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**A STUDY OF THE CURRENT STATUS OF GREEN BANKING IN
INDIA**

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*Green banking,
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Abstract

Allowing markets to function within a suitable structure of economic policies and efficient regulations achieves sustainable development best. Banking sectors, particularly, have one of the largest impacts on industrial activity and the economy as an entire. Industries and businesses are susceptible to harsh environmental policies, lawsuits, or consumer boycotts in a globalized economy. As one of the key participants in the industrial sector, the banking industry faces the challenges of liability and credit risks. In addition, the long-term environmental impact could diminish the value of assets and the return on investment for the banks. Therefore, proactive legislative measures which incorporate environmental criteria into credit lending provisions would mitigate ecological harms, support mandated investment into reliable environmentally- friendly technologies, management systems, and appropriate systems that could turn industries green. This paper examines the case for Green Banking, International perspectives are cited, and lessons on sustainable development and banking for India are drawn. We note how the banks and other financial institutions in India, despite playing an active role in India's emerging economy, have attempted to take initiatives for this purpose.

With society becoming increasingly aware of ecological issues, business organizations and corporations are trying to change the way they work to maximize sustainability. In banking, 'green' means blending operational enhancements, technology, and the changing habits of clients in a banking business. It entails the promotion of Environmentally Sustainable Practices.



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1. INTRODUCTION

In response to the alarming environment abuse in the current development approach, sustainable development has emerged as a new paradigm of development. Under proper regulations and economic instruments, it is best to achieve sustained development by allowing market forces to operate. One of the financial institutions with greater impacts on overall industrial activity and economic growth is the banking sector. The banking sector impacts the economic growth and development to the antecedent of its nature the economic growth becomes dominated by qualitative growth. The banking sector is one of the principal financiers of investment in commercial projects which is one of the central economic activities for economic development. Socially responsible investment (SRI) initiatives not only look towards social development but also environmentally sustainable development which banks have a significant capacity to facilitate. Banks will not directly be the pollutants, but they may have banking relationships with some companies or investment projects that are or have the potential to become major polluters.

When considering emissions and pollution, the banking sector does not have heavy negative impacts. The internal environmental social footprint of the banking sector, including the usage of energy, water, and paper, is low and very clean. The physical impact banks have do not concern their banking activities, but rather the customers' activities. Hence, the bank's external activities have large impacts, but are very hard to measure. Besides, the environment in the banking business has to be managed that way like risks are managed. This increases the enterprise value and reduces the loss ratio from what a high-quality loan portfolio would yield in earnings. So, banks should encourage by all means responsible investments and prudent lending, ideals environmentally friendly financing should fall under. Banks should prioritize lending to those industries that have gone green, and those who are genuinely trying to go green. This type of financing is what can be referred to as "Green Banking," where banks actively help industries adopt greener practices, therefore, in turn, restoring the environment. This idea of "Green Banking" would be beneficial for the banks, industries, and the economy as a whole.

"Green Banking" will do more than ensure the greening of industries; it will also help in improving asset quality.

The banking operation aims for a specific long term rate of return on their investment and credit. Nevertheless each credit extension and investment involves the risk of non-payment and loss of value (in case of direct investment) owing to environmental liabilities. Thus, it is of interest to the banking sector to observe certain environmental analysis of the projects prior to lending. There are research findings indicating positive relationship between environmental and financial performance (Hamilton, 1995; Hart, 1995; Blaconiere and Pattern,1993). It is therefore necessary for the financial institutions in the current scenario to take into consideration the environmental performance while making an investment decision in companies or recommending clients to make such an investment. Establishment of various regulations for environmental management such as resource conservation, clean water act, clean air act, toxic substance control act are also considered potentially



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important contributor to the recent escalation of environmental liability for banking institutions. Implementation of these

Principles will provide immense advantage to financial institutions, to consumers and also to the stakeholders.

2. ECOLOGICAL SUSTAINABILITY

When the National Environmental Policy Act (NEPA, 2014) was created in the United States in 1969, the concept of environmental sustainability was born. Its primary goals are to promote the general welfare, achieve productive harmony between man and nature, and ensure the economic and social well-being of both present and future generations.

3. GREEN BANKING

Green banking, also known as ethical banking, is similar to traditional banking in that it takes into account all social and environmental aspects. The initial goal of ethical banks was to safeguard the environment. These banks are governed by the same authorities as traditional banks and have similar environmental protection goals. In contrast to traditional banking, Green Banks place greater emphasis on environmental considerations. Their goal is to promote socially and environmentally responsible business practices. They consider all relevant factors before granting a loan, including whether the project is environmentally friendly and whether it will have any long-term effects. You will only be granted a loan if you adhere to all environmental safety regulations.

It's not too difficult to define green banking. Promoting eco-friendly procedures and lowering your carbon footprint from banking operations are two aspects of "green banking." This can take many different forms:

1. Switching from branch banking to online banking.
2. Online bill payment as opposed to postal mail.
3. Using internet banks to open accounts rather than big, multi-branch banks.
4. Locating the neighborhood bank that is doing the most to promote green projects in your community.

4. GREEN BANKING PRODUCTS

Green Saving Accounts: With these accounts, banks donate money based on the savings that their customers have made. The more they save, the more the environment gains from bank donations or contributions.

Online and mobile banking: These modern banking methods reduce the amount of paperwork, mail, and travel that bank clients must make to branch offices, all of which benefit the environment.

Green Credit Cards: Green credit cards are becoming more and more popular, whether it's through the use of biodegradable materials, eco-friendly rewards, or the promotion of paperless banking.

Green Mortgages: Green mortgages are a kind of mortgage that offers you a larger loan amount or a



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cost reduction in exchange for energy-efficient upgrades or for purchasing a home that satisfies specific energy-efficiency requirements.

Green loans are those given to businesses or projects that are thought to be environmentally sustainable.

5. THE EMERGING TREND OF “GREEN BANKING

- **Integration of Green FinTech:** Creative solutions that support sustainable finance have resulted from the combination of financial technology and green banking. A study highlights that increased awareness of green banking positively influences the adoption of green FinTech solutions, which in turn boosts ESG (Environmental, Social, and Governance) investments and perceived profitability.
- **Regulatory Frameworks and Support:** The significance of green banking is becoming more widely acknowledged by financial institutions and regulators. In order to encourage banks to incorporate climate-related risks into their strategies and risk management systems, central banks and supervisors are broadening their mandates to include environmental risk assessments.
- **Creation of Green Financial Instruments:** Green financial products like sustainability-linked loans, green bonds, and green loans are becoming more and more popular in the financial industry. Although strict accountability measures are necessary for these instruments to be effective, they are intended to finance projects that have a positive environmental impact.
- **ESG Reporting Emphasis:** Banks are progressively integrating ESG considerations into their reporting and decision-making procedures. Investor demand for accountability and transparency in financial institutions' handling of social and environmental issues is what is causing this change.

6. REVIEW OF LITERATURE

Making internal bank procedures, physical infrastructure, and IT infrastructure as effective and efficient as possible with no or little environmental impact is the goal of green banking, according to the RBI (IRDBT, 2014). Known as "Green Coin Ratings," they had established green rating guidelines for Indian banks. This rating system evaluates banks based on their operational carbon emissions as well as the amount of recycled, refurbished, and reused materials used in their building furnishings and systems, such as servers, computers, printers, networks, etc. They are also evaluated based on how many green projects they fund and how many awards or recognitions they give borrowers for making their companies greener. Banks benefit from green banking services.

Regarding sustainable banking, Jeucken (2001) emphasized significant variations among nations, regions, and banks. Jeucken distinguished four phases: sustainable, offensive, preventive, and defensive banking.

Four major conclusions were reached by Douglas (2008):

- (a) banks are talking more about climate change business opportunities in their annual reports;
- (b) 28 out of 40 banks have calculated and disclosed their greenhouse gas emissions from operations;
- (c) banks are entering new markets due to the growing demand for climate-friendly financial



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products and services; and

(d) investment banks have taken the lead in supporting emissions trading mechanisms and launching new risk management products.

Purkayastha, Sudip Kar (2010) These actions also help banks provide excellent customer service in order to achieve customer satisfaction, especially during a period when there is fierce competition among the various bank types—public, private, foreign, and others.

7. OBJECTIVES OF THE STUDY

- a. To comprehend how Indian banks create their green banking strategies.
- b. To learn about the obstacles facing India's adoption of green banking.
- c. To ascertain the actions needed to ensure that green banking is properly implemented in India.

8. METHODOLOGY

Since this is an exploratory study, secondary data and a review of the literature served as the foundation for the methodology. There were two stages to the research: The first stage involved a current review of the literature on sustainable development and green banking, specifically in the banking industry, which found outcomes and recommended next steps. Data on Indian banks was gathered from secondary published sources during the second phase. Reports on Green Banking and other pertinent information posted on banks' websites and other online platforms were secondary published sources.

9. SCOPE OF GREEN BANKING IN INDIA

In order to obtain green credit cards and green mortgages, green banking minimizes the amount of paperwork and relies on online and electronic transactions for processing. Trees are cut down when there is less paperwork. Additionally, it entails educating banking professionals about social and environmental responsibility so they can adopt environmentally friendly business practices. Advantages for the banks: In order to reduce the following risks associated with the banking industry, green banking is crucial:

- **Credit Risk:** Banks have incurred both direct and indirect costs as a result of climate change and global warming. Extreme weather events brought on by global warming have been noted to impact bank-financed economic assets, increasing the likelihood of credit default. Indirect credit risk can also occur when banks recommend businesses whose operations are negatively impacted by modifications to environmental regulations.
- **Legal risk:** If banks violate applicable environmental regulations, they run the same legal risk as other commercial organizations. In the event that they do acquire assets that cause pollution, they may also be at risk of direct lender liability for cleanup expenses or damage claims.
- **Reputation Risk:** As environmental consciousness grows, banks are more vulnerable to reputation risk if their direct or indirect actions are thought to be harmful to society and the environment. The funding of environmentally problematic projects creates reputational risks.



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10. ADVANTAGES

- a) **Prevents Paper Work:** Nearly all Indian banks use computerized systems or core banking software (CBS) to conduct business. Therefore, there is a lot of room for banks to go paperless or use less paper for office correspondence, audits, reporting, etc. By doing so, they can reduce deforestation.
- b) **Raising Business People's Awareness of the Environment:** By setting up awareness campaigns, seminars, and other events, numerous NGOs and environmentalists are raising public awareness of environmental issues. Banks can collaborate by supporting these initiatives. Additionally, a lot of corporate entities are running similar programs in their own industries, like the "free pollution check program" run by an automaker. Banks may have partnerships with these corporations. These will contribute to improving the bank's reputation.
- c) **Loans at Comparatively Lower Rates:** Banks can also offer green bank loans, which offer financial breaks for environmentally friendly projects and products like fuel-efficient cars, green building projects, loans for housing and home furnishings, solar energy system installation, etc.
- d) **Environmental Standards for Lending:** Banks adhere to environmental standards for lending, which is a smart move that will encourage entrepreneurs to convert their operations to more environmentally friendly practices that will benefit our future generations.
- e) **Raising Business People's Awareness of the Environment:** By setting up awareness campaigns, seminars, and other events, numerous NGOs and environmentalists are raising public awareness of environmental issues. Banks can collaborate by supporting these initiatives.
- f) **Loans at Comparatively Lower Rates:** Banks can also offer green bank loans, which offer financial breaks for environmentally friendly projects and products like fuel-efficient cars, green building projects, loans for housing and home furnishings, solar energy system installation, etc.
 - **Other Benefits:**
 - Improving the service standards
 - Automation of manual tasks
 - Attracting and retention of staff
 - Increase in profitability & sales
 - Reducing Cycle time
 - Drive customer loyalty
 - Reduce costs to serve and sell
 - Reduce administrative burden.

11. CONCLUSION

Green banking has been helping to boost economic growth and improve the environment. The majority of conventional banks did not engage in green banking or aggressively look for investment opportunities in eco-friendly industries or companies until a few years ago. Compared to their counterparts in developed nations, Indian banks lag far behind. Indian banks must acknowledge their social and environmental obligations if they hope to join international markets. These tactics have only lately gained popularity among a variety of financial service



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providers, asset management companies, insurance companies, and smaller alternative and cooperative banks. Additionally, banks should prioritize lending to industries that have already gone green or are actively working to do so. The idea of "Green Banking" will benefit the economy, businesses, and banks alike. "Green Banking" will not only guarantee that industries become greener, but it will also make it easier for banks to enhance their asset quality in the future. For Indian banks, embracing "Green Banking" as a lucrative venture presents both numerous opportunities and difficulties. If properly applied, green banking will serve as a powerful ex ante deterrent for polluting industries that circumvent other institutional regulatory measures. Thus, Indian banks should immediately embrace green banking as a business model in order to promote sustainable banking.

12. AUTHOR(S) CONTRIBUTION

The writers affirm that they have no connections to, or engagement with, any group or body that provides financial or non-financial assistance for the topics or resources covered in this manuscript.

13. CONFLICTS OF INTEREST

The authors declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

14. PLAGIARISM POLICY

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