) projects. Moreover, the bank has launched its ‘Green Banking Policy’ and decided to run ATMs on solar energy to reduce their power consumption.

The recent green banking initiatives of the bank also include paperless banking for customers, clean energy projects and the building of windmills in rural India. The bank intends to bring down its carbon footprint and to save energy through several green banking practices namely Green Channel Counters, Automated Teller Machine (ATM), Cash Deposit Machine (CDM), Internet Banking, Mobile Banking, Green Self Service Kiosks, SMS Unhappy Scheme, Green Home Loans, Green Projects Loan, Viswayatra Foreign Travel Card, Fruit bearing tree plantation, Rain Water Harvesting Projects in the Bank Offices, etc.

**HDFC Bank:** In a novel green initiative, HDFC Bank has launched a system of sending the personal identification number (PIN) for debit card holders through SMS instead of the usual despatch by post. The Green PIN is the One Time Password (OTP) sent to the customer's mobile number with which the customer can set the debit card PIN at the bank's ATM. HDFC Bank has nearly 1.75 crore debit card holders, while around 1.65 million cards on an average are issued annually by it.

Financial transactions through ATM and Mobile Banking leads to paperless trading which is a way to sustainable economic development. Bank wise ATM transactions from Jan 2013 to Dec.2013 depicted in Table 1, which highlights that there is a progress towards number of ATMs (onsite and off-site) deployed by banks. In on-site, increasing from 52992(Jan) to 71690(Dec) and in Off-site, progress from 54883 to 69826 which shows Banks promote ATM transactions as a way of Green Practices. Likewise there is also an increasing trend of mobile transactions especially from June to October presented through Table 2. Kerala Based Banks are those in which the Head Offices are situated in Kerala.

**Table.1** Number of ATMs deployed on site and off site by banks and number of financial transactions done through it

Year 2013	ATMs		Number of actual transactions	
	On-site	off-site	Credit cards	Debit cards
January	52992	54883	211402	451309699
February	53992	55637	199523	427800442
March	55760	58254	225770	482004645
April	57090	59288	228604	473418167
May	58503	60364	228909	477855168
June	60151	61696	14911	468144788
July	61643	62429	234708	487148560
August	63380	63570	239695	496932651
September	65165	65125	229116	493858796
October	66912	66401	247420	538649053
November	69179	67901	235633	510246036
December	71690	69826	273653	530351893

Source: [www.rbi.org.in](http://www.rbi.org.in)

**Table.2** Bank wise Mobile transactions in the year of 2014

Month	March	April	May	June	July	August	September	October
Volume of transactions	10,739,917	10,171,527	10,890,474	10,728,715	11,537,359	12,213,872	13,109,391	14,780,452

Source: RBI bulletin

**Table.3** Mobile Banking Transactions of Kerala Based Banks  
Volume (actual) in the year 2014

Name of bank	June	July	August	September	October
Dhanalekshmi Bank	298	328	331	380	322
Federal Bank	47589	50930	53582	54622	57122
SBT	65575	68800	67748	72244	79748
South Indian Bank	50142	54667	57252	65189	67158

Source: [www.rbi.org.in](http://www.rbi.org.in)

This type of banks are also conducted Green Banking Internal Operations include online account opening, online banking, mobile banking, SMS banking, net banking, e-fund transfers as well as the use of ATMs, cash and cheque deposit machines, credit and debit cards, e-statements etc. Table 3 presents that most of the Kerala Based Banks especially SBT and South Indian Bank promotes mobile banking transactions as a way to sustainable growth. As green banking helps to avoid wastage, save bank operation costs, minimize bank financing risks, enhance the banks' reputations in society as well as contribute to environmental sustainability, it is useful to create awareness among the customers and motivate them to opt for online banking.

### **Conclusion**

Increased carbon emissions and reckless development without paying attention to environment, led to climate changes. Banks also contribute to ecological footprint directly and indirectly through investment/lending in their customer enterprises. Green Banking is an umbrella term referring to practices and guidelines that make banks sustainable in economic, environment, and social dimensions. Green banking can be an avenue to reduce pollution and save the environment aiding sustainable economic growth. Before making the decision to finance a project, banks must see its environmental risks and ensure the project players have environmental safety measures in their plans, including recycling facilities or smoke and gas arresting units. A framework of incentives for responsible banks and disincentives for pollutants is an essential element for the development of green banking.

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