

Green banking-a new dimension

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ABSTRACT: Climate change has become a global concern as it has direct impact on biodiversity, agriculture, forestry, dry land, water resources and human health. In a globalize economy, it is the time to consider environmental policies because environmental impact might affect to the rate of return and reputation of business in the long-run. Among the business organizations, one of the major economic agents influencing overall industrial activity and economic growth is the financial institution such as banking sector. Bank plays a very important role in shaping the economy. Now-a-days, Banks that support the local community and environment are seen as leaders. As a result, Bank continuously strives to ensure that its operations are environment-friendly and discourages financing projects contrary to it. This study highlights the concept, needs and significance, and products of green banking. The study forms mainly the extensive review of related literature based on highly work. It is seen that there has not been much initiative in this regard by the banks and other financial institutions in the world. Therefore, this paper suggests some necessary directions for promoting green banking in the world to protect the environment and builds banks performance.

Keywords: Bank, Environment and social, Green Banking, Green banking potential products.

1. Introduction:

It is the age of social and cultural changes, economic globalization, technological advancement, and global communication. But, the world is facing now unprecedented global challenges such as from the population explosion to the depletion of the earth's natural resources. Many international organizations recognize environmental degradation as one of the major threats facing the planet, and if the environment becomes irreparably compromised, it could mean the end of human existence. The environment of the world is deteriorating because of environmental degradation cover improper disposal of industrial medical, air pollution, water pollution, encroachment of rivers, deforestation, household waste, loss of open space and loss of biodiversity. Now, society demands that business take responsibility in safeguarding the environment and society. The main theme of environmental responsibility is to create „No Harm“ to the environment in view to remain it healthy for future generation. One of the major economic agents influencing overall industrial activity and economic growth is the financial institution such as banking sector. Since banking sector is one of the major stakeholders in the industrial sector, it can find itself faced with credit risk and liability risks. Banks can affect production, business and other economic activities through their financing activity and thus it may contribute to protect the environment from environmental degradation. Bank have to develop global risk policy in order to analyze the impact on local communities and environment, for customers in areas such as mining and metallurgy, oil and natural gas, wood and paper industry, defense industry, gambling, hydroelectric constructions (Savu,2012). It is desirable to minimize the impact on the environment by reducing and optimizing resource consumption and quantity of waste produced in the banks and by internal education of employees in this regard (Savu, 2012). Green Banking is a new dimension of banking that

includes all environmental and social-friendly initiatives to protect the environment. It is focusing on 'mother planet and its sustainability', shifting from a traditional approach on 'profit' or even 'people'. Green banking is not just another corporate social responsibility (CSR) activity; it is all about going beyond to keep this world livable without much damage. It is also called as an ethical banking or a sustainable banking.

2. Objectives of the Study:

The objectives of this study are given below:

- To highlight the concept of Green Banking;
- To understand the necessity of Green Banking;
- To introduce some potential Green Banking Products;
- To provide necessary directions for adopting Green Banking.

3. Rationale of the Study:

The financial and economic development of a country is inseparably tagged with gradual environmental degradation. The banking sector can play intermediary role between economic development and environment protection. But, there is a lack of adequate awareness on the above issues. Therefore, it is essential for the banking sector to adopt certain measures in response to the environmental degradation. This paper provides to the banks and the researcher's necessary supports to design their green banking initiatives.

4. Literature Review:

The most important themes of twenty first century are the Environmental protection and sustainable ecological balance and it become an important issue that must be considered by all functional areas including banking (Verma, 2012). Banks should encourage customers to use banking products and services in a friendly environment, opting for green cards, online banking, electronic bank statements, green mortgages, green home equity loans, green commercial buildings loans or green car loans. (Savu, 2012). Green Banking helps to create effective and far-reaching market-based solutions to address a range of environmental problems (Bahl, 2012). Alice Mani (2011) indicated that banks have a major role and responsibility in supplementing governmental efforts towards substantial reduction in carbon emission. Bihari (2011) indicated that Green Banking starts with the aim of protecting the environment where banks consider before financing a project whether it is environment friendly and has any implications for the future. Biswas (2011) explained that adoption of green banking practices will not only be useful for environment, but also benefit in greater operational efficiencies, a lower vulnerability to manual errors and fraud, and cost reductions in banking activities. It is necessary for organizations to attain sustainable competitive advantage by creating eco-friendly products (Goyal and Joshi, 2011). Overall 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. (Thombre, 2011). Sahoo and Nayak (2008) have studied that 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.

5. Research Methodology:

The study forms mainly the extensive review of related literature based on highly work. The report is prepared by wide discussion with Bankers, Academicians, Industrialists, as well as necessary acts, documents, websites and the other papers studied carefully.

6. Definition of Green Banking:

"Green banking", as a term, covers several different areas, but in general refers to how environmentally "friendly" the bank is, and how committed to green and ethical policies they are (Savu, 2012).

Green banking means combining operational improvements, technology and changing client habits in banking business (Biswas, 2011).

“Green Banking refers to the banking business conducted in selected area and manner that helps the overall reduction of external carbon emission and internal carbon footprint”, (Bahl, 2012_b).

Therefore, Green banking indicates reducing the use of non-renewable energy & materials and increasing the use of renewable or recyclable energy & materials to keep the environment green and social friendly.

7. Benefits of Green Banking:

The following are the major benefits of Green Banking:

- It will ensure businessman to change their business to environment friendly which is good for our future generations;
- It develops customers consciousness on environment by arranging awareness development program;
- Improve image of the bank by protecting the environment;
- It reduces operational cost due to less consumption of office stationeries, energy and water;
- It includes environmental standards for lending;
- It suggests to give loan at comparatively lesser rates;
- It is a good way for people to be aware of global warming;
- It reduces health hazards by installing eco-friendly equipments;
- It improves productivity and efficiency of the employees through proper usage of resources;
- It creates an atmosphere for the bank to work within an ideal business environment through innovative banking products;
- It encourages current and potential customers and employees for using environment friendly products, resources or technology.

8. Green Banking: International Initiatives

CERCLA Act:

The First regulatory enforcement named Comprehensive Environmental Responses, Compensation, and Liability Act (CERCLA) formed by US government in 1980.

UNEPFI:

In the early 1990s, the United Nations Environment Programme (UNEP) launched what is now known as the UNEP Finance Initiative (UNEPFI). The objective of this initiative is to integrate the environmental and social dimension to the financial performance and risk associated with it in the financial sector.

Equator Principles:

In October 2002, nine international banks convened in London, together with the International Finance Corporation, to develop a banking industry framework for addressing environmental and social risks in project financing and came up with a guideline on 4 June 2003 that is known as Equator Principles.

9. Some Potential Green Banking Products:

Online banking:

Online banking allows the customers to make deposits, withdrawals and pay bills via the Internet on a secure website of a bank. It reduces paper waste, saving gas and carbon emission, printing costs and postage expenses etc.

Mobile banking:

Mobile Banking is a banking system which is used for performing balance checks, account transactions, payments, credit applications etc. through a mobile device. It is paperless banking.

Tree Plantation Project:

This process can be made under the guidance of forestry specialists. Each bank and its employee should participate in volunteer activities as planting trees.

Canvas bag:

"Canvas bag" is another complex project that may involve banks, offering people an alternative to plastic or paper bags, through the production of natural canvas bags. The project must be designed so as to encompass sustainable development: using local resources, organic or natural (Savu, 2012).

Green Credit:

It refers to restricting loans to projects that are harmful for the environment and increasing loans to projects that benefit the environment.

Green Marketing:

It refers the marketing of products that are environment and social friendly.

Bio-gas plant:

It is alternative source of energy which enables the community to get green power and it is helpful for poultry and livestock farms.

Phone Banking:

It allows customers access to their accounts information by using their cell phone. It is also paperless banking.

ATM:

It helps customers to check up their account balance and cash withdrawals. and it is also paperless banking.

Solar energy:

It saves energy consumption by establishing solar panels.

Green loans:

This means provide loans to those projects which will support friendly environment such as residential purpose, green car loans, green commercial building loans etc.

10. Conclusion:

The public concern at the state of the environment has been growing significantly in the last few years, mostly due to apparently unusual weather patterns, rising greenhouse gases, declining air quality etc. Climate change has brought business challenges for banks but has also offered opportunities. In connection with climate change related risks, the major risk to banks is credit risk. Banks also face operational and market risks. As one of the major stakeholders, banks can play a significant role in handling these risks. For this, banks will require a well-structured and transparent policy framework as well as long-term strategy. This study concluded that there has not been much initiative in this regard by the banks and other financial institutions in the world. Therefore, this paper suggests the following necessary directions for promoting green banking to save the environment and builds banks performance:

- Bank should establish a separate Green Unit or Cell.
- Bank should formulate green banking policy by forming a High-powered committee.
- Bank should prepare a „Green office guide“ to create awareness among the bank“s employees for efficient use of electricity, water, paper and re-use of equipments and avoid unnecessary consumption of electricity by light, fan, air condition and other electrical appliances;
- Bank should formulate Environmental Risk Management (ERM) policy guidelines;
- Climate Risk Fund should be created;
- Bank should arrange training, seminar and workshop for their employees and customers about green banking;
- Tree plantation program should be taken;
- Every bank should introduce E-banking facilities such as online banking, mobile banking, phone banking, SMS banking and ATM network etc.
- Bank should finances more and more to environment and social friendly products such as Solar, Bio-gas, Wind, Hydro, Effluent Treatment Plants (ETP), CNG conversion loan, Hybrid Hoffman Kiln (HHK) technology based brickfield, and other renewable energy projects etc.
- Finally, Bank should disclose a separate report on green banking to their annual reports and websites.

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