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An empirical study on financial inclusion and awareness of customers towards green banking

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Abstract

A major demographic change is taking place in our country with a huge and growing working population. There is a big chunk aspiring to grow into the middle class with the support of institutional credit. That is how microfinance can play a big role in meeting their requirements and fulfilling their goals. But finance is one of the main problems despite a number of efforts being taken by the concerned ministry and RBI. There is a lack of widespread awareness about the existing schemes and their benefits. With this Financial Institutions (FIs) also need to be careful and conscious about the carbon footprint they will leave in the environment. Also, there should be check on the Micro Small and Medium Enterprises (MSMEs) financed to maintain that balance of environment. This paper studies both these concepts in Indian context, its impact and further scope in these two fields which will help our economy grow in a better and right direction.

Keywords: MSMEs, FIs, Green Banking, Economy

Introduction

It's a pioneering concept which can alleviate a lot many problems faced by MSMEs, Banks and FIs. Yet providing adequate and timely finance at reasonable rate of interest to the units is the target. As we further study its impact in Indian context, it would be significant to note, how with the course of gathering momentum of co-origination of loan model, it would be imperative for RBI to amend the guidelines which are silent on the various issues like tax benefits and involvement of multiple Banks and/or NBFCs for giving combined effect to extend credit dispensation in a single arrangement.

The purpose is to Banks as financial institutions are environmentally neutral. They are not directly related with the environment. They are considered to be in the non-polluting sector, and do not impact the environment much through their own internal operations. However, they can still be held responsible because the huge carbon emitted industries are set up with the finance provided by them. These industries harm the fragile environment, present population and the posterity of a nation. Hence, banks have to undertake some green growth initiatives within and outside their organizations for the creation of a strong and successful low carbon economy. However, Banks are now playing a vital role towards the green growth through their green banking practices.

Features of Co-Origination of Loans

1. It is incumbent upon the NBFC to make recommendation to the Bank proposals as found relevant for joint lending. The Lenders shall be authorized to independently assess the risks and requirements of applicant borrowers. The loan agreement would be tripartite in nature.
2. The Bank and NBFC shall open an escrow type common account for pooling respective loan contributions for appropriate loan repayments/collections from borrowers without holding the funds of usage of float. In case of loan balances, the NBFC/ Bank shall maintain individual borrower's accounts and should also be able to generate and share a single unified statement to the Customer through appropriate sharing of required information with the Bank/NBFC.
3. Both lenders shall create the framework for day to day monitoring and recovery of the loan as mutually agreed upon.

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4. Any assignment of loans by any of the lenders can be done only on the mutual consent of both the lenders. The applicable provisioning requirements shall be followed by each of the co-lenders.

Green Bank Products

Green banking helps to create effective and far reaching market based solutions for customers. Banks are developing new products and services that respond to consumer demand for sustainable choices.

Green banking product coverage includes

- Green mortgages
- Green loans
- Green credit cards
- Green saving account
- Green checking account
- Green CDs
- Green money market
- Mobile banking
- Online banking

Literature Review

Under the said model, any assignment of loans by any of the lenders can be done only with the mutual consent of both the lenders. The applicable provisioning requirements shall be followed by each of the co-lenders and it shall be the responsibility of the NBFC first for any grievance redressal. Both the lenders will explain to the borrower regarding the difference between products offered through the co-origination model as compared to its own products.

Both need to work on a mutually acceptable sourcing and credit policy which must be also be approved by their Boards. They will need to enter into a tri-partite agreement with each borrower and have a separate account to monitor the funds movement under this model. Also, the NBFC will have to give an undertaking to the Bank that its contribution towards the loan amount is not funded out of borrowing from the co-originating Bank or any other group company of the partner Bank.

Entering into co-origination arrangement shall provide a competitive edge for credit to the priority sector and to mitigate the challenges faced by the Banks on priority sector loans. Since, it's a nascent concept in India, its impact and further analysis will enhance our understanding of the same as so far it has not been completely absorbed by the Indian financial sector.

SBI Sustainability Report 2018-2019

SBI Chairman Mr. Rajnish Kumar happily presents its fourth Sustainability Report for FY 2018-19:

“Spearheading Digital India-Banking Solutions for a Sustainable Tomorrow”

Serving the country's citizens has been a core commitment of State Bank of India (SBI) which is deep rooted in its ethos. For over 200 years, we have always striven to strengthen the country's financial system and are strongly interlinked with India's growth story.

- SBI issuing new technology for cross-cutting.
- SBI is strongly supporting “Digital India” by digitally transforming their banking products and services.
- SBI aims at becoming CARBON NEUTRAL BANK by 2030, by improving its sustainable performance.

- SBI launched YONO-the bank's flagship digital app for retail customer in November 2017 has crossed several milestones.
- SBI through its 338 Financial Literacy Centres (FLC's), has conducted over 29,000 camps with the objective of enhancing financial literacy.
- Similarly, to help rural youth gain requisite employability and livelihood skills, the RSETIs supported by the Bank trained nearly 97,000 rural youth during the reporting period.
- Additionally, for community development bank has stood solemn over the years focusing on key thematic areas viz. Healthcare, Education, Sanitation, Culture, Sports and Environment Protection etc.
- 'e-Gyanshala', has been launched on a pilot basis, serving as a one-stop knowledge repository for all employees wishing to access guidance documents theme across most operational business
- In FY 2017-18, State Bank of India won the Asian Banker Awards for the best lending initiative—proof of the extent to which the culture of innovation and digitisation has been so widely embedded within the Bank. Digitisation of various credit processes and products is being done through extant instructions, adherence to credit policies and guidelines with a view to manage risk, ensure regulatory compliance and develop reliable information systems.

Research Methodology

The research study is based on and secondary sources. Reviewed from Publications, various journals, newspapers and websites. Researcher tries to check out the impact of Government Banks (PSUs) and NBFCs on growth of MSMEs in India.

Objective of study

1. To understand the role of financial inclusion in India focuses attention on the method of financing to MSMEs and their success.
2. To identify level of acceptance of customers regarding the effect of green banking practices on environment, cost and time.

Impact of financial inclusion of Loans in growth of MSMEs in India:

Availability of funds in the hands of moderately rated NBFCs is obviously a core issue here which needs to be dealt with at war footing. The new co-origination lending system in the wake of the financial crunch at Non-Banking Finance Companies is set to enhance the credit flow to productive sectors. Policy emphasis is on long term structural reforms rather than incentives that are short term. RBI seeks to provide a competitive edge for credit to the priority sector and mitigate the challenges faced by the Banks on priority sector loans. NBFCs operate on low cost infrastructures and have wider geographical as well as customer outreach.

A few examples of the implementation of the co-origination so far are as follows: In April, SBI announced tie-up with PAISALO Digital for disbursement of loans with ticket size of Rs 10,000 to Rs 2 lakh in agriculture and small and medium enterprises. The NBFC has operations in Uttar Pradesh, Maharashtra, Himachal Pradesh, Gujarat,

Rajasthan, Delhi, Haryana, Punjab, Uttarakhand and Bihar.

Green Banking Practices of SBI

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. As stated by former Chairman O P Bhatt they have planned to install more windmills in near future. The bank also supports the green initiatives of its clients and offers them finance on priority and at concessionary rate of interest.

Green Reward Points

State Bank of India (SBI) has introduced a unique 'Green Reward Points' programme for its YONO customers. This initiative is unveiled to promote Sustainability, Under this initiative, SBI will inspire its customers to pledge earn 'Green Reward Points' to a pool created as 'YONO SBI Green Fund', managed by SBI Foundation.

All the customers who will pledge their points to the fund will be honoured with a 'Green e-Certificate' as a token of appreciation towards their helping hand to the initiative.

Advantages to Banks

1. Banks can claim (Priority Sector Lending) PSL status for Loans financed under Co-origination model as discussed above.
2. The Guidelines rule out maintenance of any float or

funding pool which means, at the time of funding, the funds must be allocated between the Bank and the NBFC in their agreed ratio, such that neither party uses the funds belonging to the other. Thus, averting the risk for both.

Advantages to the Borrower

Co-origination of loans between Banks and NBFCs will ensure last-mile connectivity between Banks and MSMEs in the areas where they are inaccessible. Borrowers who are unable to access loans from Banks due to reasons such as geographic location.

Conclusion and Suggestions

Although the aforesaid model of credit delivery system has been brought into focus for more than a year back, this model is still at nascent stage for reasons not far to seek. It is also true that earlier in the past a joint participation of Banks and NBFCs in various forms for loan origination existed. But this model of co-origination of loans to MSMEs now being a recognized model by the RBI is likely to be beneficial to all the three parties involved. This paper concluded that green banking clearly has direct and positive impact on sustainability. Because doing these practices customers can save energy, fuel, paper, water, time as well as money. Significantly it results reducing the carbon footprint from their banking practices.

Annexure

Table 1: Table XV Credit Flow to MSME sector

Year ended	(Amount in ₹ Billion)				
	Public Sector Banks	Private Sector Banks	Foreign Banks	Scheduled Commercial Banks	Non-Banking Finance Company
	Amt. O/s	Amt. O/s	Amt. O/s	Amt. O/s	Amt. O/s
March 2014	7583.78	2471.22	344.30	10399.30	85.76
March 2015	8526.89 (12.44%)	2815.48. (13.93%)	367.87 (6.85%)	11710.26 (12.61%)	286.48 (234.05%)
March 2016	8205.48 (-3.77%)	3590.85 (27.54%)	363.73 (-1.13%)	12160.07 (3.84%)	880.13 (207.22%)
March 2017	8289.33 (1.02%)	4309.62 (20.02%)	365.02 (0.35%)	12963.98 (6.61%)	1113.10 (26.47%)
March 2018	8645.98 (4.30%)	4107.60 (-4.69%)	488.81 (33.91%)	13242.39 (2.15%)	1441.40 (29.49%)

Source: As reported by Scheduled Commercial Banks to RBI

Note: Figures in parenthesis indicate Y-o-Y % growth/decline

* Data for March 2018 is provisional

*Source: RBI Data 2018

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