

Research Article

# A Study on Significance of Green Banking for Sustainable Banking and Economic Development in India

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## I N F O

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## A B S T R A C T

The sustainable services sector has the potential to play a mediating role between the promotion of economic development and the safeguarding of the environmental banking. Because this type of banking seeks to encourage environmentally responsible and socially responsible investment, it is sometimes referred to as "Green Banking." Allowing markets to function within an appropriate framework that is comprised of cost-efficient rules and economic tools is the most effective method for achieving sustainable development. Financial institutions, such as the banking sector, are examples of one of the key economic factors that have a significant influence on total industrial activity and economic development. Because of the globalization of the economy, businesses and industries are at risk of being targeted by strict environmental rules, harsh legal actions, or consumer boycotts. Because the industrial sector is one of the key stakeholders in the banking sector, it is possible for it to be exposed to credit risk as well as liability risk. Green activities by banks include "internal environment management, environmental financing/ product ecology, environmental disclosure and reporting, creating and implementing principles and supporting other stakeholders". This paper examines the significance of green banking, provides examples from other countries' experiences, and focuses on the most essential takeaways for sustainable banking and economic development in India. In addition to this, an effort has been made to catalogue viable alternatives for green banking.

**Keywords:** Green Banking, Sustainable Development, Sustainable Banking, Economic Development, Globalised Economy, Environmental Policies

## Introduction

Investments, to provide lending precedence to those industries who have already become green or are seeking to develop green and are contributing to the restoration of the natural environment as a result of their efforts.

This project of green banking is advantageous to all three parties involved: the economy, industries, and financial banks. Moreover the practice of "green banking," which refers to the initiative taken by financial banks to promote environmentally responsible banking, will guarantee that the asset quality of financial banks is enhanced in the future.

Contrary to popular assumption, environmentally friendly technologies not only make economic sense for industries, but they also reduce the weight of financial responsibility that businesses have. The industries that pollute the environment are met with increased resistance and are often forced to shut down or face tremendous resistance from the population. Because of this, their price goes up by a significant amount. Therefore, the implementation of environmentally friendly technologies or methods of production is no longer seen as a financial burden; rather, it results in the creation of new business prospects and a greater profit. Green banking helps to maximize banks while simultaneously lowering risk, enhancing reputations, and contributing to the greater good of ensuring the continued viability of the natural world. As a result, it satisfies the business purpose of the bank in addition to the social obligation of the bank. Many Indian banks have just begun to understand the significance of this issue, and they are participating in a wide range of green banking programs.

In a broader sense, the term “green banking” refers to the initiatives taken by the banking industry to preserve the natural environment and to lessen the impact of greenhouse gas emissions via the use of “green finance” and “green operational practises.” Green banking may be accomplished primarily via two internal strategies: green transformation of existing operations, and ecologically responsible financing (MdShafiqul and Prahalled-2013). Internal operations of Green Banking include using “ATMs, cash and check deposit machines, credit and debit cards, e-statements, SMS alerts, email correspondence, image statements”, and more. Green Banking also allows customers to open accounts online, conduct banking transactions online, conduct mobile banking transactions, conduct SMS banking transactions, conduct net banking transactions, and conduct e-fund transfers. Green financing is a term that refers to the provision of financial help to environmentally green technologies and pollution reduction initiatives with the goal of lowering overall carbon emissions. Green accounts, green financing, power saving equipment, green debit cards and credit cards, saving paper, and mobile banking are some of the major steps involved in green banking. Online banking, which includes things like paying bills online, online fund transfers, and electronic statements, is another major step.

## Literature Review

According to the findings of Aashish Shashikant Jani (2012), which were seen in the instance of Public Sector Banks being Accessible, Privacy, and Demo at the Counter, and the Areas of Considerable Improvement Possible, the following areas are also eligible for significant improvement: Transferring of Funds, Ease of Use, Promptness, Economically Efficient

Services, and Comprehensive Network Coverage On the other hand, the important areas of strength in private sector banks are as follows: loan application, insurance, accuracy, and goodwill. bill payment; customer correspondence; online shopping; technical efficient services; e-shopping; It has been determined that Receiving Alerts, Mobile Banking, Online Trading, and Advertisement are the areas in which changes are necessary. It should come as no surprise that the majority of clients choose the e channel due to the time and cost utility it provides. They do not have a complete understanding of how the operational side of e channels works. After coming to terms with the possibilities of online banking, financial banks will need to undergo transformations in order to seize the opportunity and meet the problems that are offered by technological advancement.

According to Jha and Bhome (2013), the purpose of this check is to raise awareness among customers about green banking. They state specific procedures that are required for green banking after conducting interviews and employing questionnaires with specially crafted questions for the study. Online banking, green checking accounts (ATM, special touch screens), green loans (low rates to individuals who desire to acquire solar equipment), power saving equipment, green credit cards, and paper saving mobile banking are a few of the actions that have been proposed by these organizations. The use of green banking practices will assure an organization’s progression toward sustainability.

Although the “go green” slogan is crucial for developing economies like India, Sudhalakshmi and Chinnadorai (2014) provided the current status of green banking in Indian banks and said that major efforts have not been made in this state despite the fact that the status was presented. It is necessary for banks to include their commitment to the environment into their lending principles. The global environment will be in much better shape in the future if even a few steps are made now. Consequently, there is a need in India for a legislative action that would support green banking. When it comes to adopting this environmentally green trend, Indian banks are falling behind. In this sense, we need to take some significant actions right now.

## Objectives of the Study

- To have an understanding of the significance of Green Banking in India
- To study research on the positive aspects of green banking
- To conduct an investigation of the creative approaches employed by financial banks toward achieving sustainable development
- To spotlight the future of green banking in India

## Importance of Green Banking in India

Since the beginning of the previous decade and a half, India has been on a path toward faster development, and the industrial sector has been playing the most significant role in the country's overall economic narrative. However, the Indian industrial sector is confronted with the difficulties of regulating the environmental effect of their operations, namely the reduction of pollutants and emissions caused by their customers. Although the government has been attempting to address the problem by drafting environmental legislation and encouraging industry to follow environmental technologies and practises, these efforts will not be sufficient because of poor track records of enforcement, low public awareness, and an inability to derive a competitive advantage from the production of environmentally friendly products. In terms of the production of greenhouse gases, India is now the sixth biggest nation in the world and the country with the second fastest expanding economy. The Indian cities of Delhi, Mumbai, and Chennai are three of the ten most polluted cities in the world. The key metallurgical industries of India, such as zinc, copper, steel, and others, are among the most polluting industries in the country. The banking operation and investment made by financial institutions should take care of environmental management of polluting industries by improving the overall environment, the quality and conservation of life, the level of efficiency in using materials and energy, and the quality of services and products. Given these circumstances, the role of the banking sector, which is one of the most important sources of funding for industries, takes a significant degree of significance.

## Risk with Green Banking

Green banking is particularly essential in limiting the hazards that are associated with the banking sector, which are as follows:

### Credit Risk

Costs, both direct and indirect, have been incurred by financial banks as a result of climate-related phenomena such as global warming and climate change. It has been noted that as a result of global warming, there has been an increase in the occurrence of severe weather conditions. These circumstances have an impact on the economic assets that are funded by the banks, which in turn leads to a high incidence of credit default. Indirect credit risk may also occur when financial banks provide loans to firms whose operations are negatively impacted by changes in environmental regulation.

### Legal Risk

If they do to comply with applicable environmental regulation, financial banks, like any other kind of corporate

entity, put themselves at risk of facing legal repercussions. In the liability that they actually acquire ownership of pollution-causing assets, they run the risk of being held directly liable by the lender for any expenses associated with the cleaning or any claims for damages.

### Reputation Risk

If their acts, whether direct or indirect, are seen as socially and environmentally detrimental, banks run a greater risk of having their reputations damaged, which is a consequence of the growing awareness of the environment. The funding of projects that are environmentally objectionable creates risks to a company's reputation.

## Benefits of Green Banking

Green Banking has following benefits:

### Avoids Paper Work

Paperless banking as almost every single bank in India makes use of a core banking system or is otherwise fully automated (CBS). Therefore, there is a lot of room for improvement for the banks in terms of becoming paperless or using less paper for office correspondence, audit, and reporting, etc. These banks may move to electronic correspondence and reporting, which would help reduce the scope of trees that are cut down.

### Creating Awareness to Business People about Environment

By holding awareness programs and organizing seminars, etc., a large number of non-governmental organizations (NGOs) and environmentalists are attempting to instill a sense of environmental responsibility in the general people. It is possible for banks to affiliate themselves by sponsoring such programs. In addition, many corporate entities are organizing similar programs in their own area of business, such as the "free pollution check programs" that is organized by a vehicle manufacturer. These programs are aimed at reducing the negative effects of pollution. It's possible for banks to establish relationships with corporations like these. These will contribute to the bank's overall image being improved.

### Loans at Comparatively Lesser Rates

Additionally, banks have the system to launch green bank loans, which come with financial discounts for environmentally friendly products and projects such as fuel efficient automobiles, green construction projects, housing and home furnishing loans to install solar energy systems, and so on.

### Environmental Standards for Lending

It is truly a fantastic concept to have banks adhere to environmental standards when making loans; this will

encourage business owners to transform their operations so that they are less environmental to the business, which is future for our children and grandchildren.

### **Innovative Measures taken by the Banks for Sustainable Development**

#### **Paper-less Banking**

Because banks have automated their branch locations, there is a significant opportunity to do banking with much less or no paper. The majority of PSBs use vast amounts of paper on a daily basis for office correspondence, audit reporting, recording public transactions, and other similar purposes. These financial banks are able to transition to using electronic correspondence and reporting. The use of electronic transactions and electronic statements should be made more common, and financial institutions should urge their clients to make the changeover as well.

#### **Energy Consciousness**

The adoption of efficient office time management and automation solutions, as well as the use of Compact Fluorescent Lighting (CFL), are all ways in which financial banks may significantly reduce their overall energy usage and save money. Audits of the energy use at all of a bank's banks may contribute to more efficient energy management. They also have the option of converting their offices and ATMs to run on sustainable energy sources like as solar and wind power.

#### **Using Mass Transportation System**

PSBs Can become a more energy and fuel efficient organization by offering shared transport for groups of officials stationed at the same office.

#### **Green Buildings**

The banking industry in India uses more than one lakh buildings around the nation, including both offices and residential homes. These financial banks need to create and utilise environmentally green structures for their offices and staff housing.

#### **Future of Green Banking In India**

In the not-too-distant future, green banking will come to dominate the industry. In addition, we anticipate the arrival of a great number of green products, green services, and green regulations in the near future.

### **Acknowledge and Provide incentives for the environmentally responsible financial institutions**

On a yearly basis, the Reserve Bank of India or another regulatory body will acknowledge and reward environmentally conscientious loan providers who work with green loans. Businesses who are environmentally

irresponsible and engage in practices such as these face the risk of harming not just their bottom line but also their image in the market.

### **Green Rating and Information Services of India Ltd (GRISIL)**

GRISIL-Green rating agencies will be established in order to give green analysis of green loan lenders and loans via a variety of rating users.

### **Eco Friendly Investment Funds**

Green mutual funds will soon be available, allowing clients who are concerned about climate change to invest in environmentally friendly endeavors. Additionally, investments in certain areas would qualify for favorable tax investment.

### **Conclusion**

Climate change was caused by both an increase in carbon emissions as well as irresponsible development that paid little to no consideration to the environment. Additionally, banks add to the ecological footprint both directly and indirectly by investing in and lending money to the businesses of their customers. The phrase "green banking" is an umbrella word that refers to procedures and principles that make banks sustainable in terms of economics, the environment, and social aspects. Green banking has the potential to be an effective means of lowering pollution levels, protecting the environment, and fostering sustainable economic development. Banks are required to assess the environmental risks associated with a project before deciding whether or not to provide financing for it. Additionally, the banks must ensure that the project's participants have incorporated environmental safety measures into their plans, such as recycling facilities or smoke and gas arresting units. A crucial component for the development of green banking is the establishment of a framework that provides incentives for ethical banks while simultaneously providing disincentives for polluters.

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