Sustainable &Green Banking Practices in India-Issues and Challenges

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Abstract - Globally Financial Institutions are expanding their missions from ones that prioritize profit maximisation to a vision of Social and Environmental Sustainability. Banks are integrating consideration of Ecological limits, Social equity and Economic Justice into corporate strategies and core business areas including credit, investment, underwriting & advisory to put sustainability objectives on an equal footing to maximization of shareholder value and client satisfaction through financing transactions that promote sustainability.

The main objective of present paper is to critically review international practices on sustainable&green banking Vis a Vis Indian Banks strategies to comply with RBI guidelines in light of global initiatives. This paper further explores issues and challenges before Indian Banks while implementing sustainability guidelines. Previous research studies and RBI reports have been studied to review this paper. Empirical studies reveal that despite of several global initiatives and RBI directives underway but the response of Indian Banks are negative and only one Indian Private Bank, 'Yes' Bank is only signatory to international initiative UNEP-FI.

Keywords: Sustainable Banking, RBI,Non-Financial Reporting,CSR,Sustainability Reporting

JEL Codes: G2, Q01, Q5, Q56

I. INTRODUCTION

Sustainable development is largely defined as the expansion of economic development while maintaining the quality of environmental and social systems. It is about meeting the needs of the present without compromising the ability of future generations to meet their needs. It is about preserving the environment and biodiversity for future generations, and about being cautious with our natural resources and climate. But sustainability is also about guaranteeing human rights and a life in dignity, free from want and poverty for all people living today. Thus, an appropriate goal of financial institutions should be the advancement of environmental protection and social justice rather than solely the maximization of financial return. The integration of sustainability and green banking practices into the banking sector has taken two key directions:First, Environmental and Social responsibility in a bank's operations through environmental initiatives (such as recycling programs or improvements in energy efficiency and usage of IT in documentation) and socially responsible initiatives (such as support for Social events, improved human resource practices, charitable donations, micro credit, financial inclusion & financial literacy drives and community development programmes etc.).Second, it includes integration of environmental and social concerns into product design, mission policy and strategies. Examples include the integration of environmental criteria into lending and investment strategy, and the development of new products that provide environmental sector with easier access to capital. Banks are redefining their methods of Risk Assessments of Assets taking reputational risk and impact of socio-environmental factors on their brand and reputation in long run. Banks are launching new innovative products which are targeted at untapped markets. Thus, Sustainable and green banking practices are making banks not only cost efficient and less risky but creating new business opportunities also.

II. LITERATURE REVIEW

Jha and Bhome (2013) concluded after their study on green banking trends in India, he commented on various aspects like Green banking strategies limit the usage of paper as possible and depend up on online/ electronic transactions for processing so that we get green credit cards and green mortgages. He also stated that banks can also set standards for lending, which is really a proactive idea that would enable eco-friendly business practices.

Alice Mani (2011) stated that as a Socially Responsible Corporate Citizens (SRCC), banks will have a major role and responsibility in enhancement of governmental efforts

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towards reduction in carbon foot print. Banks should also practices and initiatives of Green Banking for sustainable development so as the better environment. They also compared the green lending policies by banks in India in the light of their commitment to environment protection and eco-friendly proposals.

Suresh Chandra Bihari (2011) concluded in his study that Green Banking promoting corporate social responsibility (CSR) in financial aspects. This starts with the aim of protecting the environment where banks consider before financing a proposal if it is environment friendly and does not make any implications for the better tomorrow. An organization will be given a loan only when all the ecofriendly standards are complied. Green Banking can be efficiently implemented with the use of technology and guidelines he emphasized.

Bihari Suresh Chandra (2010) made an attempt to highlight the green banking initiatives taken by the Indian banks. The author also discussed as Green banking is Ethical banking as it also aims to protect the environment. Ethical banks award loan to a company only when all the environment safety standards are followed.

Sahoo and Nayak (2008) conducted a study on green banking in India and concluded that the banks might play a pro-active role to take environmental and eco-logical aspects as part of their business practices which would force industries to promote mandated investment for environmental management, appropriate technologyusage and management systems. We can say that from the study there wasnot that much initiative taken by the banks or other financial institutions in India though they play an active role in India's emerging economy development.

Singh and Singh (2008) conducted a study on An Effective & Resourceful Contribution of Green Banking towards Sustainability they found that the role of green banking is part of all levels of business practices in this globalized business environment. Main emphasis has been made on analysis of the green concept and the actual need of green banking strategies in business activities so as to make the environment more ecofriendly and to enrich our economic growth.

III. Key Drivers of Sustainability in Banking Sector

There are key environmental, social, regulatory and economic factors which are guiding banks towards sustainability.

3.1 Lender' Obligation

Lender's liability is associated with the financial risks banks face when granting or extending loans.Under current reporting requirements, potential environmental liabilities can easily remain undiscovered unless a lender develops its own procedure to assess the environmental risks. Therefore, some banks can end up spending the money on clean-ups of sites contaminated through their clients' activities.

3.2 Borrower's weak position to meet financial obligations

The borrower's obligation to clean up contaminated sites might impair his or her ability to repay a loan. The contamination might also reduce the value of the collateral. Prudent lenders are following the environmental trends and changes in regulatory framework to assess the possible implications of these changes on their clients' overall financial position.

3.3 Growing environmental concerns

The last few decades have been marked by numerous changes in the regulatory framework relating to environmental protection. Recent scientific discoveries of environmental and health risks associated with pollution have contributed to an increase in public demand for environmental quality. In many cases this effort has resulted in adoption of energy and resource efficiency programs within the institutions themselves.

3.4Market Opportunities

Several international banks have recently adopted innovative, proactive strategies to capture the opportunities associated with sustainability. They have developed new products such as ethical funds or loans specifically designed for environmental businesses to capture new market opportunities.

IV. Global Initiatives and Indian Practices in Sustainable Banking

The term “triple bottom line” is coined by John Elkington to describe social, environmental and governance parameters to judge sustainable performance of corporates. On basis of this concept certain global and Indian initiatives were taken.

4.1 UNEP-FI Initiative

The UNEP Financial Institutions Initiative has been developed 'to promote the integration of environmental considerations into all aspects of the financial sector's operations and services.' A secondary objective of the initiative was to foster private-sector investment in environmentally sound technologies and services. But there is no single bank in India which among the signatories despite of more than 200 banks as member globally.

4.2 Collevecchio Declaration on Financial Institutions

This declaration calls on banks to embrace six main principles i.e. Commitment to Sustainability, Commitment to 'Do No Harm', Commitment to Responsibility, Commitmentto Accountability, Commitment to transparency, Commitment to sustainable markets and governance which reflect civil society's expectations of the

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role and responsibilities of the financial services sector in fostering sustainability.

4.3 *The Equator Principles*

The Equator Principles (EPs) are a credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions. Yes Bank India is one of the signatory to this international initiative and has set up a specialized investment advisory, the Sustainable Investment Banking division, which promotes investments in clean technology, renewable energy, water management, and distributed energy, especially amongst the SME sector. Hence Indian banks have yet to commit to the Equator Principles a set of environmental and social guidelines to which more than 70 banks and financial institutions worldwide have become signatories.

4.4 *FT Sustainable Banking Awards*

The FT Sustainable Banking Awards were created in the year 2006 by the Financial Times in association with the International Finance Corporation to acknowledge the progress that banks have made in integrating social, environmental and corporate governance objectives into their operations while maximizing shareholder value.

4.5 *RBI Initiative& Global Reporting Initiative*

RBI vide its circular no RBI/2007-08/216 DBOD. No.Dir. BC. 58/13.27.00/2007- 08 Dt. December 20, 2007 advised about the role of commercial banks on Corporate Social responsibility, Non-financial reporting and sustainability development.Now in India it has been made mandatory by SEBI for top 100 BSE listed companies to report annually on lines of MCA (ministry of corporate affairs) voluntary guidelines, 2011 issued on basis of sustainability reporting, a global initiative under GRI to report on non-financial performance in terms of environmental and social performance along with financial performance. Even S & P with help of CRISIL has launched ESG index including top 50 Companies as per NSE which are performing in lines of triple bottom line.

V. Issues and Challenges

Leaving 'YES' Bank in India, neither public sector nor private sector banks have been able to integrate sustainability into their corporate strategy due to certain issues. Lack of coordination between regulators MCA, SEBI and RBI has jeopardised proper implementation of sustainability reporting in true sense. It is being viewed as tick-box approach without any agency to cross check reporting authenticity in India. Some Major Banks thought of losing business to peers. Unavailability of talented staff is another problem. Lack of training by RBI and detailed guidelines leads to negative response from Indian banks. Indian customers and investors are not fully aware and due to their lack of interest response is poor. Sustainability reporting framework iscomplex.

VI. Solutions& Recommendations

First, Indian Banks should take environmental and social issues as an opportunity for launching innovative products for untapped population of India through Micro Finance, Environmental Insurance, and Financial Inclusion through No frills Accounts and Financial literacy programs to make people and investor aware about responsible banks and their role in climate change. They need to publish sustainability reporting in public domain to attract investors, shareholders and depositors attention and for better transparency in their operations.

Second, promotion of electronic banking – use of internet banking, mobile banking, ATM operations, ECS facility, electronic remittance, and fund transfers would help reduce the use of paper and obviate the need for travel. It would create not only efficient image before customers but reduce cost of day to day operations and cost of Human power. Staff time saved due to use of IT can be utilised for business generation and operational tasks.

Third, Management of emissions by measures such as tele-/videoconferencing, green commuting and other approaches to reducing business travel; encouraging car-pooling among employees, providing a common staff vehicle for commuting could also be thought of, particularly in cities and towns where traffic congestion is a major issue. Energy consumption reduction strategies are such as optimal use of daylight, energy efficient equipment, use of CFL lights, timely and proper maintenance of equipment, etc. Banks could also seriously consider the use of solar energy for office lighting, operation of ATMs and so on. Using of Recycled paper for account opening forms and other documents would save paper as well as reduce cost also.

Fourth, Banks should promote green loans and green funds through incentives to environment friendly borrowers as well as investors. Banks should actively participate in carbon credit trading and CDM projects as intermediary for green companies. Banks should develop and use green buildings for their office and employee accommodation. These measures will not only help banks reduce their carbon footprint but also save the operational costs considerably. As part of the green banking strategies, Indian banks can initiate various social responsibility services such as tree plantation camps, maintenance of parks, pollution check-up camps, etc.

Finally, Banks not only need to make direct investments in sustainable development, they also need to leverage their indirect control over investment and management decisions to influence business into fulfilling broader social and environmental goals. There is a plethora of opportunities in the area of environmentally responsible finance, which banks can profitably exploit. RBI has to play more

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proactive role by passing the mandates, rules, regulations to tackle this critical issue of climate change.

VII. CONCLUSION

As far as sustainable banking is concerned Indian banks are far behind their counterparts from developed countries. If Indian banks wish to enter global markets, it is pertinent that they recognize their environmental and social responsibilities. But, today, many Indian banks

are making efforts to "Go Green" and adopting Green investment initiatives through offering various green products and services to their customers and taking initiatives in their day to day business operations for the environmental and social concerns. These include- E-banking, mobile banking, ATMs, Electronic fund transfers, Green mortgages, Green credit card, use of

solar and wind energy, recycling of paper, Green buildings etc. But still there is a long way to go. Empirical studies reveal that despite of several global initiatives and RBI directives underway but the response of Indian Banks are negative and only one Indian Private Bank, 'Yes' Bank is only signatory to international initiative UNEP-FI.

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