

Quadrant II– NOTES

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Course Title: Unit IV- Current Issues and Emerging Trends

Module Name: Green Banking: Meaning, Concept and Channels, Shadow Banking

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Green Banking: meaning and concept

- Green Banking refers to practices and guidelines that make banks sustainable in economic, environment, and social dimensions. It aims to make banking processes and the use of IT and physical infrastructure as efficient and effective as possible, with zero or minimal impact on the environment.
- First Green Banking was founded in 2009 in the state of Florida.
- It is also known as an ethical banking or sustainable banking. The purpose of these banks is to perform banking activities alongside with taking care of earth's environment, ecology and natural resources including biodiversity.
- Green Banking is not only a Corporate Social Responsibility (CSR) activity of an organisation, but also it is about making the society habitable without any considerable damage.
- Green Banking is mutually beneficial to the Consumers, banks, industries and the economy.
- For consumers:-more deposit and loan products will be available through online and mobile banking. It also means better deposit rates on Green Deposits and Green savings accounts and lowers interest rates for Green Mortgages.
- For banks, adoption of Green Banking services leads to paperless banking, energy saving, etc. This is an effort by the banks to make the industries grow green through prudent use of Green Mortgages.

- Recent Green Banking initiatives include a push for solar powered ATM'S , paper less banking for customers, clean energy projects and the building of Wind mills in rural India. SBI is a leader in Green Banking.

Channels of Green Banking:

- Green mortgages: loan which are given to purchase a land or a property or a house. An energy efficient mortgage which provide the customers with considerably lower interest rate as compared to the normal market rate.
- Online banking: It means the customers can perform most of the banking related functions without a visiting the banks. Nowadays everyone is using the banking facilities from their own convenient place.
- Remote deposit capture: a system which allows a customer to scan and send cheques remotely and transmit the cheques images to a bank for deposit.
- Green car loans: Many green car loans encourage the purchase of cars for below market interest rates, which demonstrate higher fuel efficiency. They can be either hybrid or electric cars.

Shadow banking

- The shadow banking system is a term for the collection of Non Bank Financial Intermediaries (NBFIs) that provide services similar to traditional commercial banks but outside normal banking regulations. Eg: insurance companies, currency exchanges etc
- It includes all financial institutions that perform bank-like transactions, but are not regulated by one.
- These institutions have a significant amount of flexibility when it comes to how they do business.
- The term was coined by an economist in 2007, when these types of companies were brought into the spotlight by the upcoming economic crisis.
- shadow banking activities include:-
 - Credit intermediation – Any kind of lending activity including at least one intermediary between the saver and the borrower
 - Liquidity transformation – Usage of short-term debts like deposits or cash-like liabilities to finance long-term investments like loans.
 - Maturity transformation – Using short-term liabilities to fund investment in long-term assets