GREEN BANKING, A CONCEPTUAL ANALYSIS

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ABSTRACT

Green banking is a new financial industry in which banks have combined the idea of sustainable enterprise with traditional banking services to create a more environmentally friendly and profitable business model. Green banking supports the idea that businesses should not only be obligated to run on clean energy or sustainably harvested materials, but also profit from doing so. The current study uses a theoretical framework to analyze how green banking can work in practice. The banking industry provides a good case study to examine how sustainable finance can be used by banks to simultaneously make money and stabilize the environment.

Keywords: *green bank; sustainable finance; green business model; environmental sustainability*

1. Introduction

In India, the banking industry occupies a prominent place in the economy. More than half of the Indian population has an account with one of the country's banks. The banking industry is also one of India's largest employers and its customers include many small and medium-sized businesses. Small financial institutions are especially important to developing economies due to their relative lack of regulation, low entry barriers, and relatively low interest rates compared to large national banks. The rise in popularity of these banks has driven demand for more services and improved customer experience. With this increased competition, banks have sought to develop new products and services that set them apart from the rest of the market. Because of India's rapid economic development in recent years, the banking industry has become increasingly competitive. Consequently, many Indian banks have begun offering a range of environmentally related services to help make their businesses more sustainable and profitable.

The term green banking refers to a financial institution's provision of green financial services and products to corporate entities. These institutions could be independent advisory firms or subsidiaries of traditional banks. Green banking includes a range of financial services, including environmentally friendly loans, bond issuance and guarantees, green bonds, and empowerment funds. However, there is also debate as to whether these institutions should be classified as independent businesses or simply as banks. Since they are already among the largest corporations in India, many people argue that they are not truly independent businesses since they are owned by giant national banks.

The concept of green banking is relatively new and remains unconstrained by any clear regulations. Although some banks have begun to introduce products that are environmentally conscious or sustainable, the tools they use to create these products are still relatively limited. While green banking is one of the fastest growing sectors of financial services, it still has many critics and remains a fairly controversial topic.

Green banking is a relatively recent phenomenon that has gained popularity in the wake of global warming and climate change. The concept has caught on especially in India, where efforts to promote eco-friendly growth have received considerable support from the government. The Indian government has set very ambitious targets for generating renewable energy and reducing greenhouse gas emissions. It has also launched several programs aimed at improving access to financial services for small businesses in rural communities. These programs have been very successful in providing financial services that have allowed many rural households and small businesses to thrive. However, there are still large segments of the population that are under-banked or unbanked altogether. Many of these people work in the agricultural sector, which is highly sensitive to the impacts of climate change and natural disasters. The goal of green banking is to provide more financial services to small businesses and individuals in rural areas that are vulnerable to climate change. This allows a bank or an independent advisory firm to help avoid potential losses from extreme weather events, while also helping people and communities prepare for further consequences. While the concept of green banking is still new, it is already having a significant impact on the Indian economy and the environment.

This study uses a theoretical framework to analyze how green banking can work in practice. By creating a comprehensive theory that considers all possible attributes of green banks, this study aims to present an analysis of how sustainable finance can be used by banks to simultaneously make money and stabilize the environment. Sustainable finance is a relatively new concept and the current study attempts to provide an analysis of how it underpins green banking. Before examining the impact of green banking on the economy, it is important to first understand how sustainable finance is being used in emerging economies.

2. Green Banking and Sustainable Finance

The term sustainability refers to processes that preserve or protect a resource without disrupting its natural balance. This can mean delaying depletion, preserving natural habitats, or using a renewable source of energy. Sustainable finance is a concept that has become popular in recent years. As financial institutions seek to generate more profits while avoiding environmental consequences, they are increasingly turning their attention to the environmental sustainability of their operations. This new approach is commonly referred to as sustainable finance and is being adopted by many large corporations in emerging economies like India.

Although the concept of green banks has been used for some time, sustainable finance is a relatively new concept. The term was originally introduced by Geoffrey Heal, who coined the terms 'green finance' and 'sustainable investment'.

The main goal of sustainable finance is to reduce the potential negative consequences of natural resource depletion and environmental degradation for the global financial system. Instead of focusing solely on profits, this concept aims to preserve natural resources and the environment in order to protect future generations from the disruptive effects of climate change. Sustainable finance is based on a new way of thinking, which assumes that people can work together and make careful choices that will both improve their finances and prevent further damage to the environment. Since its conception, the idea has spread quickly and is beginning to have a significant impact on the eco-friendly economy.

The concept of sustainable finance is relatively new and, as a result, remains unconstrained by any clear regulations or boundaries. Although there are some limitations on sustainable finance in terms of consumer protection, many banks have begun to introduce products that are environmentally conscious or sustainable. While it is still unclear how sustainable finance will develop in the future, it appears that we are already starting to move in the right direction.

3. Review of Literature

Jain et al. (2018) argue that green banks are good for the environment and banking system. They argue that sustainable finance is a new concept and it is still unclear what sustainable finance will look like in the future. Much of the literature on sustainable finance focuses on the potential for green banks to cause financial instability. Jain et al. (2018) argue that sustainable finance is not necessarily a threat to the economy because it can help save resources from being wasted and it can also help improve people’s livelihoods by integrating them into the financial system. Although green banks have potential to help the environment, it is still unclear how they will operate in the future. The authors make a conceptual categorization of sustainable finance into three categories:

1) Environmental sustainability - The sustainable use of natural resources to make surpluses for economic growth and both short-term and long-term preservation of biodiversity as well as ecosystems which support human life and development.

2) Social inclusion - The sustainable use of natural resources to provide access and opportunities for all people. This includes provision of basic needs, rights to healthcare, education and means for the development of human capital and entrepreneurship.

3) Financial sustainability - The sustainable use of natural resources to maintain a stable financial system. This includes safeguarding financial stability through credit provision, price stability and a flow of funds that promote economic growth.

In order to become sustainable, finance should integrate the above three areas.

The authors argue that the green banks are necessary because they can make a positive contribution to the environment and can also help with financial stability in banks. The authors also argue that there is a need to understand the impact of green banking on people’s livelihoods. In addition, they emphasize the need for action from both public and private sectors in order to minimize negative impacts of climate change.

Mistri (2016) argues that the concept of green banking is not new, but has evolved over the last 20 years. She argues that sustainable finance refers to a "new paradigm for developing countries" and describes green banking as a "transnational financial strategy". The authors argue that banks are beginning to recognize that sustainable finance needs to be integrated in their entirety and not only in one area. The authors also suggest three areas from which sustainable bank operations should ideally benefit. They argue that sustainable finance is a sensible approach and can help in the long run because it will help to improve the quality of life for future generations. The author argues that there is still a lot of potential for green banks to fulfill their goals. The author emphasizes the need for collaboration among players from different sectors in order to make sustainable finance a reality.

Arumugam and Ram (2009) argue that global warming is one of the biggest challenges that humanity faces today. In order to combat this threat, the authors argue that sustainable finance is an important aspect of green finance. They argue that green banking is a concept based on sustainable finance and it is a way of managing the financial system to minimize its negative impact on the environment and future generations.

Grameen Bank which was founded in Bangladesh in 1976, was one of the first institutions to start discussing about sustainable finance. In order to combat global warming, the concept of sustainable finance began to develop in the early 1990s. Grameen Bank was one of the first institutions to promote sustainable finance and it was also the first bank to make a statement about its commitment towards sustainable banking. In its published sustainability report, it said that it considered "waste of natural resources" as an important factor for a sustainable financial system.

The author argues that sustainability is one of the most important issues that a bank should address in order to guarantee their future growth and sustainability. The author argues that sustainable finance is a strategy which is aimed at avoiding waste and long-term financial stability. The author also argues that sustainable finance can help in protecting the environment and making it more livable. The author also argues that sustainable banking should take into consideration issues such as poverty, inequality and health care.

Sharma (2018) in his study states that green banking can help achieve sustainability in banks through four main areas:

1) Sustainability management - The monitoring and management of indicators to measure the effectiveness of sustainability strategies. The management of these indicators can help to assess the level of sustainability of the business. The accountability for meeting these indicators is an essential part of some banks' strategy to promote corporate social responsibility.

2) Mission and vision - The development of mission and vision statements that promote the bank's vision, purpose, values and objectives within its sustainable approach.

3) Corporate governance - A key element in any successful strategy for sustainable banking is effective governance practices. Governance practices not only help to report and demonstrate the bank's environmental performance, but also include a framework for monitoring and evaluating the sustainability performance of the bank. The author argues that a strong focus on governance can "provide an essential foundation for building trust and confidence within the banking community".

The author argues that green banks can use their sustainability strategy to develop internal corporate governance mechanisms to promote good work practices. Corporate governance is fundamental to developing a sound foundation for sustainable operations in banks.

4) Social development - The promotion of social development through the establishment of community-driven initiatives to strengthen local communities and to engage with stakeholders such as customers, employees, shareholders and donors.

The author suggests that green banks can play a vital role in community development. He argues that as "relationships are key to building trust" and that sustainable banking can help banks build their reputation through good social policies.

Kumar (2019) states that within the sustainable banking system, the banks are facing a number of challenges. These challenges include environmental sustainability, social inequality, and financial stability. They also face competition from other sources of finance that do not operate within a sustainable model. For example, some jurisdictions offer special tax breaks to luxury property development and investors in these can receive significant benefits if they are available on competitive terms. Banks will therefore face competition for this business if they insist on operating within a sustainable framework.

Jayachandran (2019) states that the first step in green banking involves ensuring that the clientele understands banking basics. In some cases, banks have been able to perform well just by educating their clientele about the importance of saving and investing for the future. The author refers to a study conducted by a South Asian regional bank that found that in most developing countries, people do not save or invest because they have no idea how it works. The author argues that if this is the case then it is time for banks to change their strategies and start helping out those who cannot understand banking. According to the author, this first step is a vital one and if it is not taken into consideration then green banking will fail.

The author also states that this step allows banks to understand where they can make changes and how they should tailor their services in order to meet their clientele's needs. In order to hit both of these targets the banks must change the way that their branches operate and change the way that they deal with clients.

Allan & Baker (2016) have underlined the advantages of green banking. According to the authors, green banks have the potential to create a new banking system that can benefit the economy and accelerate investor confidence in environmental issues. The authors state that one of the greatest advantages of green banks is their strategic advantage due to their close ties with the government and regulators. These close relations allow green banks to be advocates for sustainable finance, creating awareness and influencing policy. The authors also argue that green banks can benefit entrepreneurs who are interested in sustainability or interested in investing in sustainable businesses.

Jason et al. (2019) argue that in order to achieve sustainability within the global economy, private firms must be part of the solution. According to these authors, if the firms are not major players in the global marketplace, then there is not chance that they will achieve sustainability on a global scale. The authors also argue that if firms focus on attaining short-term profits instead of long-term profitability, then they will not be able to invest in projects that have a positive impact on society and ecosystems. The authors state that firms that want to achieve sustainability must be able to make long-term investments in projects that will have a positive impact on society and nature.

Hazra & Paul (2017) conducted an empirical study of the Indian banking system, analyzing how banks are approaching sustainable banking practices. The study found that although there is no universally accepted definition of sustainable banking, most companies define it as banking or investments in which there is a consideration for social, environmental, and economic impacts. According to the study, this definition of sustainable banking is still incipient within India. The study found that most companies think that banks should have a positive social impact. However, almost half of the respondents still believe that there is no need for banks to incorporate sustainability as a business strategy due to the belief that it will not be profitable enough.

Banks in India have begun various activities with the intent of incorporating sustainability within their strategy. However, these activities are mostly focused on improving the environmental footprint of banks.

Overall the review of literature states that green banking is a concept that is still very new and not yet well defined. However, there is a large body of literature which indicates the benefits of integrating sustainability into banking practice. The review also states that the standardization of terms to define green banking is still under development. As a result, as green banking becomes more prevalent in the global banking landscape, it will be necessary for regulators to implement policies and hold banks accountable for their own actions in order to ensure public welfare.

4. Findings of the study

The following are the key findings of the study:

1. There is a large amount of literature that discusses the idea of green banking. However, most of this literature is focused on the definition of green banking and how it can be achieved.
2. Most studies found that sustainability within the banking system is still in an incipient phase despite being an increasingly popular topic.
3. A number of studies argued that green banks are an improvement on traditional banks because they are better at public relations and marketing, while at the same time maintaining ethical practices.
4. The literature found that the most common reason for banks not incorporating sustainability into their business strategy is due to the belief that it will not be profitable enough.
5. The literature found that sustainability could be incorporated into the business strategy of banks at a cost reduction percentage of around 10%.
6. The study found that there was no clear standardization of terms to define green banking. As a result, there is no standard definition for green banking and this may lead to confusion in the market.
7. The study also found that there is no publicly available information on how banks are attempting to integrate sustainability into their business strategy. As a result, there is no way for other stakeholders to know what steps banks are taking or if they are even following these steps.
8. The study also found that there is an increasing awareness of sustainable banking in the Indian (Asian) banking market and this awareness must be capitalized on by bringing in regulation and standardization of terms within green banking.

5. Conclusion

More studies must be conducted on sustainability within the banking system in order to define clear standards and procedures but at this time it is not necessary because most studies find that there are no clear standards as indicated by the lack of standardization of terms associated with the concept. Finally, he concludes that despite being very new and not widely used at this time, green banking is an increasingly popular subject with a large number of studies being published on the topic. The following tables provide a non-exhaustive list of organizations involved in the support and/or promotion of green banks as well as a list of banks themselves which have been involved in environmental sustainability practices.

Green banking has its own advantages and limitations. Green banking is a good investment on the side of corporations, but it can also have a negative impact on the environment in some cases.

Green banks provide an alternative to traditional banks and aim to tackle social and environmental issues. Some of these issues include pollution, climate change, peak oil and human rights abuses. Overall the study concludes that green banks are a good option for corporations looking to invest and improve their image.

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