

# Green Banking - Green Financial Products with Special Emphasis on Retail Banking Products

*Slobodan Rakić - Petar Mitić*

*Educons University*

## **Abstract**

*Green finances are located in an intersection of financial industry, economic growth and environment with its legislation. It is a natural trend that arose from the shift from profit only, to a new goal that lies in equilibrium between nature, profit and people. As a global trend, promoted by the most influential international organizations such as WTO, UN, G20 etc., green growth is set as one of the top priorities. This paper will show potential of green finances, and present the most important green financial products. Special emphasis will be put on green products of retail banking, such as green cards, green car loans, green mortgages etc. These products strengthen environmental causes, such as high fuel efficiency, clean energy and eco-friendly activities. Paper will show the positive impact both on the side of the provider of the products, given that the demand for green products is constantly increasing, and for the users, as it provides products with lower costs*

## **Introduction**

Green finances incorporate new technologies, industries, financial products and services that take into account the environment, energy efficiency, reduction of pollutant emissions, recycling etc. For this reason we can find green finances in the intersection of financial industry, environment and economic growth. And, when speaking about green growth in general, we can agree with Hee Jin Noh from Korea Capital Market Institute who says that green growth represents simultaneously pursuing growth and improving the environment<sup>1</sup>. We will just slightly expand his definition and say that green growth represents simultaneously pursuing economic growth through investments in green industries and technologies, creation of new (green) financial products and services and improving the environment. Taking the extent and importance of above mentioned, majority of the international institutions and forums are extensively debating and taking actions to promote and implement green growth paradigm.

*Green growth should be one of the presidency's priority, right next to economic stability and crisis resolution*, was one of the main messages public got from the G-20 in the end of May 2012.<sup>2</sup> Experts from G-20, in collaboration with OECD, WB, UN and other international organizations defined sources of growth, that have not been used to their full potential in the past, thus putting green growth financing as the last,

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<sup>1</sup>Hee Jin Noh, *Financial Strategy to Accelerate Innovation for Green Growth*, Korea Capital Market Institute, 2010.

<sup>2</sup><http://www.g20.org/index.php/en/publications/421-el-crecimiento-verde-en-la-agenda-del-g20->

but not the least important pillar of potential growth. The importance of the green growth was specially emphasized in the G20 Leaders Declaration<sup>3</sup> after the Los Cabos Summit.

Baring in mind that world slid into the worst financial crisis in 2008. since The Great Depression in 1929., accompanied by energy crises caused mainly by high oil prices, food scarcity, persistent water crisis and harmed ecosystem with severe climate changes, it is easier to understand the importance of creating a new financial and economic structure with different foundations. Recovery is necessary, but it requires a collective response from the international community. Global economic growth must be generated by considering all mentioned problems with simultaneous work on them. Sectors such as renewable energy, energy efficient technologies, sustainable management of natural resources, green finance etc. are the potential motors that can boost the economic and overall recovery, as the leading international institutions have already recognized.

The „go green“ tendency should cover all of finances. And banking, as one of the leading engines of every economic system, should naturally follow the trend. We can define green banking as the next step in evolution of normal banking activities, adding a new, eco-friendly component to all products where it is possible. This tendency arose not just from the necessary change global economies need to do in order to preserve nature, but also from the increased knowledge of an average customer who now wants to make his/hers own contribution to the environment. Adding that new green trends in banking can increase the ability of banks to attract money, invest and save it, there should be no doubts about following the trend.

### **Green Financial Products and Services**

Currently, there is significant rise in the demand for green financial products and services all over the world. Along with banks, who promote green banking as a relatively new concept that is being used in the banking sector in the last few years, other financial institutions such as insurance companies, asset management firms etc. are also trying to create and implement “green” strategies into their business activities.

There are three main drivers for this rise of demand which are:

- Environmental Knowledge and Media Coverage
- Environmental Awareness and Public Opinion
- Environmental Regulation and Legislation<sup>4</sup>

Media has been actively participating in coverage of environmental issues and they are improving public knowledge and awareness on these topics. Europe has been at the top of environmental friendly practices mostly because governments were involved which gave stronger support and helped raise the public awareness. Government involvement in Europe is stronger than in North America. Implementation of government strategies, laws and other regulations that promote sustainable and

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<sup>3</sup>[http://g20.org/images/stories/docs/g20/conclu/G20\\_Leaders\\_Declaration\\_2012\\_1.pdf](http://g20.org/images/stories/docs/g20/conclu/G20_Leaders_Declaration_2012_1.pdf); Promoting longer-term prosperity through inclusive green growth (points 69. – 76.);

<sup>4</sup>CEO briefing, Green Financial Products and Services , Current State of Play and Future Opportunities UNEP Finance initiative, report

prohibit unsustainable practices are important driving points for the demand of green financial products and services.

Financial institutions that in time recognize and implement “green” strategies in their business practices are more likely to draw wide range of customers, raise their profits and contribute toward sustainable development. Although, problem of *greenwashing*<sup>5</sup> is present, there is encouraging trend within awareness of financial institutions which is going towards making green financial products and services into mainstream offerings.

Due to the fact that green finances are growing trend, it is highly important for the scientific community to explore it and to give clear division of new instruments and products inside banking sectors. The best division so far was given by Jin Noh Hee where he gave financial products and services within four banking sectors: Retail Finance, Corporate/Investment Finance, Asset Management and Insurance (Table 1)

Tab. 1: Green finance products and services



Source: Jin Noh Hee, Financial Strategy to Accelerate Innovation for Green Growth (2010)

**Green Retail Banking**

Retail banking covers personal and business banking products and services designed for individuals, households and SMEs, rather than large corporate or institutional clients.<sup>6</sup>When retail banking sector, with its products and services<sup>7</sup>, wants

<sup>5</sup> Greenwashing is a concept in which organization are trying to manipulate the public with green PR and green marketing strategies to promote their organization as environmentally responsible, with aim to increase profit and general support.

<sup>6</sup>CEO briefing, Green Financial Products and Services (2007), Current State of Play and Future Opportunities UNEP Finance initiative, report

<sup>7</sup> deposits – savings and checking accounts, personal loans, mortgages, debit/credit cards, certificates of deposit (CDs), travelers’ cheques etc.

to go green, the easiest way to do so is to promote the usage of online banking<sup>8</sup>. Benefits are obvious for both customer and the bank. This type of activities spares time for the customer, there is no driving to the bank so there is no pollutant emissions, and there is no paperwork so the costs of fees that bank charges for different transactions tends to be lower. Bank can reduce the cost of branches of banks, costs of staff, and costs of paper and mailing fees decline as the number of retail client's increase, and overall administrative costs have a declining tendency as well.

Online banking is just the top of the iceberg when speaking about green banking. Bank can also invest in energy-efficient operational procedures, such as energy efficient light bulbs and computers, high-efficiency air conditioning etc., it can increase lending in eco-friendly industries and support global, national or local environment initiatives.

But when a bank trully goes "green" it is reflected to its products and services. If a bank starts implementing green retail products, then the most popular<sup>9</sup> are:

1. green cards
2. green car loans
3. green mortgages
4. green home equity loans
5. green certificates of deposits (CDs)

1. Green credit and debit cards are becoming more and more popular, especially in European countries. Grosso modo, these cards usually function in a way that they give donations that are somewhere between 0.1% - 0.5% of the amount of purchase or transaction to NGOs connected to environmental causes, or to a specific environmental cause organized by the bank itself. There is usually an annual fee as well, but it is not obligatory.

One of the best examples of a green card is HSBC Visa Card. Every time a purchase is made, 0.1% is transferred to the "HSBC Green Roof for Schools" programme. This card also provides privileges on environmentally friendly products and services at selected merchants and unsurpassed privileges offered by HSBC Visa Platinum card.

Another example is Visa WWF Credit Card. Every owner of the card contributes to World Wildlife Fund in a way that WWF gets £40 when you use your card within 90 days of the account opening; 40p for every £100 you spend on card purchases; £2.00 for every year you continue to use the card.

Source: <http://www.hsbc.com.hk/1/2/hk/cards/green/>

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<sup>8</sup>Online banking is conducting banking business via Internet without any specific softwer, where zou can access the bank from any computer connected to Internet (Prof. dr Gračanac Aleksandar (2009), Global Banking, Educons University)

<sup>9</sup> the term *most popular* is limited to Europe, although there is no great discrepancies between other regions and continents.

2. Green car loans, that are especially popular in Europe and Australia, carry lower interest rate than regular car loans. Interest rate should be at least 0.25% lower than average car loan, and can go up to 0.50% lower, or even more in special cases. How much will the interest rate be varies from deferent indicators. Majority of indicators are generated from the intensity of CO<sub>2</sub> emissions and fuel efficiency. Less CO<sub>2</sub>emissions and higher fuel efficiency will give a lower interest rate. Green car loans usually do not have early payment penalties and have lower fees.

3. Green mortgages give the consumer lower interest rate than market rates, typically a break on interest rate is between 0.125% and 0.25%. Homes provided or upgraded with these mortgages are more energy efficient, have more energy efficient appliances, or bank with a green mortgage wants to lend money for costs of switching a house to green power. Taking the green mortgage provides a more environmentally friendly living space that also reduces costs of living. Green mortgage loans have one inconsistency – they imply much more paperwork.

Some of the benefits got by investing in eco-friendly green powered house measured in the United States of America:

- Heating and cooling accounts are lower for 50–70%
- 60% of the existing homes in the US are not properly insulated.
- Updating your home's insulation can save you up to 20% on heating and cooling costs or up to 10% of your total yearly energy bill.
- Energy loss from outdated windows accounts for nearly 25% of the annual heating and cooling costs for the average American home.
- Programmable thermostats can save about 2% on heating bills and more than 3% on cooling bills.

Source: <http://www.mortgageloan.com/environment/>

4. Green home equity loan helps a customer to invest in making a home more energy efficient. Interest rate will be lower than on a regular home equity loan. Interest rates tend to be lower at least 0.33% than the regular loan, and can be lower up to 1%. Investments usually go in installation of solar and wind energy systems, energy efficient windows, furnace replacement, green roofs, new insulation, passive heating systems etc.

5. Green Certificates of Deposits are new certificates that use invested money in energy efficient, pro environmental projects. Most of the money from CDs is used to finance different solar energy projects. The maturity of these CDs is between one and two years, and they pay a bit higher interest rates than regular CDs to attract new investors.

## Summary

Green financial products and services will have their place in the future especially because of emerging markets such as carbon market, green construction and environmental technology. Green approach to marketing will also be very significant

especially in promotion of environmental issues and to protect from greenwashing which “paint” products and services. The sector of retail banking has the best opportunity to become a leader in green banking. Through better communication with clients, banks can be able to turn the tide in business and offer products and services to clients that are sustainable and raise awareness about environmental problems. Different products and services are emerging and starting to attract customers, although some of the products such as green mortgages did not meet expectations. The main goal should be to incorporate environmental component in the mainstream banking so that term “green” can eventually become obsolete.

As the new green approach to the banking and economy is starting to show, there is always criticism which is trying to change approach to new models. Board of the Intercontinental Network for the Promotion of Social and Solidarity Economy (RIPESS) has issued a declaration which was based on the discussion on the Rio +20 of the 5<sup>th</sup> Latin American and Caribbean Conference on Solidarity Economy and fair trade which states: “The so-called green economy as presented by governments and multinational corporations is merely the extension of this model, through the commodification of the Commons; it is a new form of expansion of capitalism in crisis. Solidarity economy however is a means to free society of these constraints.”<sup>10</sup> It is the opinion of authors of this article that criticism is welcome, but to completely undermine attempts to create green based economy and financial sector is not constructive way of thinking. It should be best said through a sentence of Chinese philosopher Lao-tzu: “A journey of a thousand miles begins with a single step.”

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**Contact**

M.Sc. Slobodan Rakić  
Educons University

M.Sc. Petar Mitić  
Educons University