

GREEN MARKETING STRATEGIES OF BANKING

Mr. Suresh. P

Lecturer in Commerce, Government Degree College, Parkal, Warangal, TS.

Abstract

In India, around 25% of the consumers prefer environmental-friendly products and around 28% may be considered healthy conscious. Green marketers have diverse and fairly sizeable segments to cater to. With below market interest rates, many green car loans encourage the purchase of cars that demonstrate high fuel efficiency. Some banks have recently developed indices that fluctuate as future environmental opportunities and challenges emerge. For instance, ABN AMRO has developed an equity index consisting of firms whose businesses address issues related to global warming and the environment. By purchasing shares in a green fund, or investing money in a green bank, citizens are exempted from paying capital gains tax and receive a discount on income tax. Government-led carbon funds offer a compliance tool for governments to meet their Kyoto objectives, private carbon funds offer regulated companies a cost-effective compliance instrument, and also provide traditional investors with the potential for cash returns and marketing and CSR opportunities.

Keywords: Banking, Green Marketing, Environment, ATM, Retail Banking.

INTRODUCTION

The banking sector can play an intermediary role between economic development and environmental protection, for promoting environmentally sustainable and socially responsible investment, banking of this kind can be termed as "Green Banking". Green finance as a part of Green Banking makes great contribution to the transition to resource-efficient and low carbon industries i.e. green industry and green economy in general. Green banking is a component of the global initiative by a group of stakeholders to save environment. Various financial services adopted by green business are banks, credit card companies, insurance companies, consumer finance companies, stock brokerages and investment funds. Banking sector has its own significance.

A bank connects customers with capital surpluses. Any business that is consistently working with other people's money should convey professionalism, trust, commitment and establish a level of confidence in their capabilities to manage money. Banks can introduce "Green Fund" to provide climate conscious customers the option of investing in environment friendly projects. Banks can also introduce green bank loans with financial concessions for environment friendly products and projects such as fuel efficient vehicles, green building projects, housing and house furnishing loans to install solar energy system etc

OBJECTIVES OF THE STUDY

1. The main objective of the paper is to discuss the various green products and services developed and implemented by the banks.
2. To study the key factors challenges social responsibility of the banks to follow the green financial products.
3. To explain the rules of green bank aspect of Indian banks with relevant information.

Climate change is the most complicated issue the world is facing. Across the globe there have been continuous endeavors to measure and mitigate the risk of climate change caused by human activity. Many countries the world over have made commitments necessary to mitigate climate change. India has committed to cut its domestic carbon intensity by 20-25 percent from 2005 levels, by the year 2010. As socially responsible corporate citizens (SRCC), Indian banks have a major role and responsibility in supplementing government efforts towards substantial reduction in carbon emission.

Although banks are considered environment friendly and do not impact the environment greatly through their own 'internal' operations, the 'external' impact on the environment through their customers activities is substantial.

The banking sector is one of the major sources of financing industrial projects such as steel, paper, cement, chemicals, fertilizers, power, textiles, etc., which cause maximum carbon emission. Therefore, the banking sector can play an intermediary role between economic development and environmental protection, for promoting environmentally sustainable and socially responsible investment. 'Green banking' refers to the banking business conducted in such areas and in such a manner that helps the overall reduction of external carbon emission and internal carbon footprint.

To aid the reduction of external carbon emission, banks should finance green technology and pollution reducing projects. Although, banking is never considered a polluting industry, the present scale of banking operations have considerably increased the carbon footprint of banks due to their massive use of energy (e.g., lighting, air conditioning, electronic/electrical equipments, IT, etc), high paper wastage, lack of green buildings, etc. Therefore, banks should adopt technology, process and products which result in substantial reduction of their carbon footprint as well as develop a sustainable business.

IMPLEMENTATION OF GREEN MARKETING IN INDIA

In India, around 25% of the consumers prefer environmental-friendly products, and around 28% may be considered healthy conscious. Therefore, green marketers have diverse and fairly sizeable segments to cater to. We also have green buildings which are efficient in their use of energy, water and construction materials, and which reduce the impact on human health and the environment through better design, construction, operation, maintenance and waste disposal. In India, the green building movement, spearheaded by the Confederation of Indian industry (CII) - Godrej Green business Centre, has gained tremendous impetus over the last few years. From 20,000 sqft in 2003, India's green building footprint is now over 25 million sq ft. Companies that develop new and improved products and services with environment inputs in mind give themselves access to new markets, increase their profit sustainability, and enjoy a competitive advantage over the companies which are not concerned for the environment. Many companies want to have an early-mover advantage as they have to eventually move towards becoming green. Some of the advantages of green marketing which firms want to exploit are:

1. It ensures sustained long-term growth along with profitability.
2. It saves money in the long run, though initially the cost is more.
3. It helps companies market their products and services keeping the environment aspects in mind.
4. It helps in accessing the new markets and enjoying competitive advantage.
5. Most of the employees also feel proud and responsible to be working for an environmentally responsible company.
6. A strong commitment to environmental sustainability in product design and manufacturing can yield significant opportunities to grow your business, to innovate, and to build brand equity.

THE FOLLOWING ASPECTS ARE NECESSARY FOR THE GREEN BANKING

Go Online- Online banking is the developing concept in young and corporate India. Online banking helps in additional conservation of energy and natural resources. Online Banking includes: a. Paying bills online, b. Remote deposit, c. Online fund transfers and d. Online statements. It creates savings from less paper, less energy, and less expenditure of natural resources from banking activities. Customers can save money by avoiding late payments of fees and save time by avoiding standing in queues and paying the bill from home online.

Use Green Checking Accounts - Customers can check their accounts on ATM or special touch screens in the banks. This can be called as green checking of account. Using a green checking account helps the environment by utilizing more online banking services including online bill payment, debit cards, and online statements. Banks should promote green checking by giving some incentives to customers by giving higher rate of interests, waiver or discount in fees etc.

Use Green Loans for Home Improvements - The Ministry of Non-renewable Resource in association with some nationalized and scheduled banks undertook an initiative to go green by paying low interest loans to the customers who would like to buy solar equipments. The rate of interest is as low as 4% p.a. Before you undertake a major home improvement project, study if the project can be done in an eco-friendly manner and if you might qualify for a green loan from a bank Green loan are perfect for energy-saving project around the house. The new Green Home Loan Scheme from SBI, for instance, will support environmentally friendly residential projects and offer various concessions. These loans will be sanctioned for projects rated by the Indian Green Building Council (IGBC) and offer several financial benefits –a 5 percent concession in margin, 0.25 percent concession in interest rate and processing fee waiver.

Power Savings Equipments- Banks can directly contribute to controlling climate change and as an initial step they intend to start a campaign to replace all fused GSL bulbs, in all owned premises offices and residential. Banks can also make a feasibility study to make rain water harvesting mandatory in all the Bank's owned premises. In December 2009 Indusind Bank inaugurated Mumbai's first solar-powered ATM as part of its 'Green Office Project' campaign titled 'Hum aurHariyali'.

Use Green Credit Cards - Some of the banks introduced Green Credit Card. The benefit of using a green credit card is that banks will donate funds to an environment-friendly non-profit organization from every rupee you spend on your credit card to a worthwhile cause of environment protection.

Save Paper- Bank should purchase recycled paper products with the highest post-consumer waste content possible. This includes monthly statements, brochures, ATM receipts, annual reports, newsletters, copy paper, envelopes etc. Whenever available, vegetable-based inks are used instead of less environmentally friendly oil-based inks.

Use of Solar and Wind Energy - Using solar and wind energy is one of the noble cause for going green. State Bank of India (SBI) has become the first bank in the country to venture into generation of green power by installing windmills for captive use. As part of its green banking initiative, SBI has installed 10 windmills with an aggregate capacity of 15 MW in the states of Tamil Nadu, Maharashtra and Gujarat.

Mobile Banking - Mobile banking is tricky. On the one hand, it is great to have the ability to check balances, transfer funds or pay bills from you phone. One the other hand, it saves time and energy of the customers. It also helps in reducing use of energy and paper of the bank. Most of the Indian banks introduced this paper-less facility.

GREEN BANKING IN LEADING INDIAN BANKS

1. Green Home Loans of SBI

SBI started a new policy i.e. SBI green home loans in India. The new green home loan support environmental friendly residential projects and offer various concessions like reduced margins lower interest rates and zero processing fee.

2.ICICI Bank Green Technology Initiative

ICICI started the corporate stewardship program Bombay National History Society (BNHS) to sensitive various corporate bodies, financial institutions/banks, government agencies involved in the project planning on issues of biodiversity, wildlife habitats, various environmental laws and conventions. BNHS has initiated green governance award. ICICI bank is assisting projects that would specifically promote energy efficiency, renewable, demand and side management by utility etc. ICICI Bank is encouraging its customer to use more environment friendly vehicle by offering 50% concession on processing fees for fuel efficient car models.

3. IDBI Carbon Desk

The bank facilitates the registration of the projects with UNFCCC and trading of carbon credits generated by the CMD projects. There is refinance scheme initiated by the bank for energy savings projects for micro, small and medium enterprises (MSME) sector.

IDBI bank is a member of National Action Plan on Climate Change (NAPCC). The bank is also an authorized signatory to the Carbon Disclosure Project (CDP). CDP aims to create a relationship between shareholders and corporations regarding the shareholder value and commercial operations because of the climatic changes.

4. Union Bank of India's Energy Efficient Measures

The union bank of India has decided to take an annual electrical energy audit. The bank has also installed solar power water heaters at the various facilities they maintain. It's the support service department of the bank that has been identified to implement such an energy reduction program. Green IT to develop a strategy for implementation of less paper offices to paperless offices. Initiatives like the solar- powered ATMs with which we are experimenting at Union Bank of India may go a long way towards green technology in banking”.

THE GREEN PRODUCTS & SERVICES

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. Although these companies may differ with regard to their stated motivations for increasing green products and services (e.g. to enhance long-term growth prospects, or sustainability principles on which a firm is based), the growth, variation and innovation behind such developments indicate that we are in the midst of a promising drive towards integrating green financial products into mainstream banking.

This product and service review is divided into the following banking sectors:

- Retail Banking
- Corporate & Investment Banking
- Asset Management
- Insurance

RETAIL BANKING

GREEN MORTGAGES

In general, green mortgages, or energy efficient mortgages (EEMs), provide retail customers with considerably lower interest rates than market rates for clients who purchase new energy efficient homes and/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 consumer benefit when marketing the product. These retail products come in different designs, some of which have met more success than others.

GREEN HOME EQUITY LOANS

Reduced rate home equity loans, sometimes referred to as 'second mortgages', can help motivate households to install residential renewable energy (power or thermal) technologies. In designing and offering these incentive-based products, a number of banks have also partnered with technology providers and environmental NGOs.

GREEN COMMERCIAL BUILDING LOANS

Attractive loan designs and arrangements have started to emerge for green commercial buildings, characterized by lower energy consumption (~15-25%), reduced waste and less pollution than traditional buildings. Some appraisers are now recognizing reduced operating expenses, improved performance and longer lifetimes associated with these green functions and features. Lower project costs improve net operating income, a key factor when evaluating property using the income approach.

GREEN CAR LOANS PROVIDED BY THE BANKS

With below market interest rates, many green car loans encourage the purchase of cars that demonstrate high fuel efficiency. The number of these products has increased in recent years, with the majority being offered in Australia and Europe. Most green car loans are being offered by credit unions, such as mecus, as innovative vehicle lending has proven to be an ideal niche for smaller financial institutions. .

GREEN CARDS ISSUED BY THE BANKS

A broad family of green products includes debit and credit cards linked to environmental activities. Most green credit cards offered by large credit card companies offer to make NGO donations equal to approximately one-half percent of every purchase, balance transfer or cash advance made by the card owner. Annual Percentage Rates (APR) for affinity cards normally range between 15-22%, and many also charge annual user fees. Over the past year, tying cards to a GHG offset program has become increasingly popular among European financial institutions. This supplementary service can be implemented at little cost to the financial lender, with the potential for sizeable financial and reputational returns. In recent months, some banks have announced ambitious green credit card designs, including the Barclaycard Breath.

CORPORATE & INVESTMENT BANKING

GREEN PROJECT FINANCE

A number of banks have created service divisions, or teams, dedicated to large-scale renewable energy project finance, such as Rabobank International's Project Financing Department, Barclay's Natural Resources Team and WestLB's Global Energy Team. By 2005, the majority of leading European banks had debt portfolios that contained committed lines to entirely, or partially, finance renewable energy assets. Banks have also started to employ innovative financing arrangements for large-scale clean fuel and renewable energy projects. Leaders in this space have achieved reputational benefits through media exposure, public recognition and corporate responsibility awards.

GREEN SECURITIZATION

A variety of innovative environmental securitization techniques have begun to emerge, including: forest bonds; eco-securitization pilot programs; and green mortgage-backed securities.

GREEN VENTURE CAPITAL & PRIVATE EQUITY

We increasingly see consideration paid to environmental issues when financing companies through the capital market (IPOs and bond issues). In particular, banks can play a pivotal – and profitable – role in assisting with IPOs for clean technology providers, carbon credit developers and other firms marketing environmental products and services. Banks can also establish a capital base for environmental projects through specialized private equity units focused on clean energy growth markets and investment opportunities.

GREEN INDICES

Some banks have recently developed indices that fluctuate as future environmental opportunities and challenges emerge. For instance, ABN AMRO has developed an equity index consisting of firms whose businesses address issues related to global warming and the environment. This builds on a series of indices, created in 2006, which was based on individual industries, including carbon abatement technologies, water, solar, ethanol, renewable energy and natural gas. More recently, Merrill Lynch has developed an energy efficiency index, the only index to focus solely on energy conservation and demand side management. The new index identifies well-positioned market segments, with lower levels of energy consumption, and thus smaller carbon footprints.

CARBON COMMODITIES

To date, carbon market products and services have largely been found in Europe, driven by the January 2005 implementation of the EU Emissions Trading Scheme (EU ETS); a scheme that has put over 12,000 European industrial sites, including some US subsidiaries, under a carbon constraint. In North America, only a few banks have taken steps towards participating in the growing carbon market, including: Goldman Sachs, Merrill Lynch, JPMorgan Chase, Morgan Stanley, Citigroup and Bank of America.

Carbon finance centers on the provision of equity, loans and/or upfront or upon delivery payments to acquire carbon credits from Clean Development Mechanism (CDM) and Joint Implementation (JI) projects. Most banks acquire carbon credits in order to serve their corporate clients' compliance needs, or to supply a tradable product to the banks' trading desks. Several European banks, namely HSBC, Barclays Capital, Fortis, and ABN AMRO, are very active in this field, employing a range of financing approaches to improve portfolio diversification, secure opportunities and hedge risks.

ASSET MANAGEMENT

GREEN FISCAL FUNDS

Dutch banks currently benefit from a government-led Green Fund initiative, launched in 1995. By purchasing shares in a green fund, or investing money in a green bank, citizens are exempted from paying capital gains tax and receive a discount on income tax. Investors can therefore accept a lower interest rate on their investment, while banks can offer green loans at a lower cost to finance environmental projects. To date, Rabo bank has established one of the more successful green funds; in 2005, its fund had acquired 63,000 investors and provided €2 billion in green loans.

GREEN INVESTMENT FUNDS

Sustainable investment funds have evolved through three generations, where the complexity of assessing investment eligibility rises at each level. First generation funds solely employ exclusionary social and/or environmental criteria; second generation funds use positive criteria that concentrate on progressive social and/or environmental policies and practices; and third generation funds apply both exclusionary and positive criteria to assess and select potential investments, with a focus on relative performance within a sector using a best-in-class approach.

CARBON FUNDS

Collaboration between multilateral development banks and private financial institutions has led to the emergence of a variety of carbon funds to help finance GHG emission reduction projects to curb climate change. Acting as a collective investment scheme, a carbon fund receives money from investors to purchase CO2 emission reduction credits (including, but not limited to, Certified Emission Reduction credits (CERs) or Emission Reduction Units (ERUs)) from existing emission reduction projects, or invest in new projects that will generate a stream of CO2 emission reduction credits. Where government-led carbon funds offer a compliance tool for governments to meet their Kyoto objectives, private carbon funds offer regulated companies a cost-effective compliance instrument, and also provide traditional investors with the potential for cash returns and marketing and CSR opportunities.

INSURANCE

GREEN INSURANCE

This type of insurance typically encompasses two product areas:

- Insurance products which differentiate insurance premiums on the basis of Environmental-related characteristics; and
- Those specifically tailored for clean technology and emission reducing activities. Examples of green insurance products include green auto insurance, where the premium is linked to the use – and thus environmental footprint – of the vehicle, and green home insurance, where special rates are provided for energy efficient buildings or carbon offset schemes are offered to help clients achieve carbon neutrality.

CARBON INSURANCE

There are many risks inherent in emission reduction transactions, as well as low-carbon project assessment and development activities. In response, some financial institutions now offer insurance products to manage carbon credit price volatility. For instance, Swiss Re offers a carbon-delivery insurance product based on Emission Reduction Purchase Agreement contracts, and AIG and Marsh offer coverage on all traditional and Kyoto-specific risks associated with these riskier environmental schemes. Swiss-Re has also created the “Contingent Cap Forward for Emissions Reduction Trades,” an insurance product that covers counter-party and delivery risks faced by buyers of EU allowances, to ensure that carbon transactions are completed within a certain cost range.

INSURANCE

Insurance is a sector where green versions are likely to grow significantly over the coming years. Currently available products include some of the following features: insurance premiums linked to vehicle usage; coverage for LEED-certified buildings; carbon neutral home/auto insurance; coverage for environmentally vulnerable SMEs; coverage for price volatility and Kyoto project risks; coverage for emission reduction credit guarantees; and ad-hoc insurance products for renewable/clean energy projects.

BANKS SHOULD CAREFUL IN INDIA TO THE FOLLOWING ASPECTS

Stringent environment rules to be followed in future to export product. The product should be eco-friendly export. Pollution controlling equipment needed to be financed by banks. RBI also follows environmental guidelines. Big investment project should be evaluated by environment impact assessment. Assessment of risk due to environment, environment audit should be done carefully.

CONSIDERATIONS OF BANKS TO PROJECT FINANCE

Banks should introduce green bank loans and products like reduced rate of interest to environmental projects. Give option to customers to invest in environmental friendly banking products, invest in resources those combine ecological and social concern. These aspects should be monitor by independent body or environmental investigation team.

Social Responsibility

Every firm is a member of the wider community. So it must behave environmental supporting not spoil of the environment. Firm must integrate the objective of protecting environment and earning profit. It must take protection of environment is one of the marketing tool take responsibility without promoting this fact.

Example: Coc-cola invested large sum of money in recycling activities and modified their package to minimize environmental impact.

CHALLENGES FACED BY GOING GREEN

The green product require renewable and recyclable, which are very costly. The development of green product requires huge investment of R&D. Majority of the customers are not aware of green products and their uses. Majority of the customers are not willing to a premium for green product. Develop green products for green banks require talent, skill and expertise knowledge to employees. Offer discount to rate of interest to customers leads to decrease profits.

KEY TO SUCCESS OF GREEN MARKETING

To make green marketing to be effective, it needs to do three things. Be genuine, educate customer, and give them to participate. Product must be genuine when going to green marketing campaign. The important matter to be in protection of environment should be educated perfectly to the customers. Opportunity to participate means personalize the benefits of environmental friendly action, let the customer take positive environment activities.

RULES OF GREEN BANKING

To sell a green product to customer, the customer must aware and concerned about the product. The customer should be make sure that the green product make a difference. This is called empowerment; it is main reason to purchase the product. The buyer must feel that the product specifications are transparent in the quality. Customers need to believe that the product should perform its job. It should not loose its quality concern to environment. When develop a new green product the cost of ingredients may be high, but keep in the mind of target customers purchasing power. If the customers dislike to pay premium price of the product it is difficult promote. When a firm develops a new green product genuine and honest towards environment. Most of the people value performance, reliability and durability are more important then ecological soundness to them built a better product.

BENEFITS OF GREEN BANKING

Cash back will be credited to existing account holders, new customer opening green account. Avoiding use of paper through internet banking, SMS banking, phone banking and ATM banking. Free electronic bill payment services. E-remit service to customer's home country from abroad. E-statement is generated and sent to customer's email. Using online banking instead of branch banking, paying bills online instead of mailing them Open up CDs and money market accounts at online banks, instead of large multi-branch banks or finding the local bank.

CONCLUSIONS

From above study it concludes that, attractive loan designs and arrangements have started to emerge for green commercial buildings, characterized by lower energy consumption (~15-25%), reduced waste and less pollution than traditional buildings. A broad family of green products includes debit and credit cards linked to environmental activities. A number of banks have created service divisions, or teams, dedicated to large-scale renewable energy project finance, such as Rabobank International's Project Financing Department. A variety of innovative environmental securitization techniques have begun to emerge, including: forest bonds; eco-securitization pilot programs; and green mortgage-backed securities. Insurance products which differentiate insurance premiums on the basis of Environmental related characteristics.

REFERENCES

1. Chopra, S. Lakshmi (2007), "Turning Over a New Leaf", Indian Management, Vol-64, April-2007
2. Ottman, J.A. et al, "Avoiding Green Marketing Myopia", Environment, Vol-48, June-2006
3. Blacconiere, Walter and Dennis Pattern, (1993), "Environment Disclosure, regulatory costs and changes in firm values," *Journal of Accounting and Economics* (December).
4. Thompson, Hilary-J, (1995) "The Role of Financial Institutions in Encouraging Improved Environmental Performance" in Rogers, Michael-D., ed. Business and the environment. New York: St. Martin's Press; London: Macmillan Press; 271-81
6. www.greenmarketing.net/strategic.html
7. www.epa.qld.gov.au/sustainable_industries
8. www.epa.qld.gov.au/sustainable_industries