ROLE OF FDI IN BANKING SECTOR TOWARDS STIMULATING GREEN BANKING

Munnu Prasad V, Muktha Kumar

1Lecturer, Department of Business Administration & Commerce, St. Joseph’s College.
2Lecturer & IQAC, Department of Commerce, St. Joseph’s College of Commerce.

ABSTRACT: This Paper Begins with what is Bio-diversity and how it is affects the ecology and it impact on economy. Bio-diversity, Ecology and Economy are inter-linked. The Paper describes the past Proposals of FDI and the new FDI Policy by RBI. There is no usage of primary data, where purely based on Secondary data. This paper explains the means of investment through FDI which will benefit the public banks on one side and on the other side it may affect the obligations of Central Government and RBI.

RESEARCH DESIGN: NATURE AND STATEMENT OF PROBLEM: To determine the ways of FDI investment in Public Sector Banks this can contribute towards the Green Banking which may result in reduction of Global Warming.

OBJECTIVES OF THE STUDY: 1. To compare the proposed new regulations with existing. 2. To study impact of new FDI regulations in Public Sector Banks (i.e., RBI regulations). 3. The possibility and means of FDI in BANKING sector towards stimulating Green Banking.

DATA COLLECTION: PRIMARY DATA: There is no Primary Data Collected for this paper; since there is full confusion in the Customers + Banks (Result based on the paper "FDI Awareness and Drawbacks, Dr. Srinivasa Rao and Munnu Prasad. V").

SECONDARY DATA: This research requires much secondary data that is in the form of historical information from various relevant sites and also various journals, articles, company reports and databases.

LIMITATIONS: This paper is limited with: 1. Time Factor. 2. Only Public Sector Banks. 3. Is subject to acceptance of new regulations.

KEYWORDS: FDI, Green Banking, RBI, Ecology, Central Government, Bio-diversity.


INTRODUCTION: Bio-diversity is the diversity/resources where human beings are majorly depended, where there is too much of extractions are done for the benefit of mankind, there is no give back policy from mankind to nature or maintain it properly for the future generation. Environment problems are well described by the Metaphor of the 'Tragedy of the Commons' (Hardin, 1968), where Marcel H.A. Jeucken (Sustainable Finance and Banking, 2001, pp2) describes ‘tragedy of the common’ in the form of Fishery, where fisher can catch more, with the net result that the level of over fishing would remain unchanged. He says that over fishing in the Bio-diversity will lead to over exploitation of the resources in sea bed or will result in scare available of the resources in mere feature. 'Environmental protection based on a commitment to future generating or a spiritual perspective" (Marcel H. A. Jeucken, 2001). The commitment to Environmental protection is just on words, there is no practical applicability in the real, there should some commitment for implementation for the protection of Environment for future generation in any ways, where it can be in the spiritual way also. There is a close inter-relation between environment and the economy. Where the economy will not exist without ecology (ecological system), maintaining of ecological system is must, because the more proper maintenance in the ecological environment will help for better economic activity and also it leads for ultimately for mankind’s survival.

What is Green?: A word Green has different variables for the factor of Green, where when say that the Green Environment, it means full of Green Trees and Plants around us (i.e. totally a eco-friendly environment), when we take a Green in the color factor, it will be just touched and visible part for our eyes in the way of powders or in the images. So the word Green has it different sense. When we add word along with the Green + Banking, it tells about the Green initiatives taken by the Banking Industry.

What is Green Banking?: It means promoting environmental-friendly practices and reducing your carbon footprint from your banking activities. This comes in many forms. Using online banking instead of branch banking, paying bills online instead of mailing them, opening up CDs and money market accounts at online banks, instead of large multi-branch banks, or finding the local bank in your area that is taking the biggest steps to support local green initiatives. Green Bank Report (http://s.tt/12gNy).

What is the Carbon Foot Print that everyone is talking about? Every human activity has an impact on the environment and in particular, on climate change. Our ‘carbon footprint’ is a measurement of all greenhouse gases that we produce in our day-to-day life through burning of fossil fuels for electricity, heating, transportation etc. It is measured in units of tones (or kilograms) of carbon dioxide (CO2) emitted.

What is Ethical Banking?: Ethical Banking is also known as a Social, Alternative, Civic, or Sustainable Bank, it is a bank concerned with the social and environmental impacts of its investments and loans (http://en.wikipedia.org/wiki/Ethical Banking). It is the movement marching towards increase in social and environmental responsibility in the Banking and Finance Sector. Ethical Banking shares the approaches of Islamic Banking.
When the Concept of Green Banking came into Existence?: The importance of green banking was thrown in light in 90's, but the practicing concept of Green Banking was in existence early back in 1940. It has not evolved through the technology. The Green Banking Concept was slightly resembling the approaches of Islamic Banking.

The Emergence of Green Banking concept took place in the 90's with the effect of hole in the stratosphere (i.e. hole in the Ozone layer), where the dangerous sun rays (UV rays) directly enter to the earth and harms the human bodies, where it results to skin diseases.

The Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC) of December 1997, was adopted. Where the Kyoto Protocol has set of binding obligations for the industrialised countries to reduce their emissions of greenhouse gases. The UNFCCC is an international environmental treaty with the goal of achieving the "Stabilisation of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system" (http://en.wikipedia.org/wiki/Kyoto_Protocol)

The world leaders gathered in Kyoto to establish the global objectives and define instrumentation to tackle the problems on the emission of greenhouse gases. Where the consequences of the Kyoto Protocol for trade and industry can be reduced to this: Carbon dioxide emissions will negatively influence the cash flow of the business while excess emission rights may bring in additional revenue (Marcel H.A. Jeucken, 2001).

Why is Green Banking Needed?: Customers have plenty of choices for selecting the financial institutions, they look for more modernized and also the use of technology in Banking. Since there is high demand for the development in the banking industry from the customers banks are forced to adopt modern technology and also high environmental awareness is driving the number of financial institutions to go green.

Banks play an indispensable role in mobilizing financial resources across the economy-in particular, providing capital for large-scale infrastructure and low carbon technology deployment. (Climate Change and Finance in India, 2010 May).

While offering several simple suggestions for practicing green banking arrangements, the specific initiatives taken by banks in India are- IndusInd Bank introducing solar powered ATMs, SBI adopting green banking policy and offering green home loans, Union Bank of India's energy efficiency measures, IDBI Bank's membership in National Action Plan on Climate Change, ICICI Bank's Corporate Environmental Stewardship initiatives and also Clean Technology Initiatives, YES Bank's community development initiatives, ABN Amro Bank's (now Royal Bank of Scotland) launching of Indian Sustainable Development Fund as also the Role played by RBI in its CSR initiatives. Green Banking goes a long way it serving its objectives (Lean and Green Banking in India, Ms. Varalakshmi and et al, 2012)

Imperatives of Green Banking: Green banking is very important in mitigating the following risks involving the banking sector:

1. **Credit Risk**: Banks financed for Extreme economic assets which affect through Globalization.
2. **Legal Risk**: Banks should also look for the environmental aspects, if they fail there will arise in legal risk.
3. **Reputation Risk**: Due to increasing environmental awareness, banks are more prone to reputation risk, if their direct or indirect actions are viewed as socially and environmentally damaging. Reputation risks emerge from the financing of environmentally objectionable projects. As India has committed to reducing its carbon intensity by 20-25 percent from 2005 levels by 2020, Banks started to finance more on the Green Finance projects like Green Mortgages, financing for green initiatives taken on Green Infrastructure projects (i.e. both residential and non-residential). Hence, most private banks started to reduce emission of carbon.

**Sustainability**: Sustainability in Environment is one of the major problems in the present Materialistic, Modern World. The Development in the Economy leads to growth in the Nation, but on the other hand we are not considering the effects of the rational utilization of the Natural Resources. The Cause of Global Warming is due to the excess cut down of trees and building multi-storied buildings all over (i.e. based on man’s requirement). Sustainable Banking includes the elements of preventive and offensive banking (Marcel H.A. Jeucken, 2001).

Hence reduction of Carbon Foot print of Individual is less. Where inverse it’s increasing day by day. Banking Sector is one of the major agents for overall industrial activities and has majorly contributed for economic growth. So, the Banking sector has taken an initiative for the reduction in the usage of papers through use of proper technology which in return reduces the carbon foot print of the Individual and also in mass group of society.

**Reforming in India’s Economy – Foreign Direct Investment in Banking and Finance:**

**What is Foreign Direct Investment?:** FDI is investment by foreign entity in which they invest in a country through physical means. Where Physical means buy some physical property either through acquisition or buying some stack in the company. http://wiki.answers.com/Q/What_is_FDI#ixzz27gRuJPP3

**Review of Literature:** Munnu Prasad and Prof. Muktha Kumar (2012) – “A Study on contribution of technology towards Green Banking” (ISSN 2250-1819) This paper speaks about the use of technology in the Banking sector, where the paper found that very less nationalized banks adopted technology. The paper also spoke about the awareness in the concept of banking, where there is a less awareness in the branch level, in a Head Office of banks were few aware on the Green Banking. Thus paper suggested that there should be a rule from the central Bank (i.e. RBI) and also suggested for centralization for Management Information System.

Ms. Varalakshmi Alapati, Prof. Chowdari Prasad and Dr. K.S. Srinivasa Rao (2012) – “Lean and Green: A Special Reference to Banking Sector”, Paper is discussed on the Lean and Green initiatives taken from the Commercial Banks and the schedule banks of India, where they have portrayed the recent adoption in the sustainable with Green Initiatives taken to reduce the operating cost and also to compete with Foreign Banks. They have also discussed about the good recent changes taken by the banks.
"Green Banking Policy of BASIC Bank Limited", Bangladesh (2011) this paper speaks out more on the urgent need to concentration over a climate change, environmental degradation and mitigations for sustainable development by the main stake holders in the economy builders all over the world. Financial Institutions of banking sector holds it unique position in the economy which will greatly affects in the production, business and other economic activities in terms of financing activities, this activities will help for reducing and protect of environment through reducing the climate from the pollution. The banks operating cost can be reduced from the energy use, water consumption, waste reduction and Paper material usage (i.e. stationary).

"Green Banking", Amy Kalloch and Dr. Bonnie Bachman Spring (2011), the paper clearly discuss on the major banks contributing towards the Green initiative for reducing the Carbon Emission, Banks started financing for the Green Building Projects and also to reduce the paper usage, which will lend to Green Environment Building. The author also spoke the Big Four banks of United States which lending their support for the reducing the Carbon Emission.

"Sustainable Finance and Banking: The Financial Sector and the Future of the Planet", Marcel Jeucken. The Paper material usage (http://www.rbi.org.in/scripts/BS_FiiUSer.aspx) the main stake holders in the economy builders all over the world. Financial Institutions of banking sector holds it unique position in the economy which will greatly affects in the production, business and other economic activities in terms of financing activities, this activities will help for reducing and protect of environment through reducing the climate from the pollution. The banks operating cost can be reduced from the energy use, water consumption, waste reduction and Paper material usage (i.e. stationary).

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2. The Aggregate foreign investment in a private bank from all sources will be allowed up to a maximum of 74 per cent of the paid up capital of the Bank. At all times, at least 26 per cent of the paid up capital will have to be held by residents, except in regard to a wholly-owned subsidiary of a foreign bank.

3. The Stipulations as above will be applicable to all investments in existing private sector banks also.

4. The permissible limits under portfolio investment through stock exchanges for FIIIs and NRIs will be as Follows:
   a. In the case of FIIIs, as hitherto, individual FII holding is restricted to 10 per cent of the total paid-up capital, aggregate limit for all FIIIs cannot exceed 24 per cent of the total paid-up capital, which can be raised to 49 per cent of the total paid-up capital by the bank concerned through a resolution by its Board of Directors followed by a special resolution to that effect by its General Body.
   b. Setting up of a subsidiary by foreign banks.
   c. At present there is a limit of ten per cent on voting rights in respect of banking companies, and this should be noted by potential investor. Any change in the ceiling can be brought about only after final policy decisions and appropriate Parliamentary approvals.

FDI in public banking sector of India is allowed up to 20 per cent (FDI and Portfolio Investment) through government approval route subject to Banking Companies (Acquisition and Transfer of Undertakings) Acts 1970/80. This ceiling (20 per cent) is also applicable to the State Bank of India and its associate Banks.

In the case of public sector banks, the Government had earlier announced that it is planning to reduce its stake in such banks to 33 per cent in a phased manner. This is mainly because the Government does not have enough money to contribute the additional capital that would be required over a period. Private domestic capital may not be enough to fill the gap in capital requirements, which means that foreign capital would have to be accessed.

Such foreign capital can be either FII or FDI investments. The most point is whether sufficient capital from overseas investors would be forthcoming if there were no change in management in the public sector banks. Induction of FDI in public sector banks would probably have to be accompanied by change in management style in public sector banks. Politically such decisions are not easy to take.

Therefore, lack of capital in addition to other well-known impediments may constrain the growth of public sector banking segment as a whole.

FDI in Banking Sector of India under Consolidated FDI Policy of India 2012

Foreign Direct Investment in private banking sector of India is allowed up to 74 per cent where FDI up to 49 per cent is allowed through automatic route and FDI beyond 49 per cent but up to 74 per cent is allowed through government approval route.

These conditions must also be satisfied in this regard:
1. This 74 per cent limit will include investment under the Portfolio Investment Scheme (PIS) by FIIIs, NRIs and Shares acquire prior to September 16, 2003 by erstwhile OCBs, and continue to include IPOs, Private Placements, GDR/ADRs and acquisition of shares from existing shareholders.

RBI Regulations with relate to FDI in Public Banks: “The limit is 20 per cent of the paid up capital in the case of public sector banks, including the State Bank of India”

The Capital inflow and better management is possible through the FDI in the Public Sector Banks, it will its own Advantages and Dis-advantages:

Advantages:
1. Development can be seen in the Public Banks
2. Development in Technology adoption for
   a. Operations–Reduce in the employee, speedy transactions, cost cut and
3. Encouragement to adopt a greater Green Banking.

Dis-Advantages:
1. Foreign investors try to force their rule in banking (i.e. Public Sector Bank).
2. Withdrawal of investment can be dangerous in the future.
3. If regulations is not screened properly then and now, the investors will be under pressure.

Suggestions: The Conceptualize suggestions are brought after reading many articles, websites and other data. The suggestions is done to increase awareness in Green Banking Concept and also to implement in the Public Sector:
1. The Investments brought from FDI in Public Sector Banks, will help to procure the required technology for reduction of time in operation and also to cut the cost in the operations (i.e. from Traditional to Modernized)
2. The Investments can be brought in the terms of Technology replacing the Traditional concept.
3. The Equity form will also help to meet other requirements, whenever is a need.
4. Green Banking can help to setoff in the Non-performing Assets (NPA), where the cut of cost in operating will lead to profit.

CONCLUSIONS: Though the concept of Green banking was introduced in the late 90’s, where the awareness of this concept is very poor in the Nationalized banking sectors and also in the co-operative societies. But for the nationalized bank one bank which we can show our hands for the adopting of technology and reduction of the carbon foot print is State Bank of India (i.e., The Imperial Bank of India). Nationalized banks faces a problem of senior staff, where they have very less knowledge in the technology and its use.

FDI in the Public Sector Banks is an opportunity to increase Green Banking Concept and also to meet the obligations for NPA’s, it also facilitates public sector banks obligations in setting off Agricultural Loans given to Farmers.

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(Source: Lean and Green Banking in India, Ms. Varalakshmi and et al, 2012)