SWOT ANALYSIS OF GREEN BANKING IN INDIA

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Abstract

The concern for environmental sustainability by the banks has given rise to concept of Green Banking. The concept of “Green Banking” will be mutually beneficial to the banks, industries and the economy. Green financing is the part of green banking. Green banking means promoting environmental friendly practices and reducing your carbon footprints from your banking activities. Green banking aims at improving the operations and technology along with making the clients habits environment friendly in the banking business. It is like normal banking along with the consideration for social as well as environmental factors for protecting the environment. It is the way of conducting the banking business along with considering the social and environmental impacts of its activities. This paper attempts to examine, the concept of Green Banking, SWOT analysis as well as explores the challenges and remedial measures for Green Banking.

Keywords: Green Banking, SWOT Analysis, environmental sustainability

Introduction

Green banking means promoting environment friendly practices and reducing carbon footprint from banking activities. This comes in many forms viz., using online banking instead of branch banking, paying bills online instead of mailing them, opening of commercial deposits and money market accounts in online banks etc.,

Green banking refers to the efficient and effective use of computers, printers and servers to optimize the use of energy and waste-less paper. One of the important ways in which banks can implement green banking is by promoting the use of online banking among customers. Online banking helps reduce paperwork and the need to travel to bank branches. This positively impacts the environment. This facility is beneficial for banks, as it reduces operational costs and increases efficiency.
This concept of “Green Banking” would be mutually beneficial to the banks, industries and the economy. Green banking will also ensure the greening of the industries but it will also facilitate in improving the asset quality of the banks in future.

**Carbon footprint** is a measure of an organization’s or entity’s impact on the environment in terms of the amount of greenhouse gases produced, measured in units of carbon dioxide equivalent. **Global warming** is a measure of rising average temperature of Earth’s atmosphere and oceans and its projected continuation. In the last 100 years, the Earth’s average surface temperature increased by about 0.80°C (1.4 F) with about two-thirds of the increase occurring over in the last three decades. Most global warming is caused by increasing concentrations of greenhouse gases produced by human activities such as deforestation and burning fossil fuels. **Climate change** is the change in temperature and weather patterns due to certain human activity like burning fossil fuels. The changes include global average air and ocean temperature, widespread melting of snow and ice and rising global sea levels. Therefore, a common thread running across all these initiatives is the focus on reducing the demand for fossil fuels by implementing the 3R’s viz. Reduce, Reuse and Recycle.

**Characteristics of Green Banking:**

Depending on the state, a green bank may conform to a variety of forms, utilize many different public funds, and create a diverse array of financial products. Banks may utilize financial tools such as long-term and low interest rate loans; revolving loan funds, insurance products and low-cost public investments or it may design new financial products. Ultimately, all green banks will exhibit several common characteristics:

- Stimulate demand by covering 100% of the upfront costs with a mixture of public and private financing.
- Leverage public funds by attracting much greater private investment for clean energy and markets.
- Recycle public capital so as to expand green investment and leave taxpayers unharmed.
- Scale-up clean energy solutions as fast as possible, maximizing clean electricity and efficiency gains.

**Evolution of Green Banking:**

First Green Banking was founded in 2009 in the state of Florida. Based in Eustis and Clermont, Florida, USA, First Green Banking is a customer-driven community bank providing personalized service, localized decision-making and proven technology by promoting a positive environment that is acceptable to the community. State Bank of India, India’s largest commercial bank, took the lead in setting high sustainability standards and completed the first step in its ‘Green Banking’ initiative with Shri O.P.Bhatt, Chairman, SBI inaugurating the bank’s first Wind farm project in Coimbatore. Recent Green Banking initiatives include a push for solar powered ATM’S, paper less banking for customers, clean energy projects and the building of Wind mills in rural India. SBI is a leader in Green Banking.

**Green Banking Products:**
Green banking helps to create effective and far-reaching market-based solutions to address a range of environmental problems, including climate change, deforestation, air quality issues and bio diversity loss, while at the same time identifying and securing that benefit customers. Some of Green banking financial products includes: Green mortgages, online banking, remote deposit capture, green car loans and green credit cards.

1. **Green Mortgages:** In general Green mortgages also known as Energy Efficient Mortgages (EEM’S), provide retail customers with considerably low interest rates compare market rates for clients who purchase new energy efficient homes or invest in retrofits, energy efficient appliances or green power. Banks can also choose to provide green mortgages by covering the cost of switching a house from conventional to green power, as well as include this customer benefit when marketing the product.

2. **Online Banking:** Online banking, also known as internet banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution’s website.

3. **Remote Deposit Capture:** Remote deposit capture (RDC) is a system that allows a customer to scan cheques remotely and transmit the cheques images to a bank for deposit, usually via an encrypted Internet connection. When the bank receives a cheque image from the customer, it posts the deposit to the customer’s account and makes the funds available based upon the customer’s particular availability schedule. Banks typically offer Remote Deposit Capture to business customers rather than to individuals.

4. **Green Car Loans:** Many green car loans encourage the purchase of cars for below market interest rates, which demonstrate higher fuel efficiency.

5. **Green Credit Cards:** A green credit card allows cardholders to earn rewards or points which can be redeemed for contributions to eco-friendly charitable organizations. These cards offer an excellent incentive for consumers to use their green card for their expensive purchases.

**Green Banking Services**
Banks are developing new products and services that respond to customers demand for sustainable choices.

Following are some of the options that banks should offer to their customers:

- Electronic and mobile banking facilitates customers to perform most of their bank needs anytime, anywhere.
- Automatic payments reduce the need to write and send cheques by mail.
- Paperless statements, product information guides and annual reports to customers and stakeholders.
- Offering and promoting mutual funds that focus investment in ‘Green’ companies.
Credit cards and debit cards can be used while making the payment of various expenses without carrying money.

Mobile banking is used for performing balance cheques, account transactions, payments, credit appliances etc., via mobile phone or Personal Digital Assistant (PDA).

**Strategies of Green Banking**

Indian Banks can adopt green banking as business model for sustainable banking. Some of following strategies little reflected in their banking business or must be adopted by banks.

- **Carbon Credit Business (CBS):** All Nations must reduce greenhouse gases emission and reduce carbon to protect our environment. These emissions must be certified by Certified Emission Reductions commonly known as carbon credit.

- **Green Banking Financial Products:** Banks can develop innovative green based products or may offer green loans on low rate of interest. As Housing and Car loan segments constitute the main portfolio of all banks so they adopt green loans facility.

- **Paperless Banking:** All banks are shifting on CBS or ATM platform providing electronic banking products and services. So there is a scope for banks to adopt paperless banking. Private and foreign banks are using electronics for their office but in PSU banks are still using huge paper quantity.

- **Energy Consciousness:** Banks have to install energy efficient equipment’s in their office. Banks have to transform this green banking in hardware, waste management, energy efficient technology products. Banks can donate energy saving equipment to schools and hospitals.

- **Mass Transportation System:** Banks have to provide common transport for groups of officials posted at one office.

- **Social Responsibility Services:** Indian banks can initiate various social responsibility services like tree plantation camps, maintenance of parks and pollution checkup camps. The Financial Times and International Finance Corporation (IFC) is a member of World Bank Group launched Sustainable Finance Awards for institutions that are integrating social, environmental and corporate governance into their business operations. Their awards highlight the partnership between financial and non-financial companies in finding commercially viable and innovative solutions to sustainability challenges. The five categories of Sustainable Finance awards as per Financial Times are as follows
  - Sustainable Bank of the Year
  - Technology in Sustainable Finance
  - Sustainable Investment of the Year
  - Sustainable Investor of the Year
  - Achievement in Inclusive Business
Green banking in India

The various banks in India which provide green banking services to their customers are as follow

- **State Bank of India:** SBI has launched green banking policy and set up windmills in Tamil Nadu, Maharashtra and Gujarat in generating 15MW power. This is the first bank in India which is in green banking and promoting green power projects.

- **Punjab National Bank:** They had taken various steps for reducing emission and energy consumption.

- **Bank of Baroda:** They had taken various green banking initiatives such as financing a commercial project. BOB is giving preference to environment friendly green projects such as windmills, biomass and solar power projects which help in earning the carbon credits.

- **Canara Bank:** As a part of green banking initiative it had adopted environmental friendly measures such as mobile banking, internet banking, telebanking, solar powered biometric operations.

- **ICICI Bank Ltd:** ICICI bank had started ‘Go Green’ initiative which involves activities like Green products/offerings, Green engagement and green communication with customers.

- **HDFC Bank Ltd:** HDFC bank is taking up various measures for reducing their carbon footprints in waste management, paper use and energy efficiencies.

- **Kotak Mahindra Bank:** Through the ‘Think Green’ initiative this bank had taken several initiatives such as to reduce the paper consumption and encouraging their customers to sign for e-statements and they had become partners with ‘Grow- Trees.com’ to plant one sapling for every e-statement on behalf of its customers.

- **IndusInd Bank:** It has initiated its Green Office Project under which it had installed solar powered ATMs in different cities targeting energy saving as well as reducing CO2 emissions.

- **YES Bank:** It has projects portfolio in the areas of alternative energy and clean Technologies.

- **IDBI:** IDBI Bank is providing various services in the field of Clean Development Mechanisms (CDM) to its client.
### SWOT Analysis of Green Banking

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### Challenges of Green Banking

While adopting green banking practices, the banks would face the following challenges:

- **Reputational Risk:** If banks are involved in those projects which are damaging the environment, they are prone to lose their reputation. There are few cases where environmental management systems have resulted in cost saving, increase in bond value.

- **Diversification Problem:** Green banks restrict their business transaction 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.

- **Start-up Face:** Many banks in green business are very new and are in start-up face. Generally it takes 3 to 4 years for a bank to start making money. Thus it does not help banks during recession.

- **Credit Risk:** Credit risk arises due to lending to those customers whose businesses are affected by the cost of pollution, change in environmental regulation and new requirements of emission level.

- **High Operating Cost:** Green bank requires talented and experienced staff to provide proper services to customers. Experienced loan officers are needed; they give additional experience in dealing with green business and customers.

- **Green Banking Strategies:** According to MdShafiqul and Prahalled (2013), green banking activities involve two major approaches i.e., green transformation of internal operation and environmentally responsible financing.

- **Green Banking through Internal Operations:** It means all bank should adopt green banking activities in their day-to-day operations. These include adopting appropriate ways to use renewable energy, automation and minimizing their carbon footprint. In the past few years, all the banks have incorporated paperless technologies in their internal operations to help the environment as well as provide their customers efficient and better services. In their day-today
business operations, banks ordinarily generate carbon emissions through the usage of paper, electricity, stationary, lighting, air conditioning and electronic equipment. Green banking internal operations include on line account opening, online banking, mobile banking, net banking, electronic fund transfer as well as the use of ATM, cash and cheque deposit machines, credit and debit cards, e-statement SMS alert, mini image statement etc.

- **Green Finance:** Green Finance refers to banks that provide financial assistance to environmentally responsible projects. The purpose is to provide financial assistance to green technology and pollution reduction projects to reduce external carbon emissions. The bank support industries that are resource efficient and emit low carbon footprint. Priority is given to financing eco-friendly business activities and energy efficient industries such as waste water treatment plant, waste disposal plants, bio-gas plants, renewable energy projects, hybrid car projects and so on.

### Measures to encouraging Green Banking

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 better global environment. The purpose is to provide cost efficient automated channels and to build awareness and consciousness of environment, nation and society. Green banking is really a good way for people to get more awareness about global warming; each businessman will contribute a lot to the environment and make this earth a better place to live. Until a few years ago, most traditional banks did not practice green banking or actively seek investment opportunities in environmentally-friendly sectors or businesses. Only recently have these strategies become more prevalent, not only among smaller alternative and cooperative banks, but also among diversified financial service providers, asset management firms and insurance companies.

- Educate through the bank’s intranet and public websites.
- Construct a website and spread the news.
- Participate in events and communicate through press.
- Setup outlets to promote Green business.
- Carbon foot print reduction by mass transportation and energy consciousness.
- Impart education through E-learning programs.

### Conclusion

Green banking refers to the initiatives taken by banks to encourage environment-friendly investment. Green banking as a concept is a proactive and smart way of thinking towards future sustainability. It is very important for the banks to be pro-active and accelerate the rate of the growth of the economy. As there is a continuous change in the environmental factors leading the banks face intense competition in the global market. Banks needs to apply morality of sustainability and responsibility to their business model, strategy and formulation for products and services, operations and financing activities and become stronger. By adopting the environmental factors in their lending activities banks can recover the return from their investments and make the polluting industries become environment-friendly.
References